



Commonwealth of Massachusetts
Office of the State Auditor
Suzanne M. Bump

Making government work better

Official Audit Report – Issued May 12, 2011

Cape Cod Community College

For the period July 1, 2009 through June 30, 2010



TABLE OF CONTENTS/EXECUTIVE SUMMARY

INTRODUCTION

1

Cape Cod Community College (CCCC) is authorized by Chapter 15A, Section 5, of the Massachusetts General Laws and operates under the oversight of the Board of Higher Education. A Board of Trustees appointed by the Governor of the Commonwealth controls its operations, and CCCC's President is responsible for implementing the policies set by the Board of Trustees, in accordance with the policies and procedures established by the Board of Higher Education.

In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, the Office of the State Auditor has conducted an audit of CCCC's Federal Student Financial Assistance programs funded through the United States Department of Education (ED) for the period July 1, 2009 through June 30, 2010. We conducted our audit in conjunction with the Single Audit of the Commonwealth of Massachusetts for the fiscal year ended June 30, 2010.

AUDIT RESULTS

3

1. DISBURSEMENT NOTIFICATION LETTERS NEED IMPROVEMENT

3

Our audit disclosed that Federal Family Education Loan (FFEL) program funds Disbursement Notification Letters were not sent by CCCC to students in compliance with federal notification requirements regarding the contents of the letters. Specifically, the letters did not contain the disbursement dates and the proper time frame for cancelling all or part of the FFEL or Direct Loans. Our review of a sample of five Disbursement Notification Letters disclosed that they were all sent within the required timeframe. However, the letters did not include a statement notifying the student of their right to cancel the loan after the later of the first day of a payment period or 14 days after the date the college notifies the student or parent of his or her right to cancel. In response to this issue, CCCC stated that it has implemented changes to ensure that Disbursement Notification Letters for the 2010-2011 academic year contain the proper dates and information for students to cancel their loans.

2. IMPROVEMENTS NEEDED IN FEDERAL WORK STUDY INTERNAL CONTROL PROCEDURES

4

Our review of internal controls and payroll procedures established for maintaining, monitoring, and controlling CCCC's student Federal Work Study (FWS) payroll records and files indicated general compliance with the guidelines and internal control policies identified in CCCC's Student Financial Aid (SFA) policies and procedures. However, our review of FWS payroll records identified that, contrary to those policies and procedures, two students worked several hours during scheduled class time. Specifically, our sample test of four student files disclosed that two students were working during periods in which a conflict existed between their scheduled class time and FWS work. Our review of their student files disclosed no evidence that this conflict had been identified by the student supervisors or the SFA Office. Moreover, the files contained no evidence of teachers' class cancellation records that would excuse the students from class. Consequently, these students that worked during scheduled class hours lost

valuable time in class that is needed to complete their course work. In response to this issue, CCCC indicated that it has implemented changes to improve controls over FWS timesheets, including creating a new timesheet and reinforcing to supervisors their responsibilities in oversight and monitoring of students work hours.

3. STUDENT STATUS CHANGES NOT SUBMITTED AS REQUIRED**7**

Our audit sample of 25 students for the Federal Family Education Loan (FFEL) program disclosed that CCCC did not notify the National Student Loan Data System (NSLDS) in a timely manner of the status of 10 students (four who graduated and six who withdrew) with changes in their enrollment status as required by SFA regulations. Delayed reporting for these students ranged between 11 to 28 days beyond the 60-day limit to report. SFA regulations governing Title IV student aid programs require institutions, lenders, guaranty agencies, and the loan servicer to monitor and update the enrollment status of all students who receive federal student loans. CCCC is required to identify and update the loan status of all students, including those who graduate or withdraw, via a periodic Roster Report (formerly Student Status Confirmation Report). This notification must take place within 30 days of withdrawal or within 60 days of the next scheduled submission. CCCC reports changes in enrollment status to a contracted third party, the National Student Clearinghouse (NSC), three times each semester excluding summers, including a special report consisting of the graduating students at year end. CCCC utilizes the NSC to facilitate its responsibility to notify NSLDS of changes in the enrollment status of its students. However, CCCC is ultimately responsible for ensuring that NSLDS is properly and timely notified of all student enrollment and status changes. Our audit disclosed that CCCC did not have adequate internal controls and relevant written policies and procedures in place to verify and ensure that changes in student enrollment status were correctly reported to NSLDS in a timely manner. In response to this issue, CCCC stated that it would take steps to address this issue, including establishing written policies and procedures for NSC activities, monitoring a sample of students from each Clearinghouse submission to verify the data reaches NSLDS within the required timeframe, and following up with the NSC if discrepancies or timing issues arise.

INTRODUCTION

Background

Cape Cod Community College (CCCC) is authorized by Chapter 15A, Section 5, of the Massachusetts General Laws, and operates under the oversight of the Board of Higher Education. A Board of Trustees appointed by the Governor of the Commonwealth controls its operations, and CCCC's President is responsible for implementing the policies set by the Board of Trustees, in accordance with the policies and procedures established by the Board of Higher Education.

Audit Scope, Objectives, and Methodology

In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, the Office of the State Auditor has conducted an audit of CCCC's Federal Student Financial Assistance programs funded through the United States Department of Education (ED) for the period July 1, 2009 through June 30, 2010. We conducted our audit in conjunction with the Single Audit of the Commonwealth of Massachusetts for the fiscal year ended June 30, 2010. The Commonwealth's Fiscal Year 2010 Single Audit Report consists of the following volumes:

- Statutory Basis Financial Report
- Comprehensive Annual Financial Report
- [Office of Management and Budget] OMB Circular A-133 Report

The audit results contained in this report are also reported in the Fiscal Year 2010 Single Audit of the Commonwealth of Massachusetts and OMB Circular A-133 Report, as mentioned above.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Our audit was also conducted in accordance with standards set forth in OMB Circular A-133 and the American Institute of Certified Public Accountants (AICPA) Audit and Accounting Guide, Audits of State and Local Governments. Additionally, our audit evaluated CCCC's compliance with

Office of the State Comptroller (OSC) policies and procedures; Massachusetts General Laws; and other applicable laws, rules, and regulations.

In performing our audit of CCCC's activities, we referred to OMB Circular A-133, June 2010 Compliance Supplement, to determine the compliance requirements that must be considered in an audit conducted under OMB Circular A-133. Based upon our review, we determined requirements applicable to Federal Student Financial Assistance programs, and designed appropriate tests to determine CCCC's compliance with those requirements. Specifically, our objectives were to:

- Assess the internal controls in place at CCCC during the audit period.
- Assess and evaluate the programs for compliance with the requirements of the Compliance Supplement, ED, and the OSC.
- Follow up on prior audit results, if any, to determine what corrective action has been taken.

The criteria for our review were drawn from OMB Circular A-133 and the June 2010 Compliance Supplement, the Code of Federal Regulations, and the OSC's Internal Control Guide. Those criteria dealt with CCCC's responsibility for the administration and operation of the Federal Student Financial Assistance programs and for compliance with the laws and regulations governing:

- Activities Allowed and Unallowed
- Cash Management
- Eligibility
- Matching, Level of Effort, and Earmarking
- Period of Availability of Federal Funds
- Program Income
- Reporting
- Special Tests and Provisions

We examined, on a test basis, evidence regarding CCCC's compliance with applicable requirements and performed other procedures as we considered necessary. Based on these tests, we concluded that, except as reported in the Audit Results section of this report, for the period July 1, 2009 through June 30, 2010, CCCC had adequate internal controls in place and complied with the requirements of the United States ED; OMB Circular A-133 and the Compliance Supplement; and other applicable laws, rules, and regulations for the areas tested.

AUDIT RESULTS

1. DISBURSEMENT NOTIFICATION LETTERS NEED IMPROVEMENT

Our audit disclosed that Federal Family Education Loan (FFEL) program funds Disbursement Notification Letters were not sent by Cape Cod Community College (CCCC) to students in compliance with federal notification requirements regarding the contents of these notification letters. Specifically, the letters did not contain the disbursement dates and the proper time frame for cancelling all or part of the FFEL or Direct Loans. Once the Financial Aid Office has determined a student's award, an award letter should be sent by CCCC to the student. The award letter should contain information on factors the award was based on, such as residency classification, enrollment status, and living situation. The letter requests the student to review the information and indicate an acceptance or declination of each award and then sign the award letter for submittal to the Financial Aid Office by the date indicated.

The United States Department of Education (ED), the department that oversees the administration of Federal Title IV funding for Federal Student Aid has established regulations that govern the disbursement of Student Financial Assistance (SFA) funds. Specifically, 34 Code of Federal Regulations (CFR) Section 668.165(a) states that an institution participating in the FFEL and Direct Loan programs is required to do the following:

Notices. (1) Before an institution disburses title IV, HEA program funds for any award year, the institution must notify a student of the amount of funds that the student or his or her parent can expect to receive under each title IV, HEA program, and how and when those funds will be disbursed.

(2) Except in the case of a post-withdrawal disbursement made in accordance with Sec. 668.22(a) (5), if an institution credits a student's account at the institution, with Direct Loan, FFEL, Federal Perkins Loan or TEACH Grant Program funds, the institution must notify the student or parent of--- (i) the anticipated date and amount of the disbursement; (ii) the student's right or parent's right to cancel all or a portion of that loan, loan disbursement TEACH Grant, or TEACH Grant disbursement and have the loan proceeds returned to the holder of that loan...; (iii) the procedures and time by which the student or parent must notify the institution that he or she wishes to cancel the loan... (3)(ii) No earlier than 30 days before and no later than seven days after, crediting the student account at the institution, if the institution does not obtain affirmative confirmation from the student under paragraph (a)(6)(i) of this section.

Our review of a sample of five Disbursement Notification Letters disclosed that they were all sent within the required timeframe. However, the letters did not include a statement notifying

the student of their right to cancel the loan after the later of the first day of a payment period or 14 days after the date the college notifies the student or parent of his or her right to cancel.

CCCC officials acknowledged that the notifications letters did not comply with these requirements and indicated that they would review their policies and procedures and instruct CCCC's Information Technology Department to make the necessary changes to ensure that the Disbursement Notification Letters contain the required dates and instructions for cancellation.

Recommendation

CCCC needs to improve its policies and procedures for documenting the process for issuing disbursement notifications for FFEL to its students to be in compliance with Title IV requirements. Specifically, CCCC should enhance its written policies and procedures by better documenting the process for issuing Disbursement Notification Letters to students and parents regarding FFEL and Direct Loan distributions. CCCC should also ensure that the letters indicate the time frame allowable for the student to cancel the loan disbursement in compliance with SFA.

Auditee's Response

During the 2009-2010 academic year, the Business Office automated the disbursement notification letters. During the implementation, text was inadvertently dropped from the standard letter. After identifying the problem, the correction was made. All 2010-2011 disbursement notification letters include specific information indicating that the student has 14 days to cancel the loan and to contact the Financial Aid Office. The Financial Aid Office's policy and procedures do include references to disbursement notices and cancellation policies in the Stafford Loan section under Disbursement of Loans.

2. IMPROVEMENTS NEEDED IN FEDERAL WORK STUDY INTERNAL CONTROL PROCEDURES

Our review of internal controls and payroll procedures established for maintaining, monitoring, and controlling CCCC's student Federal Work Study (FWS) payroll records and files indicated general compliance with the guidelines and internal control policies identified in CCCC's SFA policies and procedures. However, our review of FWS payroll records identified that, contrary to those policies and procedures, two students worked several hours during scheduled class time. Specifically, our sample test of four student files disclosed that two students were working during periods in which a conflict existed between their scheduled class time and FWS work. Our review of their student files disclosed no evidence that this conflict had been identified by the student supervisors or the SFA Office. Moreover, the files contained no evidence of

teachers' class cancellation records that would excuse the students from class. Consequently, these students that worked during scheduled class hours lost valuable time in class that is needed to complete their course work.

As part of our testing, we reviewed 15 time sheets for four students taken from payrolls covering 30 weeks for fiscal year 2010 for the following documentation: existence of student timesheets for both on-campus and off-campus employment; actual payroll reports compiled by Human Resources; and work study contracts and agreements with outside employers. Our review included tests for proper authorization, supporting documentation, accuracy, completeness, timeliness, and adherence to award specifications. For the audit tests applied, we found that CCCC satisfactorily applied its FWS funds and payroll controls with the exception of the monitoring of students working during class time. These instances indicate a breakdown in both the supervisory and monitoring controls that, if not addressed, could lead to further issues in the FWS program.

In administering the FWS program, institutions such as CCCC are required to establish and maintain records in accordance with (34 CFR 675.19(a), which states:

The institution must also establish and maintain program and fiscal records that: i) include a certification by the student's supervisor, an official of the institution or off-campus agency indicating each student has worked and earned the amount being paid. The certification must include or be supported by a time record showing the hours each student worked in clock time sequence for students paid on an hourly basis, or the total hours worked per day; (ii) include a payroll voucher containing sufficient information to support all payroll disbursements; and (iii) include a noncash contribution record to document any payment of the institution's share of the student's earnings in the form of services and equipment (see Sec. 675.27(a)); and (iv) are reconciled at least monthly (34 CFR 675.19 (b)(2)).

CCCC must have administrative capabilities and establish and maintain an internal control system of checks and balances that ensures that no office can both authorize payments and disburse funds to students in accordance with 34 CFR Sections 668.16(c)(1) and (2), which state:

(1) Administers Title IV, HEA programs with adequate checks and balances in its system of internal controls; and

(2) Divides the functions of authorizing payments and disbursing or delivering funds so that no office has responsibility for both functions with respect to any particular student aided under the programs. For example, the functions of authorizing payments and disbursing or delivering funds must be divided so that for any particular student aided under the programs, the two functions are carried out by at least two organizationally independent individuals who

are not members of the same family, as defined in Sec. 668.15, or who do not together exercise substantial control.

CCCC has established SFA policies and procedures that prohibit students from working during scheduled class time. Moreover, the Cape Cod Community College Work Study Handbook, "Students Obligation to Employer," states the following: "Notify your Supervisor of any changes in class schedule, which would affect your work schedule."

We noted that the SFA office does not monitor time sheets. Instead, supervisors of FWS students are responsible for signing time sheets and are provided a copy of the student's class schedule.

Recommendation

CCCC should review and improve its internal controls within its FWS program. Specifically, procedures should be reviewed to ensure that all FWS supervisors and students are cooperatively monitoring students' work time according to CCCC's FWS policies and procedures to ensure that FWS employment does not conflict with student class schedules. These procedures should include the monitoring of timesheets and students' work time by FWS supervisors to ensure that scheduling conflicts do not exist. CCCC should ensure that its staff is advised of their responsibilities with regard to payroll procedures and student-employee practices.

Auditee's Response

While there is no specific federal regulation mandating the students cannot work during scheduled class hours or that the institution must monitor hours worked against the class schedule, it would be inappropriate for supervisors to require students work at the same time as class. In all cases, the student's coursework takes precedence over work study. To further support the verbal information the Financial Aid Office provides supervisors, the Work Study Handbook which will be updated in Spring 2011 to address the issue. It is the supervisor's responsibility to know the student's class Schedule to avoid conflicts.

In many cases, the reason a student works during scheduled class time is due to class cancellation, early release, etc. When this occurs, the supervisor should document why the student is working rather than attending class. If this type of activity is occurring frequently, the supervisor should contact the teacher for verification.

Since scheduling and verifying hours is the supervisor's responsibility, the Time Sheet is being updated to include a statement reminding both parties that working during class time is prohibited. For the exceptions when a student does work, the student/supervisor must add a note of explanation. This revision will be in place as soon as possible.

3. STUDENT STATUS CHANGES NOT SUBMITTED AS REQUIRED

Our audit sample of 25 students for the FFEL program disclosed that CCCC did not notify the National Student Loan Data System (NSLDS) in a timely manner of the status of 10 students (four who graduated and six who withdrew) with changes in their enrollment status as required by SFA regulations. The remaining 15 students were reported correctly to NSLDS at the end of the fall academic term and spring academic term for academic year 2009/2010.

SFA regulations governing Title IV student aid programs require institutions, lenders, guaranty agencies, and the loan servicer to monitor and update the enrollment status of all students who receive federal student loans. CCCC is required to identify and update the loan status of all students, including those who graduate or withdraw, via a periodic Roster Report (formerly a Student Status Confirmation Report). This notification must take place within 30 days of withdrawal or within 60 days of the next scheduled submission. Specifically, 34 CFR Section 682.610(c), which governs FFEL program regulations, states:

(c) Student status confirmation reports. A school shall—

(1) Upon receipt of a student status confirmation report form from the Secretary or a similar student status confirmation report form from any guaranty agency, complete and return that report within 30 days of receipt to the Secretary or the guaranty agency, as appropriate; and

(2) Unless it expects to submit its next student status confirmation report to the Secretary or the guaranty agency within the next 60 days, notify the guaranty agency or lender within 30 days—

(i) If it discovers that a Stafford, SLS, or PLUS loan has been made to or on behalf of a student who enrolled at that school, but who has ceased to be enrolled on at least a half-time basis;

(ii) If it discovers that a Stafford, SLS, or PLUS loan has been made to or on behalf of a student who has been accepted for enrollment at that school, but who failed to enroll on at least a half-time basis for the period for which the loan was intended;

(iii) If it discovers that a Stafford, SLS, or PLUS loan has been made to or on behalf of a full-time student who has ceased to be enrolled on a full-time basis; or

(iv) If it discovers that a student who is enrolled and who has received a Stafford or SLS loan has changed his or her permanent address.

A student's enrollment status determines eligibility for in-college status, deferment, grace period, and repayment schedules, as well as the government's payment of interest subsidies; therefore, enrollment reporting is critical for effective administration of Title IV programs. Enrollment

reporting is also critical for the effective administration of FFEL loans and is the primary means of verifying students' loan privileges and the federal government's financial obligations. Under the FFEL program, colleges are required to identify and update the status of all students, including those who graduate or withdraw, by completing periodic Roster Reports, which are sent by the ED or the guaranty agency. The college determines how often it receives periodic Roster Reports (formerly a Student Status Confirmation Report), but the minimum is twice each year. Once received, the college must update for changes in student status, report the date the enrollment status was effective, enter the new anticipated completion date, and submit the changes electronically through the batch method or the NSLDS website.

CCCC reports changes in enrollment status to a contracted third party, the National Student Clearinghouse (NSC), three times each semester excluding summers, including a special report consisting of the graduating students at year end. CCCC utilizes the NSC to facilitate its responsibility to notify NSLDS of changes in the enrollment status of its students. However, CCCC is ultimately responsible for ensuring that NSLDS is properly and timely notified of all student enrollment and status changes. According to OMB Circular A-133 compliance requirements, institutions are responsible for establishing procedures to ensure for timely reporting, whether they report directly or via a third-party service such as the NSC.

Our audit disclosed that CCCC did not have adequate internal controls and relevant written policies and procedures in place to verify and ensure that changes in student enrollment status were correctly reported to NSLDS in a timely manner. As a result, there is inadequate assurance that the enrollment status CCCC reports to the NSC is being transmitted on a timely basis to NSLDS. Our audit testing of CCCC enrollment records and NSDLS records revealed that for 10 students in our sample, CCCC had not reported changes in their enrollment status to NSLDS through NSC within the time limits required under federal regulations. Delayed reporting for these students ranged between 11 to 28 days beyond the 60-day limit to report. As a result, there is inadequate assurance that the enrollment status CCCC reports to the NSC is being transmitted accurately and timely.

CCCC officials acknowledged the results of our audit and indicated that corrective action would be initiated with steps and written procedures for the proper tracking of the enrollment data and roster files to NSC and to NSLDS.

Recommendation

CCCC should establish adequate written policies and procedures to verify that changes in student enrollment status, and the processing of this information by NSC, is verified and then properly reported to NSLDS in a timely manner in accordance with the requirements of 34 CFR 682.610.

Auditee's Response

The College uses the National Student Clearinghouse (NSC) to complete the federally required Student Status Confirmation Reports (SSCR) for the National Student Loan Database System (NSLDS). The Jenzabar student information system has built in reporting mechanisms to identify and prepare data for the Clearinghouse. The Registrar supervises this activity three times per semester, plus any follow-up needed between reporting periods.

The Registrar's Office will ensure there is a written policy and procedure for the Clearinghouse activities. It will include explanations of how the College identifies withdrawals, graduations, etc. and when they are first able to be aware if a student is re-enrolling in a subsequent term. The procedures will be created with input from Registration, Financial Aid, and Information Technology. Written procedures will be created during summer 2011.

For 2011-2012, the Registrar and Financial Aid Director will monitor a sample of students from each Clearinghouse submission to verify the data reaches NSLDS within the required timeframe. The College will monitor submissions to NSLDS and will follow up with the Clearinghouse if discrepancies or timing issues arise.