



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

Making government work better

Official Audit Report-Issued May 24, 2012

Massachusetts College of Art and Design Student Financial Assistance Programs - Follow-up For the period July 1, 2010 through June 30, 2011



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Massachusetts College of Art and Design (MassArt) 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 MassArt's President is responsible for implementing the policies set forth 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 General Laws, the Office of the State Auditor has conducted a follow-up audit of the issues contained in our prior audit report (No. 2011-0181-16S) and in the Single Audit of the Commonwealth of MassArt's Federal Student Financial Assistance (SFA) programs funded through the United States Department of Education (ED) for the period July 1, 2010 through June 30, 2011. We conducted our audit in conjunction with the Single Audit of the Commonwealth of Massachusetts for the fiscal year ended June 30, 2011. 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.

The purpose of our audit was to determine if MassArt had taken corrective action and made improvements on the audit results identified in the prior audit report (2011-0181-16S). We concluded that for the period July 1, 2010 through June 30, 2011, MassArt has taken corrective action and implemented adequate internal controls regarding the provision of exit counseling sessions to graduating Federal Perkins Loan recipient students and the submission of student status changes as required to the National Student Loan Data System. However, MassArt had not, (a) implemented policies and procedures to send disbursement notification letters to students receiving Direct Loans, (b) improved federal work study internal control and payroll procedures, (c) implemented policies and procedures for the calculation and timely return of Title IV funds, and (d) sufficiently updated its internal control plan to comply with the OSC's internal control guidelines.

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1. PRIOR AUDIT RESULTS RESOLVED

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Our follow-up audit disclosed that MassArt has taken corrective action to address two prior audit issues regarding (a) exit counseling sessions and (b) reporting of student status changes.

a. Exit Counseling Sessions Conducted

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Our prior audit disclosed that MassArt did not conduct exit counseling sessions with graduating students who had received Federal Perkins Loans (FPL). Our follow-up audit disclosed that MassArt has taken corrective action and has implemented policies and

procedures addressing the federal requirement that exit counseling interviews be conducted with graduating and/or departing students that borrowed FPLs.

b. Student Status Changes Submitted As Required **4**

Our prior audit disclosed that MassArt did not notify the National Student Loan Data System (NSLDS) in a timely manner of enrollment status changes for 19 students who had withdrawn, and did not properly report two students' enrollment status change as required by SFA regulations. Our follow-up audit disclosed that MassArt has taken corrective actions with regards to the timeliness of reporting students' enrollment status changes to the NSLDS. We found that enrollment status changes for the 25 students in our sample who had either withdrawn or taken leave of absence were properly and timely reported to the NSLDS.

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Our follow-up audit disclosed that MassArt has not taken sufficient corrective action to address prior audit issues regarding: (a) the issuance of Disbursement Notification Letters to students receiving Federal Direct Loans (FDL) in compliance with federal requirements, (b) Federal Work Study (FWS) internal control and payroll procedures, (c) the return of Title IV funds, and (d) improvements and enhancements to its Internal Control Plan (ICP).

a. Disbursement Notification Letters Not Sent to Students **5**

Our prior audit disclosed that for the FDL program funds, Disbursement Notification Letters were not sent by MassArt to students or parents in compliance with federal requirements for 20 students in our sample of 25 students. Specifically, a letter must be sent containing the disbursement date, amount, and the proper timeframe for canceling all or part of the loan.

Our follow-up audit disclosed that Disbursement Notification Letters were not sent to FDL recipients for the two major disbursements during the 2010-2011 academic year. In its response, MassArt indicated that starting in the Fall 2011 semester as part of the Financial Aid processing cycle, each student who had federal loans was sent an electronic message informing him/her of the loan disbursement and a reminder of the student rights to cancel all or part of the federal loan disbursement.

b. Improvements Needed in Federal Work Study Internal Control and Payroll Procedures **7**

Our prior audit disclosed that internal controls and payroll procedures established for maintaining, monitoring, and controlling MassArt student FWS payroll records and files, indicated that it was not complying with FWS regulations, guidelines, and internal controls as identified in MassArt's SFA policies and procedures and certain FWS program regulations. Our follow-up audit indicated that MassArt has not fully corrected the issues involving internal controls and payroll procedures over FWS. Specifically, we noted documents, such as United States Department of Homeland Security Employment Eligibility Verification I-9 Forms, timesheet supervisory authorizations, and payroll reports were lacking and/or incomplete. In its response, MassArt indicated that it will work with the area supervisors to provide better management and oversight of the program along with processing items in a timelier manner.

c. Title IV Funds Not Calculated and Returned in a Timely Manner**11**

Our prior audit disclosed that MassArt did not calculate the return of Title IV funds for eight of its students identified in our sample of 39 that had unofficially (seven) or officially (one) withdrawn. Furthermore, Title IV refunds were not processed within the 45-day time requirement as required by federal regulations for two students in our sample.

Our follow-up audit determined that MassArt still needs to make improvements to its SFA policies and procedures regarding the return of Title IV funds to ensure that funds are processed accurately and returned in a timely manner as required by federal regulations. Our follow-up audit disclosed that in our sample of 24 students, MassArt did not: 1) calculate the return of Title IV funds for four students who unofficially withdrew, resulting in \$19,148 not returned to ED; 2) return Title IV refunds for four students within the 45-day time limit allowed by ED; or 3) accurately calculate Title IV refunds for 10 students, resulting in net underpayment of \$1,447 to ED. In its response, MassArt indicated that it is looking at processing additional academic information and attendance data into its computer system that will assist with the review and management of student unofficial withdrawal activity. MassArt further indicated that at the start of the fall 2011 semester, the various offices that interact and advise students—Academic Advising, Counseling and Health Services, the Registrar, and the Office of Student Financial Assistance (OSFA)—met to review and strengthen its process governing when a student withdraws during the semester.

d. Internal Control Plan Needs Improvement**16**

Our prior audit disclosed that MassArt needed to improve and enhance its ICP by implementing the eight components of Enterprise Risk Management (ERM) and an effective high-level summarization, as required by the Office of the State Comptroller's (OSC) Internal Control Guide. Compliance with these components ensures that MassArt meets its mission and sustains long-term stability and viability.

Our follow-up audit disclosed that MassArt continues to make progress in improving and enhancing its ICP to comply with the OSC guidelines. Specifically, MassArt has implemented steps to update its ICP and has begun a process of integrating changes and improvements at various departmental levels as well as in other operational areas. MassArt stated that its goal is to incorporate the eight specific components of ERM within its ICP and include a high-level summarization with the constituent components extended to cross-referenced, lower-level policies and procedures that in their entirety meet OSC standards. In its response, MassArt indicated that it will continue to review and modify its ICP.

INTRODUCTION

Background

Massachusetts College of Art and Design (MassArt) 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 MassArt'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 a follow-up audit of the issues contained in our prior audit report (No. 2011-0181-16S) and in the Single Audit of the Commonwealth of Massachusetts of MassArt's Federal Student Financial Assistance (SFA) programs funded through the United States Department of Education (ED) for the period July 1, 2010 through June 30, 2011. We conducted our audit in conjunction with the Single Audit of the Commonwealth of Massachusetts for the fiscal year ended June 30, 2011. The Commonwealth's Fiscal Year 2011 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 2011 Single Audit of the Commonwealth of Massachusetts Report 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 MassArt'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 MassArt's activities, we referred to OMB Circular A-133, March 2011 Compliance Supplement, to determine the compliance requirements that must be considered in an audit conducted under OMB Circular A-133.

Our follow-up audit of MassArt's procedures for corrective action and improvements in the areas identified in our prior audit report were as follows:

- Exit Counseling Sessions were conducted with graduating students who had received Perkins Loans.
- Student Status Changes were submitted as required.
- Processing of Disbursement Notification Letters to Direct Loan Recipients.
- Improvements were made to Federal Work Study Internal Control and Payroll Procedures.
- Return of Title IV funds were calculated and returned in a timely manner.
- Improvements were made to MassArt's Internal Control Plan (ICP).

To achieve our audit objectives, we reviewed MassArt's policies and procedures and assessed MassArt's system of internal controls over the following A-133 OMB and federal and state laws compliance areas:

- Exit Counseling Sessions
- Student Status Changes
- Disbursement Notification Letters to Students Receiving Direct Loans
- Federal Work Study Programs
- Return of Title IV Funds
- ICP

This assessment was used in planning and performing our audit tests. We reviewed MassArt's corrective action plan (CAP) to ascertain what action MassArt had taken to correct its prior audit issues. We also conducted interviews of various MassArt officials, reviewed all applicable laws and regulations, and performed audit tests.

We concluded for the period July 1, 2010 through June 30, 2011, MassArt has taken corrective action and implemented adequate internal controls regarding the provision of exit counseling sessions to graduating Federal Perkins Loan recipient students and the submission of student status changes as required to the National Student Loan Data System. However, MassArt had not, (a) implemented policies and procedures to send disbursement notification letters to students receiving Direct Loans, (b) improved federal work study internal control and payroll procedures, (c) implemented policies and procedures for the calculation and timely return of Title IV funds, and (d) sufficiently updated its internal control plan to comply with the OSC's internal control guidelines.

AUDIT RESULTS

1. PRIOR AUDIT RESULTS RESOLVED

Our follow-up audit disclosed that MassArt has taken corrective action to address two prior audit issues regarding (a) exit counseling sessions, and (b) reporting of student status changes.

a. Exit Counseling Sessions Conducted

Our prior audit disclosed that MassArt did not conduct exit counseling sessions with graduating students who had received Federal Perkins Loans (FPL). Our follow-up audit disclosed that MassArt has taken corrective action and has implemented policies and procedures addressing the federal requirement that exit counseling interviews be conducted with graduating and/or departing students that borrowed FPLs. All FPL recipients who graduated in May of 2011 received exit counseling interviews from MassArt.

b. Student Status Changes Submitted As Required

Our prior audit disclosed that MassArt did not notify the National Student Loan Data System (NSLDS) in a timely manner of the enrollment status changes for 19 students who had withdrawn, and did not properly report two students' enrollment status change as required by Federal Student Financial Assistance (SFA) regulations. Our follow-up audit disclosed that MassArt has taken corrective actions with regards to the timeliness of reporting students' enrollment status changes to the NSLDS. MassArt, as part of its corrective action plan, engaged DATATEL to review its software system responsible for the reporting of student status changes to the National Student Clearinghouse (NSC), a contracted third party, to assess any reporting issues. MassArt utilizes the DATATEL software program to provide a complete management information system to serve its user groups, including: the Student Financial Aid Office, the Business Office, and the Registrar's Office. MassArt utilizes the NSC to facilitate its responsibility to notify NSLDS of changes in the enrollment status of students. Furthermore, MassArt instituted other internal controls that enable the Registrar to cross check information with other departments, thus ensuring that all student status changes are reported to the NSC. MassArt has also updated its policies and procedures to ensure timely and accurate reporting of additional student status changes. We found that enrollment status changes for the 25 students in our sample who had either withdrawn or taken leave of absence were properly and timely reported to the NSLDS.

2. PRIOR AUDIT RESULTS UNRESOLVED

Our follow-up audit disclosed that MassArt has not taken sufficient corrective action to address prior audit issues regarding: (a) the issuance of Disbursement Notification Letters to students receiving Federal Direct Loans (FDL) in compliance with federal requirements, (b) the Federal Work Study (FWS) internal control and payroll procedures, (c) the return of Title IV funds, and (d) improvements and enhancements to its Internal Control Plan (ICP).

a. Disbursement Notification Letters Not Sent to Students

Our prior audit disclosed that for the FDL program funds, Disbursement Notification Letters were not sent by MassArt to students or parents in compliance with federal requirements. A letter must be sent containing the disbursement date, amount, and proper timeframe for canceling all or part of the loan. Specifically, we noted that Disbursement Notification Letters were not sent to 20 students in our sample of 25 students receiving Federal Direct Loan program funds.

Our follow-up audit disclosed that Disbursement Notification Letters were not sent to FDL recipients for the two major disbursements during the 2010-2011 academic year. In response to our prior audit, MassArt contended that it complied with federal regulations and provides proper, accurate, and timely information to the student and his or her family by providing the United States Department of Education (ED) Disclosure Statement as the official notification letter to borrowers. The Disclosure Statement informs the student that MassArt will disburse the net loan amount and includes other information such as the disbursement date and the timeframe for canceling all or part of the FDL. However, according to ED's Federal Student Aid, The Blue Book, Chapter 14, it is the responsibility of MassArt to notify a student of the amount of funds the student and his or her parent can expect to receive, which funds are from subsidized loans and which are from unsubsidized loans, and when and how the funds will be disbursed. Furthermore, the Blue Book states that MassArt's notification of a disbursement should not be confused with the Disclosure Statement that must be sent to the student or parent.

The ED, the department that oversees the administration of federal Title IV funding for SFA, has established regulations that govern the disbursement of SFA funds. Specifically, 34 Code of

Federal Regulations (CFR) Section 668.165 (a) states that an institution participating in the Federal Family Education Loan (FFEL) and FDL 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 Section 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.

The Blue Book also requires that a school must notify the student or parent (in hardcopy or electronically) when Perkins, Stafford, or PLUS loan funds are credited to a student's account. This notification must be sent no earlier than 30 days before and no later than 30 days after crediting the student's account. The notification must include the following:

- Date and amount of the disbursement;
- Student's (or parent's) right to cancel all or part of the loan or disbursement;
- Procedures and the time by which the student (or parent) must notify the school that he or she wishes to cancel the loan or disbursement.

MassArt does not address disbursement notification letters to students or parents in its SFA policies and procedures. Consequently, MassArt did not comply with federal regulations requiring Disbursement Notification Letters be sent to students or parents.

MassArt concurs with the audit result and stated that in the near future, it will implement a system whereby students could access their accounts online to provide other information; particularly, the specific notification requirements relative to the disbursement of SFA and the proper timeframe for cancellation of FDLs in compliance with 34 CFR 668.165.

Recommendation

To ensure compliance with federal regulations, MassArt should develop written policies and procedures documenting the process for notifying students and parents regarding the disbursement and limited timeframe for accepting or rejecting FDLs.

Auditee's Response

In the Fall 2011 semester as part of the Financial Aid processing cycle on the crediting of funds to student accounts and the refunding of the excess beyond the College charges; each student who had federal loans was sent an electronic message informing him/her of the loan disbursement and a reminder of the student rights to cancel all or part of the federal loan disbursement.

The Office of Student Financial Assistance along with the Information Technology Department is working with an outside consultant to automate this process along with sending individual transactional information to the student in a more efficient manner.

b. Improvements Needed in Federal Work Study Internal Control and Payroll Procedures

Our prior audit disclosed that internal controls and payroll procedures established for maintaining, monitoring, and controlling MassArt student FWS payroll records and files indicated that it was not complying with FWS regulations, guidelines, and internal controls as identified in MassArt's SFA policies, procedures, and certain FWS program regulations.

Our follow-up audit disclosed that MassArt has not corrected the issues involving internal controls and payroll procedures over FWS. Although MassArt has improved internal controls over its FWS contract, instituting a new contract effective for academic year 2011-2012, we noted that required documents, such as I-9 Forms, timesheet supervisory authorizations, and payroll reports were lacking and/or incomplete.

When administering its FWS program, an institution shall establish and maintain an internal system. 34 CFR 675.19 (b) (2) states, in part, the following:

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, that each student has worked and earned the amount being paid. The certification must include or be supported by, for students paid on an hourly basis, a time record showing the hours each student worked in clock time sequence, or the total hours worked per day; (ii) Include a payroll voucher containing sufficient information to support all payroll disbursements; (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.

Moreover, MassArt must have administrative capabilities that address 34 CFR 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, as defined in Sec. 668.15, over the institution.

As part of our follow-up audit, we reviewed MassArt's FWS student files for 2011 payrolls for the following documentation: existence of student timesheets for 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. Our audit tests for compliance involved a review of seven students and 51 timesheets totaling \$3,726 for the 2010-2011 academic year. This review indicated conditions of noncompliance within MassArt's established SFA policies and procedures and FWS regulations for four students out of the sample of seven, as follows:

Student One: This student started FWS employment on November 13, 2010 and the following instance of noncompliance with federal regulations was noted:

- The student began employment without properly completing the United States Department of Homeland Security Employment Eligibility Verification I-9 Form. The I-9 did not have the student's signature in the Employee Information Verification Section 1. The employer signed and dated the Certification in Section 2 within the required timeframe of three business days of the date of employment. Office of Management and Budget (OMB) No. 1615-004 states, in part, that Form I-9 must be completed no later than the time of hire, which is the beginning of employment (*Employers must complete Section 2 by examining evidence of identity and employment authorization within three business days of the date employment begins ... Employers must sign and date the certification in Section 2*).

Student Two: This student started FWS employment on September 9, 2010 and the following instances of noncompliance with federal regulations were noted:

- The student's MassArt FWS contract was not submitted until September 16, 2010, or four days after she had commenced employment. The contract states as follows:

If you begin working before the contract is complete and approved by our office, the work you do will be considered volunteer work.

The student was paid for the four days; therefore, we question \$40 in payroll costs (five hours x \$8.00 per hour).

- The student submitted a timesheet for the week ended September 23, 2010, and a timesheet for the week ended September 30 for a total of 10 hours (five hours on each timesheet). The two timesheets were paid on October 22, 2010. On November 4, 2010, the student re-submitted the above timesheets. The two timesheets were paid on November 5, 2010. As a result, the student was overcompensated \$80 (10 hours x \$8 per hour for two timesheets previously submitted and approved for payment.)
- Timesheets processed by MassArt for this student contained a number of work study hours that conflicted with the student's class schedule. We found eight timesheets where the Registrar's records indicated the student was scheduled for classes; however, the student was at work. Specifically, the student left class each evening 15 minutes early in order to go to her work study job. No notations were found on timesheets to indicate released time or class cancellations. The propriety of students working during scheduled class time is questionable and indicates a breakdown in FWS internal controls and monitoring procedures in place at MassArt. We question payroll costs of \$16 (two hours x \$8 per hour).

Student Three: This student started FWS employment on September 9, 2009 and the following instance of noncompliance with federal regulations was noted:

- The student submitted a timesheet four days after the established deadline on December 15, 2010 for employment completed on October 27, 2010, contrary to MassArt's annual FWS contract requiring students to submit timesheets no later than 30 days after the work week. The contract states the following:

Late timesheets must be submitted less than 30 days after the workweek, or they will not be honored.

Therefore, because the student did not adhere to the MassArt contract, we question the payroll cost of \$40.

Student Four: This student started FWS employment on September 25, 2010 and the following instance of noncompliance with federal regulations was noted:

- The student's signature on the timesheets for the weeks ending October 8, 2010 and October 22, 2010 did not match up on existing signed documents (i.e. ,W-4 Form, I-

9 Form, FWS contracts, other timesheets) in the student's files. We question payroll costs of \$192 (24 hours x \$8 per hour).

MassArt stated that FWS problems still exist because it has not completed revamping of its internal control system, including the FWS policies and procedures. Furthermore, MassArt indicated that because the faculty does not take attendance, it is difficult to monitor the employment of FWS students during scheduled class hours. According to MassArt's SFA Director, MassArt is in the process of updating the entire SFA policies and procedures manual, which will include internal controls for the FWS program when completed.

Recommendation

MassArt should make every effort to update its internal control system in as timely a manner as possible to ensure that internal controls and payroll policies and procedures are functioning as intended and that they comply with all applicable laws, rules, and regulations. These internal controls must be extended throughout all MassArt departments participating in the FWS program. MassArt staff should be advised of its responsibilities with regard to payroll procedures and student-employee practices. Further, policies and procedures should be reviewed to ensure that all FWS supervisors are monitoring students' work time to ensure that it does not conflict with class schedules.

Auditee's Response

The College has a centralized administration of the College Work Study Program. We also have a decentralized hiring and supervision of Work Study students to allow the funds to assist many areas across the College. The College will work with the area supervisors to assist with better management and oversight of the program along with processing items in a timelier manner. The Office of Student Financial Assistance will follow up in a stronger capacity during the year when departments submit late documents. Information to students will be strengthened as well.

Due to the timing of the FY2010 audit that was conducted in FY2011; the implementation of some of our correction items would begin at the start of FY2012, the Fall 2011 Semester.

The late processing of paper work is an issue of administrative oversight and controls, not eligibility. The College does also overmatch its share of funds to the College Work Study Program. However, Students 2 & 4 had other issues that required attention;

Student One: The student should have signed the appropriate document.

Student Two: The information was provided by the State Auditor's staff prior to the College's close of FY2011 and an adjustment was able to be made to the Federal College

Work Student Account lowering the expenditure for the hours of conflict. College Administration met with the area supervisors.

Student Three: A timesheet for 5 hours was submitted late.

Student Four: The information was provided by the State Auditor's staff prior to the College's close of FY2011 and an adjustment was able to be made to the Federal College Work Student Account lowering the expenditure for the hours of conflict. College Administration met with the area supervisors.

c. Title IV Funds Not Calculated and Returned in a Timely Manner

Our prior audit disclosed that MassArt did not calculate the return of Title IV funds for eight of its students identified in our sample of 39 that had unofficially (seven) or officially (one) withdrawn. Furthermore, Title IV refunds were not processed within the 45-day time requirement as required by federal regulations for two students in our sample.

Our follow-up audit determined that MassArt still needs to make improvements to its SFA policies and procedures regarding the return of Title IV funds to ensure that all unearned federal SFA is processed accurately and returned to ED in a timely manner, as required by federal regulations. Specifically, our follow-up audit disclosed that in our sample of 24 students, MassArt did not: 1) calculate the return of Title IV funds for four students who unofficially withdrew, resulting in \$19,148 not returned to ED; 2) return Title IV refunds for four students within the 45-day time limit allowed by ED; or 3) accurately calculate Title IV refunds for 10 students. Of the 10, overpayments for four students totaled \$333 and underpayments for six students totaled \$1,780, resulting in a net underpayment of \$1,447 to ED.

Our follow-up audit disclosed the following:

1) Four Title IV Refunds Not Calculated for Students Who Unofficially Withdrew

MassArt did not calculate refunds of Title IV program funds for four students who unofficially withdrew during the fall 2010 semester. These refunds should have been calculated when the students stopped attending. We found that four students who withdrew unofficially from MassArt in the 2010-2011 academic year received \$37,600 in Title IV SFA. Of this amount, MassArt should have returned \$19,148 of Title IV funds to ED.

The ED has established regulations that govern the return of Title IV funds. Specifically, 34 CFR 668.22 requires the institution to return unearned Title IV assistance as calculated under sections (e) (4) or (g) (ii), which state:

(e) (4) The unearned amount of title IV assistance to be returned is calculated by subtracting the amount of title IV assistance earned by the student as calculated under paragraph (e)(1) of this section from the amount of title IV aid that was disbursed to the student as of the date of the institution's determination that the student withdrew.

(g) (ii) An amount equal to the total institutional charges incurred by the student for the payment period or period of enrollment multiplied by the percentage of title IV grant or loan assistance that has not been earned by the student.

We determined that MassArt did not calculate Title IV refunds for the four students in accordance with 34 CFR 668.22 under sections (c) (i)-(iii), which state:

(c) Withdrawal date for a student who withdraws from an institution that is not required to take attendance. (1) For the purposes of this section, for a student who ceases attendance at an institution that is not required to take attendance, the student's withdrawal date is—

(i) The date, as determined by the institution, that the student began the withdrawal process prescribed by the institution;

(ii) The date, as determined by the institution, that the student otherwise provided official notification to the institution, in writing orally, of his or her intent to withdraw;

(iii) If the student ceases attendance without providing official notification to the institution of his or her withdrawal in accordance with paragraph (c) (1) (i) or (c) (1) (ii) of this section, the mid-point of the payment period (or period of enrollment, if applicable).

MassArt is currently in the process of calculating the refunds for these four students. MassArt stated it has a difficult time tracking these students because the faculty does not take attendance.

2) Title IV Refunds Not Processed in a Timely Manner and Not Processed Correctly

MassArt did not return Title IV program funds to the ED in a timely manner. Specifically, we noted that for four refunds processed by MassArt, three were calculated properly but one had an incorrect withdrawal date. MassArt incorrectly calculated the refund based on a withdrawal date of March 18, 2011, but the student's actual withdrawal date was March 21, 2011. Furthermore, the four refunds were not returned within the 45-day limit.

An institution must return the amount of Title IV funds for which it is responsible as soon as possible. Returned Title IV funds are required to be deposited or transferred into the SFA account or the institution must initiate electronic fund transfers to the ED no later than 45 days after the date the institution determines that the student withdrew.

The ED has established regulations that govern the timely return of Title IV funds. Specifically, 34 CFR 668.173 (b) states:

(b) Timely return of title IV, HEA program funds. In accordance with procedures established by the Secretary or FFEL program lender, an institution returns unearned title IV, HEA program funds timely if—

(1) The institution deposits or transfers the funds into the bank account it maintains under Section 668.163 no later than 45 days after the date it determines that the student withdrew.

We noted that the returns were processed by electronic transfer and the number of days MassArt used to process the refunds ranged between 48 and 114 days. MassArt does not address the 45-day return requirement in its SFA policies and procedures. Consequently, MassArt did not comply with federal regulations regarding the processing of four Title IV refunds in a timely manner.

3) Title IV Refunds Not Calculated Accurately

Our tests disclosed that the Title IV refunds MassArt calculated on DATATEL for students who withdrew during the 2010-2011 academic year differed from the calculations we performed using the ED's calculation sheet, as follows:

DATATEL calculations for 10 students	\$34,424
ED's calculations for 10 students	<u>35,871</u>
Net difference or underpayment of Title IV funds	<u>\$ 1,447</u>

MassArt did not accurately calculate the return of Title IV funds for ten students who withdrew during the academic year, resulting in a net underpayment of \$1,447 to ED. Specifically, the Title IV refunds calculated by the MassArt in DATATEL, for 10 students were different compared to our calculations. Six of the 10 students' Title IV calculations (performed by us using the Department of Education Title IV refund calculation sheet) disclosed that MassArt underpaid Title IV refunds to ED by \$1,780. For the remaining four

students, MassArt overpaid Title IV refunds to ED by \$333. For one student, the calculation differed because MassArt used an incorrect withdrawal date to calculate the refund rather than the actual withdrawal date three days later, resulting in an overpayment to ED of \$57. The Director of Student Financial Aid agreed that the later withdrawal date should have been used to calculate the refund and the incorrect calculation was due to an error on his part.

MassArt stated that the difference between its Title IV calculations and the ED calculation sheet might be explained by a discrepancy in what DATATEL, versus ED, considers as holidays. MassArt utilizes the DATATEL software program to provide a complete management information system to serve its user groups that include the Student Financial Aid Office, the Business Office, and the Registrar's Office.

According to the ED, a holiday is recognized only if longer than five days. For example, Columbus Day is only one day, but spring break is five to six days depending on whether MassArt is operating five or six days a week. Therefore, spring break would be considered an amount of time deducted from the Title IV calculation.

ED has established regulations that govern the return of Title IV funds. Specifically 34 CFR 668.22 requires the institution to return unearned Title IV assistance as calculated under sections (e) (4) or (g) (ii) which state:

(e) (4) The amount of unearned title IV assistance to be returned is calculated by subtracting the amount of title IV assistance earned by the student from the amount of title IV Assistance that was disbursed to the student as of the date of the institution's determination that the student withdrew.

(g) (ii) An amount equal to the total institutional charges incurred by the student for the payment period or period of enrollment multiplied by the percentage of title IV grant or loan assistance that has not been earned by the student.

The Student Financial Aid Handbook, Chapter 2, Withdrawals and the Return of Title IV Funds, Scheduled breaks, states in part:

Institutionally scheduled breaks of five or more consecutive days are excluded from the Return calculation as periods of nonattendance and therefore do not affect the calculation of the amount of Federal Aid earned.

Except for the \$57 overpayment for one student noted above, MassArt stated that differences in calculations have occurred because DATATEL software utilizes a different number of holidays and school breaks in its calculations of Title IV refunds than does ED. The Director of Financial Aid and the Assistant Vice President of Finance stated that they will be contacting DATATEL for assistance in resolving the number of days in calculating Title IV refunds.

Recommendation

MassArt should update its SFA policies and procedures and institute a process for the identification of students who withdraw unofficially. Secondly, MassArt should develop policies and procedures that ensure the return of Title IV refunds within the 45-day time limit. MassArt should also resolve the Title IV refund calculation issue with DATATEL to ensure that the Title IV refund calculations align with those established by ED.

Auditee's Response

The College followed up with the faculty of the four students. It was determined that all four of the students in question attended enough of the semester to earn the Financial Aid disbursed to them.

On the 4 fall 2010 students in question;

Student 1's last day of attendance was 11/12/10 and his withdrawal from MassArt was entered on 1/24/11.

Student 2's last day of attendance was 10/27/10 and he did not withdraw or take a leave of absence.

Student 3's last date of attendance was 11/15/10 and she took a leave of absence from MassArt which was entered on 12/1/10.

Student 4 attended at least one class until the last class of the semester and did not withdraw or take a LOA from MassArt.

The College is looking at processing additional academic information and attendance data into our ERP system that will assist with the review and management of student unofficial withdrawal activity.

The College is aware of this very important aspect of its management responsibilities with regard to federal funds. At the start of the Fall 2011 semester, the various Offices of the College that interact and advise students—Academic Advising, Counseling and Health Services, the Registrar and the Office of Student Financial Assistance (OSFA) — met to review and strengthen its process when a student withdraws during the semester.

As a matter of policy, the above Offices are prepared to advise any student who plans to withdraw and is receiving financial assistance that the amount of his/her financial aid may change as a result of withdrawal. The OSFA will review the withdrawal document and determine the actual amounts that financial aid will change within the proper time frame. If applicable, the OSFA will initiate the return of Title IV funds and make sure that the fund balances are reconciled.

The College is concerned that our ERP system and software within DATATEL is not accurately calculating the return of Federal Funds amount. The Office of Student Financial Assistance along with the Information Technology Department will look into why there are differences, although minor, in the output of data.

d. Internal Control Plan Needs Improvement

Our prior audit report disclosed that MassArt needed to improve and enhance its Internal Control Plan (ICP) by implementing the eight components of Enterprise Risk Management (ERM), and to include an effective high-level summarization, and cross-reference the ICP to policies and procedures as required by the Office of the State Comptroller's (OSC) guidelines. Compliance with these components ensures that MassArt meets its mission and sustains long-term stability and viability.

Our follow-up audit disclosed that MassArt continues to make progress in improving and enhancing its ICP to comply with the OSC guidelines. Specifically, MassArt has implemented steps to update its ICP by integrating changes and improvements at various departmental levels as well as in other operational areas. MassArt stated that its goal is to incorporate the eight specific components of ERM within its ICP and include a high-level summarization with the constituent components extended to cross-referenced, lower-level policies and procedures that comply with the OSC guidelines.

The OSC's Internal Control Guide, Chapter I, Internal Control Plan Framework, Policies and Procedures, states:

Controls are most frequently comprised of policies and procedures. After identifying and assessing risks, managers need to evaluate (and develop, when necessary) methods to minimize these risks. A policy establishes what should be done and serves as the basis for the procedures. Procedures describe specifically how the policy is to be implemented. It is important that an organization establish policies and procedures so that staff knows what is to be done and compliance can be properly evaluated.

Recommendation

MassArt should continue to develop its ICP to include the eight components of ERM and high-level summarization, and also cross-reference the ICP to policies and procedures to comply with OSC's guidelines.

Auditee's Response

MassArt will continue to review and modify its Internal Control Plan. Over the last couple of years, additional changes were made to the plan per the requirements of ARRA federal funds. We will work to incorporate all of the eight components of ERM into the written plan. Many of the requirements are included within other College documents which we will integrate into the ICP. The College has recently updated its College-Wide priorities for FY2012. In addition we hope to hire an outside consultant to assist the College with ICP reviews and updates.