



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

*Making government work better*

Official Audit Report – Issued May 12, 2011

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**Massachusetts Bay Community College**

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



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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 MassBay's Federal Student Financial Assistance program 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 follow-up audit disclosed that MassBay has taken corrective action to address two prior audit issues relating to its (a) Internal Control Plan (ICP) and (b) distribution of Disbursement Notification Letters to students.

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Our prior audit disclosed that although MassBay developed an ICP, it did not have a high-level summarization of internal controls containing sufficient cross-referencing to support lower-level detail (e.g., departmental policies and procedures) and had not adequately updated the plan as required by the Office of the State Comptroller's (OSC) Internal Control guidelines and Chapter 647 of the Acts of 1989, An Act Relative to Improving Internal Controls within State Agencies. Our follow-up review indicated that MassBay has taken corrective action by making improvements, updates, and additions to its existing ICP.

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Our prior audit disclosed that MassBay did not notify students and parents of loan disbursements from Federal Family Education Loan Program funds within the timeframe required under federal regulations. Our follow-up review indicated that MassBay has taken corrective action to ensure that loan Disbursement Notification Letters are being sent in a timely manner and in compliance with federal requirements.

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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) determination of the status of outstanding checks, as discussed below.

**a. Improved System for Timely and Accurate Reporting of Student Status Changes Not Implemented** 4

Our prior audit disclosed that MassBay did not notify the National Student Loan Data System (NSLDS) of student status changes and in some cases did not report in a timely manner the status changes of students as required by Federal Student Financial Assistance (SFA) regulations. Because MassBay depends on the National Student Clearinghouse (NSC) to report student status changes to NSLDS; it does not verify with NSLDS that the correct enrollment status has been reported. Our follow-up audit disclosed that MassBay did not make enhancements or improvements to the NSLDS process since our last audit. Specifically, we found that MassBay still did not notify NSLDS of students that had withdrawn, graduated, or had a status of less than half-time. We determined that for 26 in our sample of 30 students, MassBay did not make changes in their enrollment status; therefore, these changes were not reported to NSLDS. Of the 26 students that were not reported to NSLDS correctly, four had graduated, 12 had withdrawn, and 10 were attending less than half-time. Only four were reported correctly to be attending less than half-time. In response to the audit report, MassBay indicated that it has hired a new registrar and that it will be instituting additional processes within MassBay to ensure more timely reporting to NSLDS.

**b. Determination of Status of Outstanding Checks** 5

Our prior audit disclosed that MassBay had 985 checks outstanding, totaling \$169,099, 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. Our follow-up audit disclosed that as of April 30, 2010, MassBay had 672 checks outstanding totaling \$209,433. Although MassBay has begun to process the outstanding checks and has developed policies and procedures for resolving them, improvements are still needed. In response to the audit report, MassBay indicated that new processes will be implemented to ensure that outstanding checks are timely identified and returned to programs or other parties as soon as their status is determined.

## **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 General Laws, the Office of the State Auditor has conducted a follow-up audit of the issues contained in our prior audit report (No. 2010-0196-16S) and in the Single Audit of the Commonwealth of Massachusetts, and of MassBay'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 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, 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 MassBay's procedures for corrective action and improvements in the areas identified in our prior audit report were to determine whether:

- Improvements were made to MassBay's Internal Control Plan (ICP).
- Improvements were made in the processing of student Disbursement Notification Letters.
- Student status changes were reported on a timely basis.
- The status of outstanding checks.

We concluded that MassBay has implemented corrective action plans for two of the four audit results identified in our prior report and has adequate internal controls in place to improve upon the issues involving its ICP and Disbursement Notification Letters previously cited. However, our follow up audit identified that MassBay has not fully resolved issues regarding the status of outstanding checks and still is not reporting student status changes in accordance with the requirements of 34 Code of Federal Regulations (CFR) 682.610(c)(2). We further concluded that, except as reported in the Audit Results section of this report, for the period July 1, 2009 through June 30, 2010, MassBay has complied with the requirements of the United States Department of Education, OMB Circular A-133, and the Compliance Supplement; the Massachusetts General Laws; and other applicable laws, rules, and regulations for the areas tested.

## AUDIT RESULTS

### 1. PRIOR AUDIT RESULTS RESOLVED

Our follow-up audit disclosed that Massachusetts Bay Community College (MassBay) has taken corrective action to address two prior audit issues relating to its (a) Internal Control Plan (ICP) and (b) distribution of Disbursement Notification Letters.

#### a. Improvements Made in Internal Control Plan

Our prior audit disclosed that although MassBay developed an ICP, it did not have a high-level summarization of internal controls containing sufficient cross-referencing to support lower-level detail (e.g., departmental policies and procedures) and had not adequately updated the plan as required by the Office of the State Comptroller (OSC) Internal Control guidelines and Chapter 647 of the Acts of 1989, An Act Relative to Improving Internal Controls within State Agencies. Our follow-up audit disclosed that MassBay has made improvements, updates, and additions to its existing ICP. Our review of MassBay's updated (May 2010) ICP disclosed that it is addressing the exceptions noted in the prior audit, including identifying specific goals and objectives, including all components of Enterprise Risk Management in the ICP, and expanding risk assessments to include both fiscal and programmatic activities.

#### b. Improvements Implemented in the Processing of Disbursement Notification Letters

Our prior audit disclosed that MassBay did not notify students and parents of loan disbursements from Federal Family Education Loan Program (FFEL) funds within the timeframe required under federal regulations. Our follow up review disclosed that MassBay has taken corrective action to ensure that loan Disbursement Notification Letters are being sent in a timely manner and in compliance with federal requirements. Specifically, MassBay has developed a written policy to ensure that notifications are prepared on a weekly basis or as the loan disbursements from the financial aid office are completed.

### 2. PRIOR AUDIT RESULTS UNRESOLVED

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**

Our prior audit disclosed that MassBay did not notify the National Student Loan Data System (NSLDS) of student status changes and in some cases did not report in a timely manner the status changes of students as required by 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, MassBay is required by 34 Code of Federal Regulations (CFR), Section 682.610(c) (2), to identify and update the loan status of all students, including those who graduate or withdraw, via a periodic Roster Report (formerly Student Status Confirmation Report). The notification must take place within 30 days of withdrawal or within 60 days of the next scheduled submission. Also, our prior audit disclosed that MassBay's SFA policies did not identify any procedures to report student status changes. According to OMB Circular A-133 Compliance Requirements, institutions are responsible for establishing procedures to ensure for timely reporting, whether they report directly or via a third-party service such as the National Student Clearinghouse (NSC). Because MassBay depends on the NSC 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.

Our follow-up audit disclosed that MassBay did not make enhancements or improvements to the NSLDS process since our last audit. Specifically, we found that MassBay still did not notify and update NSLDS of students that had withdrawn, graduated, or had a status of less than half-time. We determined that for 26 in our sample of 30 students, MassBay did not make changes in their enrollment status; therefore these changes were not reported to NSLDS. Of the 26 students that were not reported to NSLDS correctly, four had graduated, 12 had withdrawn, and 10 were attending less than half-time. Only four were reported correctly to be attending less than half-time.

During the audit period, MassBay experienced turnover in both the Registrar and the Director of Institutional Research positions. Both of these positions are involved in ensuring that the student status information is transmitted correctly. A new Director of Institutional Research was hired in January 2010, and a new Registrar was hired in June 2010. The Registrar has assumed the responsibility for submitting student status changes to the NSC, which in turn reports the changes to NSLDS. In June 2010, the Registrar established new policies and procedures for the process of reporting student status changes,

including submitting student status changes to the NSC, which in turn will report the changes to NSLDS. We also concluded that the Registrar has established a schedule for transmissions to NSC four times per semester (after add/drop, midterm, end of semester, and graduation) which, if successfully implemented and monitored, would improve MassBay's reporting to NSLDS.

### ***Recommendation***

MassBay should fully implement its new policies and procedures to ensure timely and accurate reporting of enrollment data to NSLDS in accordance with the requirements of 34 CFR 682.610(c) (2). In addition, MassBay should establish adequate internal controls to ensure that the NSC is being notified of changes in student enrollment and the processing of this information by NSC is properly and timely reported to NSLDS in accordance with its newly established schedule of transmission.

### ***Auditee's Response***

*MassBay has implemented the following processes:*

- *A new registrar was recently hired and has documented the NSLDS process and created a calendar to outline when to run the NSLDS process. The calendar states the NSLDS process will be run by the Registration Office 4 times a term.*
- *Developed a systematic process to assist with identifying late withdrawal students earlier in the semester to prevent late reporting of students who are retroactively withdrawn during the course of the semester.*
- *The NSLDS process was run in June 2010 to update changes in enrollment.*
- *The NSLDS process calendar has been shared with the Financial Aid Office.*
- *Policies and procedures have been documented to stress importance of NSLDS reporting and highlight the reporting process.*

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

Our prior audit disclosed that MassBay had 985 checks outstanding, totaling \$169,099, 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 April 30, 2010, MassBay had 672 checks outstanding totaling \$209,433. An aging of these checks follows:

Outstanding	Number of Checks	Amount
6 months to 1 year	179	\$ 64,364
Over 1 year to 2 years	269	65,581
Over 2 years to 3 years	76	25,795
Over 3 years	<u>148</u>	<u>53,693</u>
Totals	<u>672</u>	<u>\$209,433</u>

MassBay has begun to process these outstanding checks and has developed policies and procedures for resolving them; however, improvements are still needed. Specifically, we found that several of the outstanding checks contained either federal financial assistance funds that should have been returned to their respective programs, or FFEL funds that should have been remitted to the guaranty agency. We also found one check in the amount of \$3,936 that was identified as outstanding, but was actually the result of a check run error and should have been voided.

During our review, we noted that MassBay has experienced turnover that may have hampered the efforts to prioritize the review of these outstanding checks. In the past fiscal year, MassBay has developed and implemented policies and procedures to address and resolve these outstanding checks.

***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 withheld from the state and that the outstanding check is actually valid.

***Auditee's Response***

*The following processes will be implemented to ensure outstanding checks which include Federal Financial Aid funds are timely identified and returned to their respective program and/or Office of the State Treasurer Unpaid Check Fund:*

*MassBay will take the necessary steps to:*

- *Determine the current status of each outstanding check and upon such determination adjust its bank account to reflect the liquidation of all long-outstanding checks by stop payment and/or void and recovery of funds back into its account.*
- *A PeopleSoft report will be run every 30 days to identify all un-cashed checks –*
- *Establish policies and procedures to ensure that outstanding checks, which include federal funds, are timely identified and returned to the respective program.*
  - *Checks identified as financial aid refunds will be returned to their respective state or federal program accordingly*
    - *State checks are to be returned to the State Department of Higher Education*
    - *Federal loans are to be returned to their respective financial institution*
    - *Federal funds received via GAPS/G5 refunds for these programs are to be processed back through the G5 system*
- *Determine whether any of the outstanding checks represent current student accounts from whom a balance is owed the college.*
  - *Attempts will be made to contact students via campus email, phone calls, and other address that might be on file, this will be documented on the students account in the comments section*
  - *If attempts to notify payees are unsuccessful, non financial aid checks that are stale dated will be voided by the 180<sup>th</sup> day.*
- *Update internal control procedures over cash management to reflect timely resolution of outstanding checks that require the transferring of outstanding checks over one year old to Abandoned Property Division within one year of its payable date, in accordance with Chapter 29, Section 32 of the General Laws.*