

North Carolina Need-Based Scholarship Program

Audit Compliance Supplement Guide

Introduction

The North Carolina Need-Based Scholarship Program was established by the 2011 General Assembly to provide need-based scholarships for North Carolina students attending private institutions of higher education. See G.S. § 116-280. Each Approved Institution plays a role in administering the Program on behalf of the students that it enrolls. Funds for the support of the Program are contingent each year upon appropriations made available to the Authority by the General Assembly. The Authority administers the Program as directed by the General Assembly. The NBS Program Rules are available at:

https://www.ncseaa.edu/wp-content/uploads/sites/1171/2020/10/Rules_NBS.pdf. Capitalized terms used in this document have the respective meanings assigned to them in the NBS Rules. See NBS Rule .0102.

You may contact the State Education Assistance Authority for additional information regarding this program. Direct your inquiries to the Deputy Director for Grants, Training and Outreach at 919.248.4679 or klineberry@ncseaa.edu.

To audit the Program, select a sample number of cases and review three areas for compliance: (1) eligibility, (2) disbursement of funds, and (3) refunds.

Eligibility

A. Requirements

1. Under NBS Rule .0200, the Approved Institution is responsible for determining if the student is eligible for the program. A student qualifies for a Scholarship if the student:
 - a. Is one of the following: (1) a legal resident of North Carolina and a North Carolina resident for tuition purposes under G.S. §116-143.1; (2) a Veteran with his or her Abode located in North Carolina who provides a letter of intent to the Veteran's

Approved Institution of the Veteran's intent to establish residency in North Carolina; or (3) an active duty member of the Armed Forces provided the member of the Armed Forces is abiding in this State incident to active military duty in this State;

- b. Has an Expected Family Contribution (EFC) that does not exceed an amount set by the Authority;
- c. Meets all of the eligibility requirements for a federal Pell Grant, with the exception of the EFC, including that, for each subsequent Academic Year, the student meets the standards by which the Approved Institution measures a student's satisfactory academic progress toward completion of a program of study for the purposes of determining eligibility for federal financial aid under the Higher Education Act;
- d. Is admitted, enrolled and classified at an Approved Institution as an undergraduate student in a Matriculated Status;
- e. Is enrolled for no less than the minimum per term credit hours as defined by the applicable Payment Schedule;
- f. Is not in default, or does not owe a refund, under any federal or State loan or grant program;
- g. Has complied with the registration requirements of the Military Service Act or is exempt from the registration requirements;
- h. Has not received a Scholarship from the Program or a scholarship or grant from any combination of the other State-funded need-based financial aid programs as those programs are identified in G.S. §116-209.19A (Education Lottery Scholarships Program, the North Carolina Community College Grant Program, and the University of North Carolina Need-Based Financial Aid Program) for more than ten (10) full-time academic semesters, or the equivalent if enrolled part-time, or if the student is enrolled in a program of study officially designated by the Approved Institution as a five-year degree program, twelve (12) full-time academic semesters, or the equivalent if enrolled part-time, unless the Approved Institution has granted the student a waiver, pursuant to the Approved Institution's policies and procedures

implementing the waiver provision, for one additional equivalent full-time academic semester; and

- i. Is certified on the CFI Grant System by the Approved Institution as eligible to receive a Scholarship.
2. The Approved Institution shall use the same ISIR transaction to determine eligibility for a Scholarship that it uses to determine payment of federal financial aid. *See* NBS Rules .0305(c).
 3. The Approved Institution shall award a Scholarship to an eligible student for each of one or more semesters or quarters within an Academic Year, provided that the student's total financial aid for that Academic Year, including the Scholarship, does not exceed the student's Cost of Attendance. *See* NBS Rules .0305(d).
 4. If after notifying a student of an initial Scholarship award, the Approved Institution determines that a student is not eligible to receive a Scholarship, the Authorized School Official shall notify the student of the determination in writing. *See* NBS Rules .0305(e).
 5. Approved Institutions are required to identify and report to the Authority any "lower-cost" programs. A "lower-cost" program assesses tuition and fees at a reduced rate for all (or substantially all) students enrolled in this program when compared with the full-time tuition and fees for students enrolled in the traditional program of the institution. Methods by which a lower-cost program may be identified include, but are not limited to:
 - Reduced full-time tuition and fees;
 - Per credit hour charges that are proportionally less than full-time tuition and fees charges for traditional students who live in campus housing;
 - Use of a standard scholarship or grant that reduces the cost of all (or substantially all) students enrolled in the program where the standard scholarship or grant is not tied to specific characteristics, such as need or merit, of the recipient.

In all cases the program is deemed lower-cost for purposes of determining the Scholarship award amount.

B. Suggested Audit Procedure

Review each sample case for the following:

1. Determine whether there was evidence to support the Approved Institution's determination that the student was one of the following: (1) a legal resident of North Carolina and a North Carolina resident for tuition purposes; (2) a Veteran whose Abode was located in North Carolina and who provided a letter of intent to the Veteran's Approved Institution of the Veteran's intent to establish residency in North Carolina; or (3) an active duty member of the Armed Forces who abided in this State incident to active military duty in this State.
2. Determine whether the student was a first-time undergraduate student in a program of study at the Approved Institution leading to a degree, diploma or certificate.
3. Determine whether the Approved Institution identified the student's program of study as a lower-cost program.
4. Secure a copy of the student's Institutional Student Information Record (ISIR) to determine that the ISIR transaction matches the ISIR transaction used to award federal aid. Locate the EFC amount on the top right corner of the ISIR. You may request a current Payment Schedule for the program by contacting the Deputy Director for Grants, Training and Outreach at 919.248.4679 or klineberry@ncseaa.edu Using the EFC, locate the cell on the Payment Schedule associated with the student's enrollment/program status and confirm that the amount of the scholarship awarded to the student matched. If the student was in a lower-cost program, the scholarship amount should be the reduced amount as set out in the Payment Schedule.
5. Review the student's ISIR and note whether there are any "C codes." Confirm that all C codes that required resolution were resolved. Additional information regarding C codes and comments resolution may be found in the current year *SAR Comment Codes and Text Guide* available on the Federal Student Aid Knowledge Center website at: <https://fsapartners.ed.gov/knowledge-center/library/resource-type/Handbooks%2C%20Manuals%2C%20or%20Guides>.
6. Determine that the student was enrolled for the appropriate number of credit hours for each funded term according to the following scale:
 - 15 credit hours or more = full time plus award
 - 12-14 credit hours = full award

9-11 credit hours = $\frac{3}{4}$ time award

7. Using the CFI Grant System inquiry option, confirm that the student did not receive a Scholarship from the Program or a scholarship or grant from any combination of the other State-funded need-based financial aid programs as those programs are identified in G.S. §116-209.19A (Education Lottery Scholarships Program, the North Carolina Community College Grant Program, and the University of North Carolina Need-Based Financial Aid Program) for more than ten(10) full-time academic semesters, or the equivalent if enrolled part-time, or if the student is enrolled in a program of study officially designated by the Approved Institution as a five-year degree program, twelve (12) full-time academic semesters, or the equivalent if enrolled part-time. If the student received a Scholarship for one additional full-time academic semester above the aforementioned semester limitations, confirm that the Approved Institution has granted the student a waiver, pursuant to the Approved Institution's policies and procedures implementing the waiver provision, which should include the student applicant submitting an application that demonstrated that one of the following circumstances substantially disrupted or interrupted the student's pursuit of a baccalaureate degree: (i) a military service obligation; (ii) serious medical debilitation, (iii) a short-term or long-term disability, or (iv) other extraordinary hardship. Also, confirm that the Approved Institution that granted the waiver maintained documentation substantiating the Waiver.
8. Confirm that the student's total financial aid for the relevant Academic Year does not exceed the student's Cost of Attendance.

Disbursement of Funds

A. Requirements

NBS Rule .0306 provides for the disbursement procedures. The rule is as follows:

.0306. Scholarship Disbursement Procedures

- (a) *Method of Disbursement to the Approved Institution.* The Foundation shall disburse the Scholarship funds by check or by electronic funds transfer based on information provided by the Approved Institution. Upon receipt of the Scholarship funds from the Foundation, the Approved Institution shall deposit the funds into a separate general ledger account within the Approved Institution's accounting system identified as the "North Carolina Need-Based Scholarship Program Account".
- (b) *Timing of Disbursements to the Approved Institution.* The Approved Institution shall select an initial disbursement date for each term that does not precede the beginning date of the term by more than ten (10) days.
- (c) *Disbursements to the Approved Institution for Students Not Matriculated in All Hours Certified.* A student who is not matriculated in all hours certified shall not receive a Scholarship disbursement until he or she matriculates in hours equal or greater than those certified by the Approved Institution.
- (d) *Timing of Disbursements to Students.* The Approved Institution shall credit each student's account within ten (10) days after the receipt of funds or within ten (10) days after the beginning date of the term for which the proceeds of the Scholarship disbursed, whichever is later.
- (e) *Credit Balances.* If, after the Approved Institution credits the Scholarship to a student's account, the funds credited exceed the amount due to the Approved Institution by the student, the Approved Institution must pay the resulting credit balance to the student within fourteen (14) days of its receipt of funds or fourteen (14) days after the first day of class, whichever is later.
- (f) *Notification.* The Approved Institution shall notify each student in writing, in a form acceptable to the Authority, of the source and amount of the Scholarship.

B. Suggested Audit Procedure

Review the sample cases to determine the following:

1. After receiving the funds from the Authority, the Approved Institution deposited the funds into a separate general ledger account within the Approved Institutions' accounting system identified as the "North Carolina Need-Based Scholarship Account".
2. Confirm that the initial disbursement date did not precede the beginning date of the relevant term by more than ten (10) days.
3. Confirm that, if the student, initially, was not matriculated in all hours certified, that he or she did not receive the Scholarship until he or she was matriculated in the hours equal or greater than those certified by the Approved Institution. Generally, these situations occur when the student's educational program is offered in a non-traditional format.
4. Confirm that the Approved Institution credited the student's account within ten (10) days after the receipt of funds or within ten (10) days after the beginning date of the term for which the proceeds of the Scholarship disbursed, whichever was later.
5. Check if, after the Approved Institution credited the Scholarship to a student's account, whether the funds credited exceeded the amount owed to the Approved Institution by the student by more than \$1.00. If so, confirm that the Approved Institution paid the resulting credit balance to the student within fourteen (14) days of its receipt of the Scholarship or fourteen (14) days after the first day of class, whichever is later.
6. Confirm that the Approved Institution notified the student in writing of the source and the amount of the Scholarship; web-based notification systems are acceptable.

Refund of Scholarship Funds

A. Requirements

1. NBS Rule .0307 provides that:

Approved Institutions shall comply with the Authority's policies for return of funds for State-funded grant programs.

2. The Authority's Return of Funds Policy for Withdrawing Students for SEAA-Administered State-Funded Grant Programs, as well as the Return of Funds Worksheet and Instructions can be found at:

<https://www.ncseaa.edu/wp-content/uploads/sites/1171/2021/07/North-Carolina-State-Grant-Return-of-Funds-Policy-Withdrawing-Students-FINAL-Approved-April-8-2020.pdf>.

3. Grant funds that are not disbursed to the student shall be returned to the Foundation within forty-five (45) days of the beginning date of the term for which they were issued, or forty-five (45) days from the Date of Disbursement, whichever occurs later.
4. If a student withdraws from the Approved Institution, grant funds that are disbursed to the student shall be returned to the Foundation within sixty (60) days from the date that the Approved Institution determines that the student has withdrawn.

B. Suggested Audit Procedure

Review each sample case and determine whether the student was deemed ineligible for the scholarship or if the student withdrew. If so, determine if the Approved Institution complied with the Authority's Return of Funds Policy for Withdrawing Students for SEAA-Administered State-Funded Grant Programs. This policy requires that the Approved Institution complete a withdrawal calculation when a student withdraws.

1. If the grant funds were not disbursed to the student, confirm that the Approved Institution returned the Grant funds to the Foundation within forty-five (45) days of the beginning date of the term for which they were issued, or forty-five (45) days from the Date of Disbursement, whichever occurs later.
2. If the grant funds were disbursed to the student, locate the student's withdrawal calculation and confirm that it was completed accurately.
3. Confirm that the Approved Institution returned the funds to the Foundation within sixty (60) days of the date the Institution determined that the student withdrew.

Conclusion

This Audit Compliance Supplement focuses on compliance requirements that are directly related to the North Carolina Need-Based Scholarship Program. Auditors also have responsibility under *Generally Accepted Government Auditing Standards* for other requirements when information

comes to the attention of the auditor that provides evidence concerning the existence of possible noncompliance that could have a material effect on this program.