



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

*Making government work better*

Official Audit Report – Issued May 24, 2012

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Massachusetts Bay Community College  
Student Financial Assistance Programs - Follow Up  
For the period July 1, 2010 through June 30, 2011



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## TABLE OF CONTENTS/EXECUTIVE SUMMARY

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### **INTRODUCTION**

**1**

Massachusetts Bay Community College (MassBay) 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 MassBay'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 General Laws, the Office of the State Auditor has conducted a follow-up audit of the issues contained in our prior audit report (No. 2011-0196-7S) and in the Single Audit of the Commonwealth of Massachusetts of MassBay'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 MassBay had taken corrective action and made improvements on the audit results identified in our prior audit report (2011-0196-7S). We concluded for the period July 1, 2010 through June 30, 2011, MassBay has not adequately implemented corrective action plans for (a) accurately reporting student status changes on a timely basis and (b) the determination of the status of outstanding checks.

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### **AUDIT RESULTS**

**3**

#### **1. PRIOR AUDIT RESULTS UNRESOLVED**

**3**

Our follow-up audit disclosed that MassBay has not taken sufficient corrective action to address prior audit issues regarding (a) accurately reporting student status changes on a timely basis and (b) the determination of the status of outstanding checks, as discussed below.

##### **a. Improved System for Timely and Accurate Reporting of Student Status Changes Not Implemented**

**3**

Our prior audit disclosed that MassBay did not notify the National Student Loan Data System (NSLDS) of student status changes as required by Federal Student Financial Assistance (SFA) regulations for 26 of the 30 students receiving Federal Direct Loans (FDLs) sampled.

Our follow-up audit disclosed that there were minimal improvements made to the process. In our sample of 30 students receiving Direct Loans, we found that the changes in enrollment status for 12 students were not reported, incorrectly reported, or reported

late to NSLDS. Of these 12 students, the change in enrollment status for seven was not reported to NSLDS, three of the students had changes that were incorrectly reported, and two students' enrollment status was reported correctly but not within the required time period. MassBay depends on the National Student Clearinghouse (NSC), a contracted third party, to report these changes to NSLDS; it does not verify with NSLDS that the correct enrollment status has been reported. In its response, MassBay indicated that it has developed a new submission schedule with NSC in order to address the issue of timely and accurate reporting. However, MassBay should also develop a process to monitor NSC's submissions to verify that the data they submitted to NSC reaches NSLDS accurately and within the required timeframe.

**b. Determination of Status of Outstanding Checks**

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**5**

Our prior audit disclosed that MassBay had 672 checks outstanding, totaling \$209,433, for greater than six months. A portion of these checks represented student refunds for federal or state financial assistance and non-financial assistance. Our follow-up audit disclosed that as of June 30, 2011, MassBay had 846 checks outstanding in excess of six months totaling \$237,473. Although MassBay has begun to process the outstanding checks and has developed policies and procedures for resolving them, improvements are still needed. In its response, MassBay stated that the Comptroller, Student Accounts Manager, and Financial Aid Director will work together to continue implementing and refining the policies and procedures. The team will work to identify those outstanding checks related to financial aid and return funds to the appropriate agency.

## **INTRODUCTION**

### ***Background***

Massachusetts Bay Community College (MassBay) 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 MassBay'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. 2011-0196-7S) and in the Single Audit of the Commonwealth of Massachusetts of MassBay'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 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 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 MassBay'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 MassBay's activities, we referred to OMB's 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 MassBay's procedures for corrective action and improvements in the areas identified in our prior audit report were to determine whether:

- Student status changes were reported on a timely basis.
- Outstanding checks for SFA funds were returned to the appropriate agencies.

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

- Student status changes.
- Maintaining and accounting for funds.

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

We concluded for the period July 1, 2010 through June 30, 2011 that MassBay has not adequately implemented CAPs for (a) accurately reporting student status changes on a timely basis and (b) the determination of the status of outstanding checks.

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## AUDIT RESULTS

### 1. PRIOR AUDIT RESULTS UNRESOLVED

Our follow-up audit disclosed that Massachusetts Bay Community College (MassBay) has not taken sufficient corrective action to address prior audit issues regarding (a) accurately reporting student status changes on a timely basis and (b) the determination of the status of outstanding checks, as discussed below.

#### **a. Improved System for Timely and Accurate Reporting of Student Status Changes Not Implemented**

Our prior audit disclosed that MassBay did not notify the National Student Loan Data System (NSLDS) of student status changes as required by Federal Student Financial Assistance (SFA) regulations for 26 of the 30 students sampled.

SFA regulations governing Title IV student assistance programs require institutions and the Direct Loan Servicer to monitor and update the enrollment status of all students who receive federal student loans. MassBay is required by 34 Code of Federal Regulations (CFR) 685.309(b) to identify and update the loan status of all students, including those who graduate or withdraw, via a periodic Enrollment Reporting Roster File (formerly a Student Status Confirmation Report). The notification must take place within 30 days of withdrawal or within 60 days of the next scheduled submission. Specifically, 34 CFR 685.309(b) states, in part:

*(b) 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 half-time basis;*

*(ii) Has been accepted for enrollment at that school but failed to enroll on at least a half-time 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.*

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 the primary means of verifying students' loan privileges and the federal government's financial obligations. Under the Direct Loan Program, institutions are required to identify and update the status of all students, including those who graduate or withdraw, by completing periodic Enrollment Reporting Roster Files, which are sent by the United States Department of Education (ED). The institution determines how often it receives periodic Enrollment Reporting Roster Files, but the minimum is twice each year. Once received, the institution must update the files 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.

Our follow-up audit disclosed that there were minimal improvements made to the process. In our sample of 30 students, we found that the changes in enrollment status for 12 students were not reported, incorrectly reported, or reported late to NSLDS. Of these 12 students, the change in enrollment status for seven of them was not reported to NSLDS, three of the students had changes that were incorrectly reported, and two students' enrollment status was reported correctly but not within the required time period.

Because MassBay depends on the National Student Clearinghouse (NSC), a contracted third party, to report these changes to NSLDS, it does not verify with NSLDS that the correct enrollment status has been reported. As a result, MassBay had no assurance that the enrollment status it reported to the NSC was being transmitted accurately and timely to the NSLDS.

MassBay has established a schedule of transmissions to NSC for four times per semester and has developed written policies and procedures for the process; however, there is no policy that requires MassBay to review or reconcile the information received by NSLDS to ensure that students' status changes are being reported correctly and timely.

**Recommendation**

MassBay should continue to improve upon its process and implement its policies and procedures to ensure accurate reporting of enrollment data to NSLDS in accordance with the requirements of 34 CFR 685.309(b). MassBay should develop a reconciliation process between its own records and NSLDS's to ensure that all student enrollment information is being accurately transferred to NSLDS in a timely manner.

**Auditee's Response**

*The issue of timely and accurate reporting has been addressed by means of a submission schedule that has been developed. MassBay submits enrollment information to the National Student Clearinghouse where it is reviewed for accuracy. The report is returned to MassBay noting any issues, and MassBay then has the opportunity to make any necessary corrections or adjustments. This affords MassBay the opportunity to review the data prior to final submission. MassBay reconciles its information with the Clearinghouse, and then resubmits the final report to the Clearinghouse which submits the final data to NSLDS. MassBay continues to work with our internal IT department to refine the accuracy of data.*

**Auditor's Reply**

Because it is ultimately MassBay's responsibility to ensure that NSLDS is properly and timely notified of all student enrollment status changes, MassBay should also develop a process to monitor NSC's submissions to verify that the data it submits to NSC reaches NSLDS accurately and within the required timeframe.

**b. Determination of Status of Outstanding Checks**

Our prior audit disclosed that MassBay had 672 checks outstanding, totaling \$209,433, for greater than six months. A portion of these checks represented student refunds for federal or state financial assistance and non-financial assistance. By not resolving these outstanding checks in a timely manner, MassBay was not upholding its fiscal responsibility to its students and its SFA programs under Title IV. MassBay is required to maintain sound cash management requirements under 34 CFR 668.161 and 668.163, which state, in part:

*Section 668.161 - Scope and purpose.*

*(a) General. (1) This subpart establishes the rules and procedures under which a participating institution requests, maintains, disburses, and otherwise manages title IV, HEA program funds. This subpart is intended to—*

*(i) Promote sound cash management of title IV, HEA program funds by an institution;*



*Section 668.163 - Maintaining and accounting for funds.*

*(e) Standard of conduct. An institution must exercise the level of care and diligence required of a fiduciary with regard to maintaining and investing title IV, HEA program funds.*

Our follow-up audit disclosed that as of June 30, 2011, MassBay had 846 checks outstanding in excess of six months totaling \$237,473. An aging of these checks follows:

<b>Outstanding</b>	<b>Number of Checks</b>	<b>Amount</b>
6 months to 1 year	156	\$ 37,752
Over 1 year to 2 years	247	90,104
Over 2 years to 3 years	292	57,685
Over 3 years	<u>151</u>	<u>51,932</u>
Totals	<u>846</u>	<u>\$237,473</u>

Although MassBay had developed and implemented policies and procedures to resolve these outstanding checks, the process was never consistently implemented due to staff turnover in key positions. During our audit period, the positions of the Controller, the Student Accounts Manager, and one Staff Accountant were vacant for varying periods of time. While the Controller and Staff Accountant positions were filled in April and May 2011, respectively, the Student Accounts Manager position remained vacant at the conclusion of our fieldwork.

***Recommendation***

MassBay Should continue to improve upon the processing of outstanding checks and review all checks older than 12 months to ensure that federal funds are not being held or escheated to the state and the outstanding check is actually valid.

***Auditee's Response***

*The Student Accounts Manager position was filled in December, 2011. With the fiscal office fully staffed, the Controller, Student Account Manager and the Financial Aid Director will work together to continue implementing and refining the policies and procedures. The team will work to identify those outstanding checks related to financial aid and return funds to the appropriate agency.*