



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

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Official Audit Report – Issued May 26, 2011

Framingham State University's Use of American Recovery and Reinvestment Act Funds

For the period August 6, 2009 through May 31, 2010



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Framingham State University (FSU) 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 FSU'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 Massachusetts General Laws, we have conducted an audit of certain activities of FSU for the period August 6, 2009 through May 31, 2010. The objectives of our audit were to review FSU's controls over and monitoring of American Recovery and Reinvestment Act (ARRA) funds received and expended, to determine whether these funds were expended for their intended purposes, and to evaluate its compliance with applicable laws, rules, and regulations, including Chapter 647 of the Acts of 1989 regarding the requirement to report all variances, losses, shortages, or thefts of funds or property to the Office of the State Auditor

Our audit scope included a review of federal stimulus funds that FSU received under the ARRA and a determination of FSU's compliance with Chapter 647 of the Acts of 1989. During the audit period, FSU was awarded federal stimulus funds totaling \$7,098,906. As of May 31, 2010, FSU expended \$4,216,696 of its awards and received federal reimbursements totaling \$4,216,696 for these expenses.

Based on our review we have concluded that, except as reported in the Audit Results section of this report, during the approximate 10-month period ended May 31, 2010, FSU maintained adequate management controls and complied with applicable laws, rules, and regulations for the areas tested.

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Our review indicated that FSU used \$500,000 in federal stimulus funds under the American Recovery and Reinvestment Act (ARRA) budgeted for student financial aid (described as "student affordability support") to reimburse itself for financial aid expenditures made from the FSU Student Fee Grant. However, we found that, contrary to the Office of the State Comptroller (OSC) and ARRA guidelines, FSU lacked formal, written eligibility criteria or policies and procedures for the administration of Student Fee Grant expenditures. Moreover, our audit revealed Student Fee Grant eligibility deficiencies in five (25%) of 20 student files tested. Also, we found that the duties of FSU's Financial Aid Director, who is responsible for developing and updating eligibility criteria as well as manually awarding Student Fee Grant funds, were inadequately segregated and that the extenuating circumstances for which the Financial Aid Director waived eligibility criteria for some students was not adequately documented in student files. Without adequate internal controls over Student Fee Grant activities, there is a risk

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Our prior audit, No. 2009-0179-7T, disclosed that during the period July 1, 2007 to November 11, 2009, FSU had not reported occurrences of missing or stolen computer equipment to the Office of the State Auditor (OSA) in accordance with Chapter 647 of the Acts of 1989, An Act Relative to Improving the Internal Controls within State Agencies. Our prior audit also disclosed that FSU staff responsible for the inventory was unaware of the reporting requirements of Chapter 647 of the Acts of 1989. Furthermore, our prior audit disclosed that although FSU filed incident reports with Campus Police for five stolen laptop computers valued at \$6,856, no reports regarding these incidents had been forwarded to the OSA in accordance with Chapter 647 of the Acts of 1989.

Our follow-up review disclosed that FSU was not in compliance with the reporting requirements of Chapter 647 of the Acts of 1989 and its own documented internal control procedures to ensure compliance with Chapter 647 reporting requirements. Specifically, although FSU did report the five stolen laptops that were identified in our prior audit on May 6, 2010, FSU did not file any Chapter 647 reports for the period July 1, 2007 through May 5, 2010, even though there were instances of stolen university property that should have been reported. Additionally, FSU does not have written policies and procedures regarding the laptop loaner program and the process followed by Information Technology Services (ITS) to attempt to recover laptops from students who do not return them per the terms of the computer equipment loan agreement.

INTRODUCTION

Background

Framingham State University (FSU) 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 FSU'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, we have conducted an audit of certain activities of FSU for the period August 6, 2009 through May 31, 2010. The objectives of our audit were to review FSU's controls over and monitoring of American Recovery and Reinvestment Act (ARRA) funds received and expended, to determine whether these funds were expended for their intended purposes, and to evaluate its compliance with applicable laws, rules, and regulations, including Chapter 647 of the Acts of 1989 regarding the requirement to report all variances, losses, shortages, or thefts of funds or property to the Office of the State Auditor.

Our audit scope included a review of federal stimulus funds that FSU received under ARRA and determining FSU's compliance with Chapter 647 of the Acts of 1989. During the audit period, FSU was awarded federal stimulus funds totaling \$7,098,906. FSU's budget of these funds included amounts for state employee compensation; student financial aid; tax exempt lease purchase (TELP), including (a) an academic technology costs component, (b) infrastructure upgrades, and (c) information technology equipment; library renovations; expansion of the university dining facility; and chiller replacement. As of May 31, 2010, FSU expended \$4,216,696 of its awards and received federal reimbursements totaling \$4,216,696 for these expenses. FSU officials stated that all ARRA funding will be fully expended by September 30, 2011.

The following table details the federal stimulus funds awarded, received, and expended during the audit period:

| Budgeted Purpose | ARRA Award | Award Date | ARRA Funds Received | ARRA Funds Expended |
|------------------------------|---------------------------|-------------------|----------------------------|----------------------------|
| State Employee Compensation | \$2,172,600 | 08/06/2009 | \$2,172,599 | \$2,172,599 |
| Student Financial Aid | 500,000 | 08/06/2009 | 500,000 | 500,000 |
| Tax Exempt Lease Payments | 1,130,234 | 08/06/2009 | 1,130,234 | 1,130,234 |
| Library Renovations | 299,923 | 08/06/2009 | 179,972 | 179,972 |
| Expansion of Dining Facility | 1,384,263 | 11/30/2009 | 233,891 | 233,891 |
| Chiller Replacement Project | <u>1,611,886</u> | 03/26/2010 | - | - |
| Total | <u>\$7,098,906</u> | | <u>\$4,216,696</u> | <u>\$4,216,696</u> |

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.

To achieve our audit objectives, we reviewed the following:

- Massachusetts Department of Higher Education Memorandum – Final Guidance on ARRA State Fiscal Stabilization Fund Spending.
- Federal stimulus funds awarded to FSU during the audit period for state employee compensation; student financial aid; tax exempt lease purchase (TELP), including (a) an academic technology costs component, (b) infrastructure upgrades, and (c) information technology equipment; library renovations; expansion of the university dining facility; and chiller replacement.
- Budgets prepared by FSU to ensure that ARRA funds were expended for their intended purposes.
- Expenditures of ARRA funds to determine whether they were reasonable, allowable, and allocable under the terms of the grant awards.
- Eligibility requirements of the student financial aid program to determine whether sampled students met program requirements.

- Internal controls developed to ensure that ARRA funds are safeguarded against theft, loss, or misuse.
- Recordkeeping procedures to determine whether the expenditure of ARRA funds is properly authorized, supported by adequate documentation, and accounted for separately within FSU's accounting records.
- Verification of whether FSU has applied for or plans to receive additional ARRA funds in the future.
- Security Incident Reports to determine whether FSU is in compliance with the requirements of Chapter 647 of the Acts of 1989.

We examined, on a test basis, evidence regarding FSU's compliance with applicable requirements and performed other procedures as we considered necessary. Based on these tests, we concluded that, except as reported in the Audit Results section of this report, during the approximate 10-month period ended May 31, 2010, FSU maintained adequate management controls and complied with applicable laws, rules, and regulations for the areas tested.

AUDIT RESULTS

1. IMPROVEMENTS NEEDED IN DOCUMENTATION OF POLICIES, PROCEDURES, AND INTERNAL CONTROLS RELATED TO THE FSU STUDENT FEE GRANT

Our review indicated that Framingham State University (FSU) used \$500,000 in federal stimulus funds under the American Recovery and Reinvestment Act (ARRA) budgeted for student financial aid (described as “student affordability support”) to reimburse itself for financial aid expenditures made from the FSU Student Fee Grant. However, we found that, contrary to the Office of the State Comptroller (OSC) and ARRA guidelines, FSU lacked formal, written eligibility criteria or policies and procedures for the administration of Student Fee Grant expenditures. Moreover, our audit revealed Student Fee Grant eligibility deficiencies in five (25%) of 20 student files tested. Also, we found that the duties of FSU’s Financial Aid Director, who is responsible for developing and updating eligibility criteria as well as manually awarding Student Fee Grant funds, were inadequately segregated and that the extenuating circumstances for which the Financial Aid Director waived eligibility criteria for some students was not adequately documented in student files. Without adequate internal controls over Student Fee Grant activities, there is a risk that these funds may be expended for an unintended purpose without being prevented or detected.

The FSU Student Fee Grant is a needs-based grant awarded to students at the discretion of the Financial Aid Office. We were told that the Financial Aid Director annually develops or updates the eligibility criteria, which are documented in the financial aid computer system (PowerFAIDS). Students are awarded the FSU Student Fee Grant automatically if they meet the eligibility criteria or manually at the discretion of the Financial Aid Director based upon financial need and extenuating circumstances. Automatic awards are \$1,000, and manual awards range from \$200 to \$3,600. The Financial Aid Director stated that she processed 99% of all the manual awards for the FSU Student Fee Grant.

When we requested documentation of the eligibility criteria and the decision-making process used to update the eligibility criteria each year, we were informed that the criteria and process are not documented in writing. According to the Financial Aid Director, the process used by FSU to administer the FSU Student Fee Grant is the same process that would be used by any other state university, whereby the FSU Financial Aid Director takes into consideration the number of students enrolled, the financial aid budget, and prior-year performance, and based upon her

knowledge and expertise develops eligibility criteria for the FSU Student Fee Grant. Although the FSU Financial Aid Director stated that the eligibility criteria are documented within PowerFAIDS, she did not produce a printout of the criteria.

The importance of proper documentation of an agency's policies, procedures, internal control plan, and decision-making processes are expressed in the OSC's Internal Control Guide, which states, "All documentation should be complete, accurate, and recorded timely. . . . The department's internal controls, for example, should be clearly documented and readily available for examination." In addition, the Internal Control Guide identifies the importance of implementing controls related to established policies and procedures to reduce organizational risks by stating, in part:

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.

Moreover, ARRA federal stimulus funds provided to institutions of higher education (IHE) through the State Fiscal Stabilization Fund (SFSF) are held to a higher standard of accountability than traditional state funding, and institutions are required to document the decision-making processes for the use of these funds. Specifically, the United States Department of Education issued Guidance for Grantees and Auditors: State Fiscal Stabilization Fund Program, dated December 24, 2009, which states, in part:

In accordance with the requirements of Section 443(a) of GEPA (20 U.S.C. §1232f (a)), each recipient of SFSF funds must maintain records that fully disclose how those funds were used, the total cost of the activity for which the funds were used, the share of that cost provided by other sources, and such other records as will facilitate an effective audit. It would be impermissible, for example, for an IHE to maintain documentation that the SFSF funds were transferred into a general account without further documenting how the SFSF funds were specifically used.

At the beginning of audit fieldwork, we were verbally provided with the following three main eligibility criteria that students must meet in order to receive the FSU Student Fee Grant: (1) the student must have completed six courses, (2) the student must be enrolled full-time as an undergraduate, and (3) the student must have an expected family contribution of \$13,000 or less. Our initial test of 10 students who received the FSU Student Fee Grant revealed that three of the 10, (30%) did not meet all three eligibility criteria. Furthermore, we found that one of the

three students who did not meet the eligibility criteria did not attend any classes due to a death in the family. Nevertheless, a Student Fee Grant of \$1,784 was still awarded to pay for tuition and fees that resulted from the student's not officially withdrawing from FSU. The use of ARRA funds for a financial aid expenditure that did not result in a student's receiving educational services is contrary to the Massachusetts Department of Higher Education (DHE) Final Guidance on ARRA State Fiscal Stabilization Fund Spending, which states, in part:

According to the American Recovery and Reinvestment Act of 2009, Public Law 111-5, the college that receives funds under this title must use the funds for education and general expenditures, and in such a way as to mitigate the need to raise tuition and fees for in-state students, or for modernization, renovation, or repair of institution of higher education facilities that are primarily used for instruction, research, or student housing, including modernization, renovation, and repairs that are consistent with the recognized green building rating system.

After our initial testing, the Financial Aid Director provided, via email, written eligibility criteria for the FSU Student Fee Grant. The emailed criteria contained more requirements to be automatically awarded than the original three provided verbally at the beginning of our audit. However, we tested an additional 10 students who received the FSU Student Fee Grant against the emailed criteria and found that two of the 10 (20%) did not meet the documented eligibility criteria to be automatically awarded. We also found that one of the 10 students met the eligibility criteria to obtain the automatic award of \$1,000 but, based upon the decision of the Financial Aid Office, was awarded additional funds of \$200.

The Financial Aid Director explained that although the FSU Student Fee Grant has eligibility criteria to be automatically awarded as part of the initial financial aid packaging, these funds can also be awarded at the discretion of the Financial Aid Office in extenuating circumstances. The Financial Aid Director also indicated that the five students found not to have met the eligibility criteria to be automatically awarded had extenuating circumstances that she felt were adequately documented in the student files (electronic and/or hard copy). However, we found such documentation to be inadequate. For example, although there was documentation in the form of letters explaining an unexpected decrease in income or a photocopy of an obituary notice, there was no further written explanation linking this documentation as the reason for the FSU Student Fee Grant award. In addition, there was no written note (electronic or hard copy) stating that, based upon specific extenuating circumstances, the Financial Aid Director used her professional judgment to award the FSU Student Fee Grant funds for these students.

The importance of clear documentation of the decision-making process used for administering ARRA funds is explained in OSC Memorandum FY2009-26: American Recovery and Reinvestment Act: Accounting and Reporting – Update #1, which states, in part:

Departments must immediately review and update their Records Management Inventories to ensure that all records in any medium (paper or electronic) are CLEARLY coded with ARRA and doc ids (including coding related emails and correspondence) to ensure that records can be easily and quickly accessed and reviewed for audit purposes. Failure to maintain accurate records, provide quick access to all records in a centralized location, inconsistencies, lack of supporting documentation, plans, justification and documents outlining decision making and how the ARRA mandates are being met, will subject a Department to additional scrutiny and negative findings.

Furthermore, Chapter 647 of the Acts of 1989 requires that state agencies develop written internal control plans in accordance with OSC Internal Control Guidance. Additionally, a requirement of ARRA funds is that an agency must update its internal control plan to reduce the risk that these funds will be used for an unintended purpose. OSC Memorandum FY2009-26: American Recovery and Reinvestment Act: Accounting and Reporting – Update #1 states that “Departments must immediately review their Internal Control Plans and make any updates to ensure that all of the ARRA guidance issued by any control agency . . . are included and distributed to all program, fiscal, human resource, payroll and executive staff.”

Our review of the FSU Business Office internal control plan revealed that there are controls documented for the Financial Aid Office; specifically, the separation of duties between the Financial Aid Office awarding funds and the Business Office disbursing funds. However, our review noted that there were no documented controls specific to the administration and award process of the FSU Student Fee Grant. Furthermore, we found that although FSU updated its Business Office internal control plan to include ARRA, there was no mention of controls over ARRA funds used for financial aid purposes. Therefore, FSU is not in compliance with OSC internal control guidance, SFSF regulations, and Chapter 647 of the Acts of 1989.

Recommendation

FSU should establish written policies, procedures, and internal controls over the FSU Student Fee Grant. The FSU Financial Aid Director should document in writing the decision-making process used to create/update eligibility criteria for students to receive the FSU Student Fee Grant. The eligibility criteria should be clearly documented in writing to facilitate an effective audit. The Financial Aid Director should document in writing the reason for manually awarding

the FSU Student Fee Grant. Backup documentation maintained in student files (electronic and hard copy) related to extenuating circumstances should be referenced to the FSU Student Fee Grant award and the Financial Aid Director's notation of why the students received the award. To comply with ARRA regulations, all records in any medium (paper or electronic) should be clearly coded as ARRA (including coding-related emails and correspondence) to ensure that records can be easily and quickly accessed and reviewed for audit purposes.

Auditee's Response

The Framingham State University Financial Aid Office has documented its policies, procedures, and internal controls related to the FSU Student Fee Grant in writing. These policies, procedures, and internal controls will be reviewed on an annual basis and fee grant award criteria will be clearly documented in order to ensure an effective audit. Any and all awards made manually outside of established criteria and at the discretion of the Director of Financial Aid will be documented thoroughly, reviewed by the Associate Director of Financial Aid, and monitored on a biannual basis (January and June) by the Vice President for Enrollment and Student Development. The purpose of this review will be to ensure that awards made at the discretion of the Director because of students' extenuating circumstances are done so based on provision of adequate documentation of those circumstances and in compliance with internal controls as well as state and federal regulations. Changes to the formula used for automatic awarding of FSU Student Fee Grants through PowerFAIDS will be documented in writing. Further, FY2010 financial aid awards utilizing ARRA funds will be specifically denoted in PowerFAIDS to facilitate potential future access and review.

2. PRIOR AUDIT RESULT UNRESOLVED – IMPROVEMENTS NEEDED IN CHAPTER 647 REPORTING

Our prior audit, No. 2009-0179-7T, disclosed that during the period July 1, 2007 to November 11, 2009, FSU had not reported occurrences of missing or stolen computer equipment to the Office of the State Auditor (OSA) in accordance with Chapter 647 of the Acts of 1989, An Act Relative to Improving the Internal Controls within State Agencies. Our prior audit also disclosed that FSU staff responsible for the inventory was unaware of the reporting requirements of Chapter 647 of the Acts of 1989. Furthermore, our prior audit disclosed that although FSU filed incident reports with Campus Police for five stolen laptop computers valued at \$6,856, no reports regarding these incidents had been forwarded to the OSA in accordance with Chapter 647 of the Acts of 1989.

Our prior audit recommended that FSU should maintain policies and procedures that will comply with Chapter 647 of the Acts of 1989 and immediately report all instances of

unaccounted-for variances, losses, shortages, and thefts of funds or property to the OSA. Our prior audit also recommended that FSU communicate requirements for all internal and external notifications of thefts to a designated staff member. Moreover, our prior audit recommended that FSU should continue to investigate how these thefts occurred and try to establish controls to minimize the risk of reoccurrence.

During our follow-up review, we found that FSU was not in compliance with the reporting requirements of Chapter 647 of the Acts of 1989 and its own documented internal control procedures to ensure compliance with Chapter 647 reporting requirements. Although FSU did report the five stolen laptops that were identified in our prior audit on May 6, 2010, FSU did not file any Chapter 647 reports for the period July 1, 2007 through May 5, 2010, even though there were instances of stolen university property that should have been reported. Additionally, FSU does not have written policies and procedures regarding the laptop loaner program and the process followed by Information Technology Services (ITS) to attempt to recover laptops from students who do not return them per the terms of the computer equipment loan agreement.

Our review of the campus police computer-generated incident reports related to larceny of property cases revealed that there were 39 cases for the period September 12, 2008 to May 6, 2010 involving either university-owned or personal property of students attending the university. The only way to determine the type of property involved is to review each individual incident report. Also, some of the cases listed may have multiple incident reports related to them from follow-up investigations. The five stolen laptops identified in our prior audit were included in one incident report out of the 39 cases listed. Chapter 647 reports were filed for these five laptops during our current audit period (May 6, 2010). However, our review of the 39 cases revealed that two additional incident reports involving two university-owned laptops that were not returned to ITS as part of the laptop loaner program were not reported to the OSA in accordance with Chapter 647 of the Acts of 1989. The value of these two stolen laptops was \$1,049 each, or a total of \$2,098.

The FSU Business Office Internal Control Plan outlines Chapter 647 compliance requirements and states that these requirements have been communicated to FSU personnel. The Business Office Internal Control Plan updated May 11, 2010, page 72, states, in part:

All instances of unaccounted for variances, losses, shortages, or thefts of funds or property are immediately reported to the State Auditor's office pursuant to Chapter 647 of the Massachusetts Acts of 1989 by the Chief of Campus Police.

Furthermore, page 295 of this updated plan states, in part:

The College has communicated the Chapter 647 requirements for all internal and external notifications of thefts to the appropriate College personnel (Campus Police, Facilities, ITS). The College continues to investigate how thefts have occurred and has established controls to minimize the risk of reoccurrence.

FSU's internal control policies and procedures related to missing/stolen property outlined in the Business Office Internal Control Plan include Campus Police notifying ITS, the Property Control Office, and the Director of Facilities and Capital Planning when there is a theft of FSU property. The Property Control Officer is responsible for completing the Chapter 647 report and submitting it to the Office of the State Auditor. The Property Control Officer then forwards a copy of the Chapter 647 report to the Senior Vice President, the Director of Facilities and Capital Planning, the Campus Police Chief, and the Director of Financial Services.

In addition, our follow-up review found that the two stolen laptops that were not reported in accordance with Chapter 647 were both taken from the FSU laptop loaner program, which has no related written policies and procedures. We requested written policies and procedures related to the program detailing the process followed by ITS to attempt to recover laptops from students who do not return them per the terms of the computer equipment loan agreement, but were informed that these policies and procedures were not in any written document.

The OSC requires state agencies to maintain written documentation of an agency's policies, procedures, internal control plan, and decision-making process. The OSC expressed the importance of implementing controls related to established policies and procedures to reduce organizational risks within the OSC Internal Control Guide. The OSC Internal Control Guide, dated September 13, 2007, page 10, states, in part:

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.

Because FSU did not complete Chapter 647 reports for two stolen laptops and did not submit these reports to the OSA, we determined that FSU is not in compliance with the reporting requirements of Chapter 647 of the Acts of 1989 and its own written internal control procedures as described above. We did note that during our current audit, FSU officials developed a written procedure in which Campus Police will use a specific code for missing/stolen state property to facilitate the generation of computer reports that can be used to ensure that the reporting requirements of Chapter 647 are adhered to. Furthermore, because FSU does not maintain written policies and procedures for the laptop loaner program or the process followed by ITS to attempt to recover laptops from students who do not return them, we determined that FSU is not in compliance with OSC internal control guidelines.

Recommendation

FSU should formalize a process for notifying the Property Control Officer of any stolen or missing items. FSU should maintain and adhere to written policies and procedures to ensure compliance with Chapter 647 of the Acts of 1989 and immediately report all instances of unaccounted for variances, losses, shortages, or thefts of funds or property to the OSA. FSU should communicate requirements for all internal and external notifications of thefts to the appropriate university personnel (Campus Police, Facilities, Property Control Officer, and ITS). In addition, FSU should document in writing policies and procedures related to the laptop loaner program and the process followed to attempt to recover any lost, missing, or stolen laptops.

Auditee's Response

The Framingham State University Internal Control Manual documents a process for notification to the Office of the State Auditor for compliance with Chapter 647 of the Acts of 1989. In response to this finding that the University's Internal Controls process was not followed regarding stolen or missing laptop computers, FSU has further detailed in the Internal Control Manual the steps that each office (ITS, Facilities, Campus Police and Property Control) needs to follow and has communicated these steps to the directors to insure adherence to these steps. These policies and procedures, including detailed responsibility assignment, have been included in the Internal Control Manual. It should also be noted that, since the completion of this audit, FSU has submitted to the Office of the State Auditor the Chapter 647 forms for recent missing laptop computer equipment in accordance with the University's revised procedures.