



Commonwealth of Massachusetts
Office of the State Auditor
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Official Audit Report – Issued May 24, 2012

Massachusetts Maritime Academy
Student Financial Assistance Programs - Follow Up
For the period July 1, 2010 through June 30, 2011



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Massachusetts Maritime Academy (MMA) 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 MMA'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 Massachusetts General Laws, the Office of the State Auditor has conducted a follow-up audit of MMA'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 MMA had taken corrective action and made improvements on the audit results identified in the prior report (2011-0182-7S). We concluded for the period July 1, 2010, through June 30, 2011, MMA has taken corrective action and implemented adequate internal controls regarding the processing of Disbursement Notification Letter to Direct Loan Recipients. However, MMA had not (a) submitted student status changes as required, (b) implemented policies and procedures over its Federal Work Study Program, and (c) sufficiently updated its internal control plan to comply with the OSC's internal control guidelines.

AUDIT RESULTS

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1. PRIOR AUDIT RESULTS RESOLVED – DISBURSEMENT NOTIFICATION LETTERS

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Our prior audit disclosed that Disbursement Notification Letters sent to MMA students were not in compliance with federal requirements regarding the contents of these notification letters. Our follow-up audit disclosed that MMA has taken corrective action to improve its policies and procedures for issuing disbursement notification letters to its students to be in compliance with Federal Title IV.

2. PRIOR AUDIT ISSUES UNRESOLVED

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Our follow-up audit disclosed that MMA has not taken sufficient corrective action to address prior audit issues regarding (a) reporting student status changes on a timely and accurate basis, (b) improvements in Federal Work Study (FWS) internal controls, and (c) improvements and updating of its Internal Control Plan (ICP).

a. Student Status Changes Not Submitted as Required**4**

Our prior two audits disclosed that MMA did not notify the National Student Loan Data Systems (NSLDS) of student status changes in a timely manner as required by SFA regulations. MMA reports changes in enrollment status to a contracted third party, the National Student Clearinghouse (NSC). MMA utilizes the NSC to facilitate its responsibility to notify NSLDS of changes in enrollment status of its students. Our follow-up audit disclosed that MMA made some improvements to the NSLDS process by issuing written internal control procedures to address the accurate reporting of student enrollment with the NSLDS. For example, files are submitted once per month, rather than four times per year, as was the previous practice. However, our testing found instances in which MMA did not adequately notify and update NSLDS of students that had withdrawn, graduated, or had a status of less than half time in a timely manner, and other students were misclassified as to their status in the records of the Registrar's Office. Our audit testing indicated that MMA had not taken the necessary corrective action to process the reporting of student status changes for four students out of a sample of 25 students. Specifically, we noted that two students with status changes were reported past the 60-day notification period. For two other students, we found that the Registrar's files noted the students had graduated, but their NSC record indicated one was attending full time and one withdrew. The remaining 21 students were reported correctly to the NSLDS for academic year 2010-2011. The Registrar indicated he plans to correct the NSLDS record to indicate that the two students graduated. In its response, MMA indicated that additional procedures have been implemented for timely and accurate verification with NSLDS.

b. Improvements Needed in Federal Work Study Program Internal Controls**6**

Our prior audit reported irregularities regarding FWS program funds. During the spring 2010 semester, when the irregularities were discovered, MMA's Financial Aid Office conducted an internal investigation. These irregularities included improperly submitted timesheets, pre-signed timesheets, students paid for hours not worked, and football players submitting timesheets and being paid when they were scheduled to be at practice during the fall 2009 semester. The report recommended that MMA continue to review and improve the internal controls and policies and procedures within its FWS program to ensure that payroll policies and procedures are functioning as intended. Our follow-up audit indicated that the MMA has improved the internal controls within its FWS program by developing a new FWS Manual for Supervisors and students that includes new timesheet procedures and work study policies. However, our review of six students employed in the Athletic Department's FWS program during the spring 2011 semester indicated that, contrary to the above policies and procedures, processed timesheets for two students did not comply with policies and procedures. Our audit tests for compliance involved a review of a sample of six of the 18 students employed in the Athletic Departments' FWS Program and 58 timesheets totaling \$2,962 taken from payrolls in the spring 2011 semester. This review indicated noncompliance with MMA's established SFA policies and procedures and FWS regulations for two out of the six students. The first student's timesheet was not verified by a signature; rather, it indicated that the "student already left campus." As a result, we questioned \$16.50 (1.5 hrs x \$11.00 per hour) for the student. For the second student, we noted that six timesheets submitted by the student contained illegible signatures. As a result, we questioned \$230 in

payroll costs (\$10.00 per hour x 23 hours). In its response, MMA indicated that the Financial Aid Office will continue to review and improve internal controls with regard to the FWS program, that will include updating the FWS Manual for Supervisors and providing the appropriate training needed. The MMA faculty indicated that MMA will work closely with supervisors to ensure that appropriate action is taken with regard to obtaining legible signatures.

c. Internal Control Plan Still in Need of Improvements and Updating

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Our prior audit disclosed that MMA needed to update its Internal Control Plan (ICP) to ensure it contains an adequate high-level summarization of internal controls over its operations in support of its mission, goals, and objectives and complies with the eight components of Enterprise Risk Management (ERM). Our follow-up audit disclosed that MMA has updated its ICP to comply with the OSC guidelines by including the eight components of the ERM and by developing a Mission Statement, Vision Statement, and Goals and Self-Assessment of Internal Controls statement. Our audit disclosed that MMA has prepared and developed an ICP that is generally in compliance with Chapter 647 of the Acts of 1989 (An Act Relative to Improving Internal Controls within State Agencies) and Office of the State Comptroller (OSC) guidelines. However, MMA needs to update and improve its written lower-level policies and procedures for all operational departments to support the mission of the academy to help mitigate its identified risks. The MMA indicated that it continues to develop and enhance its lower-level policies and procedures. In its response, the MMA indicated that it continuously enhances and reviews its policies and procedures and additional operational departments' lower-level written policies and procedures are being included as part of the implementation of the ICP.

INTRODUCTION

Background

Massachusetts Maritime Academy (MMA) 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 MMA'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. 2011-0182-16S) and in the Single Audit of the Commonwealth of Massachusetts, of MMA'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 MMA'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 MMA'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 MMA's procedures for corrective action and improvements in the areas identified in our prior audit report were to determine whether:

- Improvements were made to MMA's processing of Disbursement Notification Letters to Federal Direct Loan recipients.
- Student status changes were submitted as required.
- Improvements were made to Federal Work Study (FWS) Program Internal Controls.
- Improvements were made to MMA's Internal Control Plan.

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

- Disbursement Notification Letters to students receiving Direct Loans
- Enrollment status changes
- FWS Program
- Internal Control Plan

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

We concluded for the period July 1, 2010, through June 30, 2011, MMA has taken corrective action and implemented adequate internal controls regarding the processing of Disbursement Notification Letter to Direct Loan Recipients. However, our follow-up audit has determined that MMA had not (a) submitted student status changes as required, (b) implemented policies and procedures over its FWS Program, and (c) sufficiently updated its internal control plan to comply with the OSC's internal control guidelines.

AUDIT RESULTS

1. PRIOR AUDIT RESULTS RESOLVED – DISBURSEMENT NOTIFICATION LETTERS

Our prior audit disclosed that Disbursement Notification Letters sent to Federal Family Education Loan (FFEL) recipients by Massachusetts Maritime Academy (MMA) did not indicate the date and amount of the disbursement or the limited timeframe for accepting or rejecting the loan.

Our follow-up audit disclosed that MMA has taken corrective action to improve its policies and procedures for issuing Disbursement Notifications Letters to its students to comply with Federal Direct Loan (FDL) requirements. MMA issues Disbursement Notification Letters that indicate the disbursement amount and the date of disbursement and the letters clearly specify the limited timeframe for accepting or rejecting the loan. Our sample of five Disbursement Notification Letters sent to students in fall 2010 revealed that MMA's Disbursement Notification Letters were timely and properly written, including dates and amounts to be disbursed, and were in compliance with Federal Title IV regulations.

2. PRIOR AUDIT ISSUES UNRESOLVED

Our follow-up audit disclosed that MMA has not taken sufficient corrective action to address prior audit issues regarding (a) reporting student status changes on a timely and accurate basis, (b) improvements in Federal Work Study (FWS) internal controls, and (c) improvements and updating of its Internal Control Plan (ICP).

a. Student Status Changes Not Submitted as Required

Our prior audit disclosed that MMA had not taken the necessary corrective action to process the reporting of student status changes for six students out of a sample of 25 students in a timely and accurate manner contrary to Federal Student Financial Assistance (SFA) regulations.

Our follow-up audit testing indicated that MMA had not taken the necessary corrective action to process the reporting of student status changes for four students out of a sample of 25 students. Specifically, we noted that two students with status changes were reported past the 60-day notification period. For two other students, we found that the Registrar's files noted the students had graduated, but their NSC record indicated one was attending full time and one withdrew.

The remaining 21 students were reported correctly to the National Student Loan Data System (NSLDS) for academic year 2010-2011.

SFA regulations governing Title IV SFA 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. MMA 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 Code of Federal Regulations (CFR) Section 685.309(b), which governs Federal Direct Loan program regulations, states:

Student status confirmation reports.

A school shall—

(1) Upon receipt of a student status confirmation report from the Secretary, complete and return that report to the Secretary within 30 days of receipt; and (2) Unless it expects to submit its next student status confirmation report to the Secretary within the next 60 days, notify the Secretary within 30 days if it discovers that a Direct Subsidized, Direct Unsubsidized, or Direct PLUS Loan has been made to or on behalf of a student who—

(i) Enrolled at that school but has ceased to be enrolled on at least a halftime basis; (ii) Has been accepted for enrollment at that school but failed to enroll on at least a halftime basis for the period for which the loan was intended; or (iii) Has changed his or her permanent address.

(3) The Secretary provides student status confirmation reports to a school at least semi-annually.

(4) The Secretary may provide the student status confirmation report in either paper or electronic format.

MMA utilizes the National Student Clearinghouse (NSC) to facilitate its responsibility to notify NSLDS of enrollment status changes. However, MMA is ultimately responsible for ensuring that NSLDS is properly notified of all student enrollment status changes in a timely manner. Because MMA depends on the NSC to report these changes to NSLDS, it needs to be vigilant in ensuring that the correct enrollment status has been reported.

Our follow-up audit disclosed that MMA made some improvements to its NSLDS reporting process since our last audit by issuing written internal procedures to address the accurate

reporting of student enrollment with the NSLDS. Files are submitted once per month, rather than four times per year, as was the previous practice. As students withdraw during the semester, the Director of Financial Aid manually updates the student enrollment information on NSLDS to reflect the student's withdrawal. The Director of Financial Aid spot checks student enrollment each month with NSLDS to ensure accurate reporting. However, our follow-up audit found instances in which MMA did not adequately and timely notify and update NSLDS of students that had withdrawn, graduated, or changed their enrollment status to less than half time, in a timely manner, and other students were misclassified as to their status in the records of the Registrar's Office as stated above.

Recommendation

MMA should adhere to the newly developed procedures developed as a result of the prior audit regarding the correct and timely reporting to NSLDS in accordance with the requirements of 34 CFR 685.309(b). MMA must notify NSC of changes in student enrollment in a timely manner and the processing and the transmission of this information by NSC to NSLDS should be verified as timely and accurate by MMA.

Auditee's Response

Registrar has reviewed policies and procedures. Registrar is following policies and procedures in a timely manner. Additional procedures have been implemented for timely and accurate control verification with NSLDS.

b. Improvements Needed in Federal Work Study Program Internal Controls

Our prior audit reported that, in accordance with Chapter 647 of the Acts of 1989, An Act Relative to Improving the Internal Controls within State Agencies, MMA reported irregularities to the Office of the State Auditor (OSA) involving the FWS program funds. During the spring 2010 semester, when the irregularities were discovered, MMA's Financial Aid Office conducted an internal investigation. These irregularities included improperly submitted timesheets, pre-signed timesheets, students paid for hours not worked, and football players submitting timesheets and being paid when they were scheduled to be at practice during the fall 2009 semester. The report recommended that MMA continue to review and improve the internal controls and policies and procedures within its FWS program to ensure that payroll policies and procedures are functioning as intended.

In administering the FWS program, institutions such as MMA 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 disbursement; 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)).

Our follow-up review indicated that the MMA has improved the internal controls within its FWS program. Specifically, MMA has developed detailed policies and procedures for its students and Supervisors in the FWS program. The new policies and procedures include new timesheet requirements that were established to require both the Supervisor and department head approval. Supervisors are now required to submit timesheets in signed, sealed envelopes to the Payroll Office. When the Financial Aid Office is notified that a FWS student has withdrawn, an e-mail is sent to the Payroll Office informing them to terminate the FWS contract. An e-mail is also sent to the Supervisor and department head informing them of the student's withdrawal and asking they shred any remaining timesheets. Lastly, the Financial Aid Office oversees the placement of students in all FWS positions and determines the proper number of students allowed to work in any given department. MMA implemented a policy prohibiting the placement of varsity athletes in any athletic department or working for specific varsity athletic coaches. However, our testing revealed some students did not properly complete their timesheets and Supervisors did not properly monitor these timesheets as part of the approval process of the student's work performed in the program.

As part of our follow-up audit we reviewed FWS students' files from 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 FWA contracts and agreements with outside employees. 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 a sample of six students of the 18 students employed in the Athletic Departments' FWS Program and 58 timesheets totaling

\$2,962 taken from payrolls in the spring 2011 semester. This review indicated noncompliance with MMA's established SFA policies and procedures and FWS regulations for two out of the six students. The first student's timesheet was not verified by a signature; rather, it indicated that the "student already left campus." As a result, we question \$16.50 (1.5 hrs x \$11.00 per hour) for the student. For the second student, we noted that six timesheets submitted by the student contained illegible signatures. As a result, we question \$230 in payroll costs (\$10.00 per hour x 23 hours).

Recommendation

MMA should continue to review and improve its internal controls and new policies and procedures by monitoring and governing the activities of students participating in the FWS program. This monitoring must include a review of the timesheets by supervisors in the FWS program to ensure that students are legibly signing timesheets while performing assigned FWS program tasks, ensuring that the FWS program is operating as intended and Supervisors and students in the program are adhering to the rules and regulations of the program in compliance with the federal guidelines.

Auditee's Response

The MMA Financial Aid Office will continue to review and improve our internal controls with regard to the Federal Work Study Program. This process will include updating the Work Study Manual for Supervisors as needed and providing appropriate training of supervisors, including the proper handling of signatures on timesheets. Although nowhere in federal regulations or our written policies does it require that a signature be "legible," we will work closely with supervisors to ensure that appropriate action is taken with regard to obtaining legible signatures.

c. Internal Control Plan Still in Need of Improvements and Updating

Our prior audit report of the MMA disclosed that MMA has made some progress updating its Internal Control Plan (ICP) to comply with the Office of the State Comptroller (OSC) guidelines by updating the ICP to include the eight components of the Enterprise Risk Management (ERM) and by developing a Mission Statement, Vision Statement, and Goals and Self-Assessment of Internal Controls statement.

Our follow-up audit disclosed that MMA has updated its ICP to generally comply with Chapter 647 of the Acts of 1989 (An Act Relative to Improving Internal Controls within State Agencies) and the OSC guidelines. However, MMA needs to update and improve its written lower-level

policies and procedures for all operational departments to support the mission of the MMA as part of the ICP to mitigate its identified risks.

The ICP contains clear statements directing management and staff to specific actions which will be taken to mitigate or respond to MMA's major risks to ensure that any interruption in its operational and programmatic activities is minimized; however, more work needs to be done in addressing the lower-level detail in the form of written policies and procedures for all departments.

The Office of the State Comptroller'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.

MMA indicated that it continues to develop and enhance lower-level policies and procedures for its departments.

Recommendation

We recommend that MMA continue to develop and enhance its written policies and procedures to support the mission of the MMA as part of the implementation of the ICP.

Auditee's Response

MMA is continuously enhancing and reviewing its policies and procedures. Additional operational departments lower level written policies and procedures are being included as part of the implementation of the ICP.