



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

Making government work better

Official Audit Report – Issued May 12, 2011

Massachusetts Maritime Academy

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



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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 programs funded through the United States Department of Education (ED) for the period July 1, 2009 through June 30, 2010. We conducted our audit in conjunction with the Single Audit of the Commonwealth of Massachusetts for the fiscal year ended June 30, 2010.

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Our prior audit disclosed that employers of Federal Work Study (FWS) students in community service locations off campus during fiscal year 2009 did not enter into written agreements with MMA. Our follow-up audit disclosed that MMA has taken corrective action to improve its FWS policies and procedures to strengthen internal controls over preparation and filing of required written agreements with off-campus employers.

2. PRIOR AUDIT RESULTS 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) the improvement and updating of its Internal Control Plan (ICP), (b) Disbursement Notification Letters for direct loans not being in compliance with federal requirements, and (c) reporting student status changes on a timely and accurate basis.

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

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Our prior audit disclosed that MMA needed to update its ICP to be in compliance with the eight components of Enterprise Risk Management (ERM) and include an effective high-level summarization as required by the Office of the State Comptroller's (OSC) Internal Control Guide. These components ensure overall continuity and compliance with the OSC's Internal Control Guide in order for MMA to meet its mission and sustain long-term stability and viability.

Our follow-up audit disclosed that MMA has made some progress updating its ICP to comply with the OSC guidelines. Specifically, MMA has started to update its ICP in addressing and implementing the eight components of the ERM and in developing a Mission Statement, Vision Statement, Goals, and a Self-Assessment of Internal Controls.

MMA indicated that the process of updating the ICP is in its initial phase and is scheduled toward completion by the end of fiscal year 2011. In response to the audit report, MMA indicated that it is continuing to make progress by enhancing lower-level policies and procedures and has allocated additional resources to completing its ICP in compliance with OSC's guidelines by the end of fiscal year 2011.

b. Disbursement Notification Letters Still Need Improvement

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Our prior audit disclosed that for Federal Direct Loan (FDL) program funds, Disbursement Notification Letters sent to MMA students were not in compliance with federal requirements regarding the contents of these notification letters. Specifically, they did not indicate the date and amount of the disbursement.

Our follow-up audit disclosed that Disbursement Notification Letters were sent by e-mail within the required timeframe; however, these e-mail notification letters did not indicate the date of the loan disbursements for the two major disbursements during the academic year. Therefore, these notifications were not specific enough to notify the student or parent of the limited timeframe within which to decide whether to accept or reject the loan. In response to the audit report, MMA indicated that it has revised its FDL disbursement notifications to include all required data being delivered via email indicating the process to accept or cancel the loans.

c. Improved System for Timely and Accurate Reporting of Student Status Changes Not Implemented

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Our prior audit disclosed that MMA did not notify the National Student Loan Data System (NSLDS) in a timely manner on the status of 18 students (one full- to half-time and 17 who withdrew) with changes in their enrollment status, contrary to federal Student Financial Assistance (SFA) regulations.

Our follow up audit disclosed that MMA had not taken the necessary corrective action to process the reporting of student status changes in a timely and accurate manner. SFA regulations governing Title IV student assistance programs require institutions, lenders, guaranty agencies, and the Direct Loan Servicer to monitor and update the enrollment status of all students who receive federal student loans. Our follow-up audit testing of 25 students with status changes in the spring 2010 semester disclosed that four students were 64, 58, 58, and 44 days past the 60 required notification days in reporting to the NSLDS for such changes past the date of withdrawal; another student whose status was reported by MMA as graduated on June 17, 2010 was reported on NSLDS records as "Less than half time" as of July 23, 2010; and another student reported on NSLDS records as "Full Time" as of July 29, 2010 was listed on MMA records as graduated on June 17, 2010. MMA utilizes the NSC to facilitate its responsibility to notify NSLDS of changes in the enrollment status of its students. 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 a third-party service, the National Student Clearinghouse (NSC) to report these changes to NSLDS, it needs to ensure that the correct enrollment status has been reported. As a result, MMA had inadequate assurance that the enrollment status it reported to the NSC was being transmitted accurately and timely to the NSLDS. In response to the audit report, MMA indicated that it has created written internal procedures to address the accurate reporting

of student enrollment status with the NSLDS, including monthly rather than four times a year of such status.

3. IMPROVEMENTS NEEDED IN FEDERAL WORK STUDY PROGRAM INTERNAL CONTROLS

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On May 6, 2010, in accordance with Chapter 647 of the Acts of 1989, An Act Relative to Improving the Internal Controls within State Agencies, MMA reported to the Office of the State Auditor (OSA) irregularities involving FWS program funds. MMA uncovered the irregularities from an internal investigation conducted by the SFA Department during the spring 2010 semester. The internal investigation disclosed that:

- A supervisor from the Athletic Department submitted spring 2010 FWS timesheets for a student who withdrew from MMA in the previous December.
- A supervisor was having students pre-sign FWS timesheets at the beginning of each semester.
- Ten students were identified as being paid for hours worked on days and times when they were scheduled to be at football practice. With the exception of one student who had no overlapping hours, the other nine students had between 20 and 29 overlapping hours.

The report of MMA's internal investigation indicated that \$2,235 in questionable FWS expenditures may have occurred and that corrective actions were being taken to address the internal control deficiencies uncovered. In addition, MMA engaged the services of an Independent Public Accounting firm to evaluate existing internal controls of the FWS program. Also, MMA notified the United States Department of Education Office of the Inspector General, which initiated a review of the FWS program. In response to the audit report, MMA indicated that it has developed a new written FWS manual for supervisors and students, outlining new policies and procedures, effective September 2010. The MMA also stated that the Financial Aid Office now oversees the placement of students in all work study positions and that new timesheet procedures were implemented requiring approvals by supervisors and department heads.

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. 2010-0182-16S) and in the Single Audit of the Commonwealth of Massachusetts, and of MMA's federal Student Financial Assistance programs funded through the United States Department of Education (ED) for the period July 1, 2009 through June 30, 2010. We conducted our audit in conjunction with the Single Audit of the Commonwealth of Massachusetts for the fiscal year ended June 30, 2010. The Commonwealth's Fiscal Year 2010 Single Audit Report consists of the following volumes:

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

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

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

Our audit was also conducted in accordance with standards set forth in OMB Circular A-133 and the American Institute of Certified Public Accountants (AICPA) Audit and Accounting Guide, Audits of State and Local Governments. Additionally, our audit evaluated 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, June 2010 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 internal control plan.
- Processing of Disbursement Notification Letters had improved.
- Student status changes were reported on a timely and accurate basis.
- Work study agreements were made with off-campus employers.

In addition, MMA reported to the OSA, in accordance with Chapter 647 of the Acts of 1989, irregularities involving Federal Work Study Program funds. Chapter 647 of the Acts of 1989 requires agencies to report unaccounted-for variances, losses, shortages, or thefts of funds or property to the OSA. Chapter 647 also requires the OSA to determine the internal control weaknesses that contributed to or caused an unaccounted-for variance, loss, shortage, or theft of funds or property; make recommendations to correct the condition found; identify the internal control policies and procedures that need modification; and report the matter to the appropriate management and law enforcement officials (see Audit Result No. 3).

We concluded that MMA has taken corrective action and implemented adequate internal controls regarding work study agreements with off-campus employers. However, MMA had not (a) sufficiently updated its internal control plan to comply with the OSC's internal control guidelines, (b) implemented policies and procedures to improve the disbursement notification letters issued to students receiving Direct Loans, and (c) implemented policies and procedures for student status changes to be reported to the National Student Loan Data System.

Except as reported in the Audit Results section of this report, for the period July 1, 2009 through June 30, 2010, our audit indicated that MMA has complied with the requirements of the United States Department of Education, OMB Circular A-133 and Compliance Supplement; the Massachusetts General Laws; and other applicable laws, rules, and regulations for the areas tested.

AUDIT RESULTS

1. PRIOR AUDIT RESULT RESOLVED – FEDERAL WORK-STUDY AGREEMENTS WITH OFF-CAMPUS EMPLOYERS

Our prior audit disclosed that employers of Federal Work Study (FWS) students, in community service locations off campus during fiscal year 2009 did not enter into written agreements with Massachusetts Maritime Academy (MMA). Under the FWS program MMA is required to have written agreements with off-campus employers setting forth the working conditions and the compensation to be paid for the students while employed off campus. Our follow-up audit disclosed that MMA has taken corrective action to improve its FWS program policies and procedures and to strengthen internal controls over preparation and filing of required written agreements with off campus employers. Our follow-up audit testing disclosed that MMA had executed and required written agreements with the various organizations that employed FWS students off campus.

2. PRIOR AUDIT RESULTS UNRESOLVED

Our follow-up audit disclosed that MMA has not taken sufficient corrective action to address prior audit issues regarding (a) the improvement and updating of its Internal Control Plan (ICP); (b) disbursement notifications for Direct Loans being correct in content, including the dates of disbursements and (c) reporting student status changes on a timely and accurate basis.

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

Our prior audit disclosed that MMA needed to update and improve its ICP to ensure it contains an adequate high-level summarization of internal controls over its operations in support of its mission, goals, and objectives. Specifically, MMA needed to update its ICP to be in compliance with the eight components of Enterprise Risk Management (ERM). For the ICP to be considered an effective high-level summarization, all eight components of the ERM must be present as described in the Office of the State Comptroller's (OSC) Internal Control Guide: Internal Environment, Objective Setting, Event Identification, Risk Assessment, Risk Response, Control Activities, Information and Communication, and Monitoring.

Our follow-up audit disclosed that MMA has made some progress updating its ICP to comply with the OSC guidelines. Specifically, MMA has started to update its ICP with the eight components of the ERM and in developing a Mission Statement, Vision Statement, Goals, and a

Self-Assessment of Internal Controls. The draft ICP has documented goals and objectives in five separate areas of activity at MMA to address risk along with internal controls to minimize the risk of not attaining the goals. These five separate areas include: Achieve 1,200 Member Student Body, Enhance and Improve our Student Body, Faculty and Staff, Improve Institutional Effectiveness, Optimize Available Resources in Support of the Mission of the Academy, and Comply with All Regulations, Performance and Reporting Requirements Concerning the American Recovery and Reinvestment Act (ARRA).

Although MMA has identified high-level summary goals and objectives, it still needs to develop and to enhance its lower-level policies and procedures to be in compliance with the OSC guidelines. MMA indicated that the process of updating the ICP is in its initial phase and is scheduled for completion by the end of fiscal year 2011.

Recommendation

MMA should continue to develop its ICP as a priority to comply with OSC's guidelines.

Auditee's Response

The Academy is continuing its efforts to enhance lower level policies and procedures. Additional resources have been allocated toward completing the process of developing its ICP to comply with OSC's guidelines by the end of fiscal year 2011. After the final template has been accepted, policies and procedures will be reviewed following the approval of the Academy yearly updated strategic plan.

b. Disbursement Notification Letters Still Need Improvement

Our prior audit disclosed that for Federal Direct Loan (FDL) program funds, Disbursement Notification Letters sent to MMA students were not in compliance with federal requirements regarding the contents of these notification letters. Specifically, they did not indicate the date and amount of the disbursement.

Our follow-up audit testing of a sample of five FDL Disbursement Notification Letters disclosed that all of the letters were sent by e-mail within the required timeframe. However, these e-mail notification letters did not indicate the date of the loan disbursements for the two major disbursements made during the academic year. Therefore, these notifications were not specific enough to notify the student or parent of the limited timeframe within which to decide whether to accept or reject the loan. Specifically, 34 Code of Federal Regulations (CFR)

668.165(a) states that an institution participating in the FDL program is required to do the following:

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

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

(3) The institution must provide the notice described in paragraph (a)(2) of this section in writing—

MMA officials acknowledged that the FDL notifications letters were not in compliance with this requirement and indicated that they would review and correct their policies and procedures to ensure that in the future letters will contain the required dates and amounts of the loan disbursements.

Recommendation

MMA needs to continue to improve its policies and procedures for documenting the process for issuing disbursement notifications to its students to be in compliance with FDL requirements. MMA should ensure that the FDL Disbursement Notification Letters indicate the date of disbursement and clearly specify the limited timeframe for accepting or rejecting the loan.

Auditee's Response

MMA has revised its Federal Direct Loan disbursement notification to include all required data in compliance with CFR 668.165. All notifications are sent via email and include the semester and disbursement date, the loan type (subsidized, unsubsidized, PLUS), the loan disbursement amount and a notice that gives the student fourteen days to cancel the loan, along with instructions regarding cancellation.

c. Improved System for Timely and Accurate Reporting of Student Status Changes Not Implemented

Our prior audit disclosed that MMA did not notify the National Student Loan Data System (NSLDS) of student status changes in a timely and accurate, contrary to federal Student Financial Assistance (SFA) regulations. SFA regulations governing Title IV student assistance programs require institutions, lenders, guaranty agencies, and the Direct Loan Servicer to monitor and update the enrollment status of all students who receive federal student loans. As a result, MMA is required by 34 CFR 685.309 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). The notification must take place within 30 days of withdrawal or within 60 days of the next scheduled submission. According to OMB Circular A-133 Compliance Requirements, institutions are responsible for establishing procedures to ensure for timely reporting, whether they report directly or via a third-party service such as the National Student Clearinghouse (NSC). MMA utilizes the NSC to facilitate its responsibility to notify NSLDS of changes in the enrollment status of its students. 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 ensure that the correct enrollment status has been reported. As a result, MMA had inadequate assurance that the enrollment status it reported to the NSC was being transmitted accurately and timely to the NSLDS.

Our follow-up audit disclosed that MMA did not make enhancements or improvements to the NSLDS process since our last audit. We found that MMA still did not notify and update NSLDS of students that had withdrawn, graduated, or had a status of less than half-time. The results of our follow-up audit testing of 25 students with status changes in spring 2010 indicated that four students were 64, 58, 58, and 44 days past the 60 required notification days in reporting to the NSLDS for such changes past the date of withdrawal; another student whose status, as reported by MMA as graduated on June 17, 2010 was reported on NSLDS records as “Less than half time” as of July 23, 2010; and another student reported on NSLDS records as “Full Time” as of July 29, 2010 was listed on MMA records as graduated on June 17, 2010.

The accuracy of Title IV student loan records relies heavily on the accuracy of the data reported by colleges for NSLDS. Enrollment reporting is critical for the effective administration of Title

IV loans because a student's enrollment status determines deferment eligibility, grace periods, and repayment schedules, as well as the government's payment of interest subsidies. Enrollment reporting is the primary means of verifying students' loan privileges and the federal government's financial obligations.

Recommendation

MMA should continue to strengthen its internal controls and relevant written policies and procedures to ensure timely and accurate reporting of student enrollment data to NSLDS in accordance with the requirements of 34 CFR 685.309. Specifically, MMA should establish adequate internal controls to verify that the NSC is being notified of changes in student enrollment and the processing of this information by the NSC is properly and timely reported to NSLDS. In addition, once the improved process is implemented, NSLDS should be continually monitored to ensure that proper and timely reporting of enrollment data and student status is accurate.

Auditee's Response

MMA has created written internal procedures to address the accurate reporting of student enrollment with the National Student Loan Data System. Files are now submitted once per month, rather than 4 times per year as was our previous practice. The Director of Financial Aid spot checks student enrollment each month with NSLDS to ensure accurate reporting. 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.

3. IMPROVEMENTS NEEDED IN FEDERAL WORK STUDY PROGRAM INTERNAL CONTROLS

On May 6, 2010, in accordance with Chapter 647 of the Acts of 1989, An Act Relative to Improving the Internal Controls within State Agencies, MMA reported to the Office of the State Auditor (OSA) irregularities involving FWS program funds. During the spring 2010 semester, when the irregularities were discovered, MMA's Financial Aid Department conducted an internal investigation, which disclosed the following:

- In early April 2010 it was discovered that a supervisor from the Athletic Department submitted spring timesheets for a student who withdrew in December 2009. (Student did not receive pay.)

- A supervisor was having students pre-sign FWS timesheets at the beginning of each semester.
- A review of all timesheets determined that six students were paid for hours not worked. The Financial Aid Office contacted these six students on May 6, 2010 and May 12, 2010 to receive new assignments for making up hours that they did not work.
- A work study supervisor in the Athletic Department was having students sign timesheets up front then completing the hours without verification from the student.

The internal investigation also included a review of FWS students who were members of MMA's football team. The following information was provided:

- Work study timesheets were reviewed for the fall 2009 semester for the 10 members of the football team with work study positions in the Athletic Department.
- All 10 students were identified as being paid for hours worked on days/times when they were scheduled to be at football practice. With the exception of one student who had no overlapping hours, the other nine students had between 20 and 29 overlapping hours.
- As a result of rescheduled practices, five students were paid for hours (ranging from one hour to three-and-one-half hours) that typically did not fall during regularly scheduled football practice but did conflict with their rescheduled practice.

As a result of the internal investigation, MMA reported \$2,235 in questionable costs due to the nature and extent of students working inappropriately in the FWS program. MMA's investigation report indicated that MMA officials enacted the following corrective actions that have been or are being taken:

- A new set of work timesheets were generated, and all students were required to complete new and accurate timesheets for the month of March.
- Financial Aid Office received all timesheets and determined which students were paid for hours not worked, and determined that six students were paid for hours not worked. These students were contacted by the Student Financial Aid Office to receive new assignments for making up hours.
- The supervisor in question no longer supervises work study students.
- Timesheets were modified to include a line for department head signature and a box for student/supervisor/department head to record the total number of hours worked by the student during the week. New timesheets were sent to all supervisors on April 30, 2010 with instructions.

- Payroll will not accept any timesheets that do not arrive in a sealed, signed envelope from the supervisor/department head.
- All requests for work study students will now include a signature line for the department head to approve before submitting to the financial aid office.
- A new authorization to work form will be included in the hiring process beginning Fall 2010. Supervisors will complete this form after interviewing the student and return to the Financial Aid Office after completion.
- The Financial Aid Office will determine the appropriate number of students needed in each department based on the request for student employees/job descriptions and will remove the job listing from the book of available jobs once that number has been hired. Financial Aid office will not sign any new contracts for a given department after the posting is removed from the job listing book.
- The Financial Aid Office will continue to send timesheets at the start of each semester. After the end of the fall semester, a supply of new additional timesheets will be sent to the supervisor once the student's eligibility is confirmed by the financial aid office for the second semester.
- When the Financial Aid Office is notified that a work study student has withdrawn, an e-mail will be sent to the payroll office informing them to terminate the work study contract. An e-mail will also be sent to the supervisor and department head informing them of the student's withdrawal and asking they shred any remaining timesheets.

MMA engaged the services of an Independent Public Accounting (IPA) firm to evaluate existing internal controls of the FWS program. The IPA's report noted the following:

The Academy may be in violation of NCAA rules if any student athlete did in fact get paid for any work that was actually wasn't performed and if any student athlete is not performing satisfactory progress but still participating in inter-collegiate athletics competition.

MMA notified the United States Department of Education Office of the Inspector General, and the Board of Trustees Audit Committee of this issue. The United States Department of Education Office of the Inspector General, as a result of the internal and external reporting by MMA of these disclosures identified in this matter, initiated a review of MMA expenditures of Title IV funds.

Recommendation

MMA should 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 addition, MMA should respond immediately to any disclosures made as a result of both the IPA's report and the United States Department of Education Office of the Inspector General report with corrective or remedial action as necessary.

Auditee's Response

MMA has developed a new, written Federal Work Study Manual for Supervisors and Students, outlining new policies and procedures that went into place beginning in September, 2010. This handbook was shared with the auditing team upon their last visit to MMA. The Financial Aid Office oversees the placement of students in all work study positions and determines the proper number of students allowed to work in any given department. The college implemented a policy prohibiting the placement of varsity athletes in any athletic department, or working for specific varsity athletic coaches. New timesheet procedures now require both the supervisor and the department head approval. Supervisors must submit timesheets in signed, sealed envelopes to the Payroll Office. A three year review of athletes and their timesheets was conducted and the results submitted to the Office of the Inspector General. MMA is awaiting a response from the OIG. The NCAA determined that MMA was not in violation of any NCAA regulations.