



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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## Massasoit Community College

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



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## TABLE OF CONTENTS/EXECUTIVE SUMMARY

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### **INTRODUCTION**

**1**

Massasoit Community State College (MCC) 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 controls its operations, and MCC'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, the Office of the State Auditor has conducted a follow-up audit of MCC's Federal Student Financial Assistance (SFA) 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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### **AUDIT RESULTS**

**3**

#### **1. PRIOR AUDIT RESULT RESOLVED – STUDENTS NOT MAKING SATISFACTORY ACADEMIC PROGRESS**

**3**

Our prior audit disclosed that MCC needed to improve its practices regarding the reviewing and adequate monitoring of students' Satisfactory Academic Progress (SAP) for receiving Title IV funds, to ensure compliance with federal regulations. Our follow-up audit determined MCC has taken corrective action to address and to improve its procedures for reviewing SAP. An automated system now calculates SAP after each semester, whereas the manual system previously performed this task once a year.

#### **2. PRIOR AUDIT RESULTS UNRESOLVED**

**3**

Our follow-up audit disclosed that MCC has not taken sufficient corrective action to address prior audit issues regarding (a) the improvement and updating of its Internal Control Plan (ICP), (b) return of Title IV funds not administered in compliance with federal requirements, (c) reporting student status changes on a timely and accurate basis, and (d) federal cash management procedures still in need of improvements.

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

**3**

Our prior audit disclosed that MCC had not updated its ICP to comply with the Office of the State Comptroller (OSC) internal control guidelines. Our follow-up audit disclosed that MCC needs to adequately identify a high-level summarization of its internal controls within its ICP to reflect the recently updated OSC guidelines, changes in top key administrative positions, and the recent re-alignment and turnover in personnel. Also, the MCC needs to cross-reference its ICP to its departmental policies and procedures for most of its operational areas, which will help to ensure that MCC meets its mission and sustains long-term stability and viability. In response to our audit report, MCC has implemented steps to update its ICP and has begun a process of integrating

changes at various levels to ensure that its ICP will comply with OSC internal control guidelines.

**b. Return of Title IV Funds Not Processed in a Timely Manner** **4**

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Our prior audit disclosed that MCC did not correctly calculate the return of Title IV funds and return funds in a timely manner. Our follow-up audit determined that MCC still needs to continue to make improvements to its SFA policies and procedures regarding the return of Title IV funds to ensure that funds are administered in a timely manner. Our follow-up audit identified one student in our sample of five for whom MCC did not process the return of Title IV funds within the 45-day limit as required by federal regulations. Further review of the Direct Loan monthly reconciliations disclosed refunds processed but not returned to the Department of Education (ED) within the 45-day requirement. MCC does not address the return of Title IV funds within its SFA policies. Consequently, MCC did not comply with federal regulations regarding the processing of Title IV refunds in a timely manner. In response to the audit report, MCC stated it recognizes the importance of returning Title IV funds to ED as soon as possible within the appropriate time frame. The Financial Aid and Business Offices have made several changes to the return of funds practices to ensure adherence to this regulation. The Financial Aid Office has also hired two additional professional financial aid staff members to assist with all aspects of the financial aid process.

**c. Student Status Changes Still in Need of Improvement** **6**

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Our prior audit disclosed that MCC did not notify the National Student Loan Data System (NSLDS) of student status changes in a timely and accurate manner as required by 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. MCC utilizes the National Student Clearinghouse (NSC) to facilitate its responsibility to notify NSLDS of changes in the enrollment status of its students. Our prior audit disclosed that MCC needed to strengthen its internal controls and written policies and procedures to ensure accurate and timely reporting of student enrollment status. Our follow-up audit disclosed that MCC still needs to strengthen its internal controls and written policies and procedures to ensure accurate and timely reporting of student enrollment status. Specifically, changes in enrollment status of eight of 25 students sampled were not reported in a timely manner to the NSLDS through the NSC. In response to the audit report, MCC indicated that it has been working to improve timely notification of student enrollment status changes to NSLDS. To ensure there are no delays in reporting, MCC has increased its reporting schedules to each month that MCC is in session: four times each semester, once each summer session, and an additional report in June to report graduated students on a more timely basis to NSLDS.

**d. Federal Cash Management Procedures in Need of Improvement** **8**

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Our prior audit disclosed that MCC needed to improve its drawdown procedures and reconciling process for SFA funds requested from the United States Treasury Department (UST). Specific rules and regulations regarding cash management of Title IV funds have been established and documented in the Federal Student Assistance Handbook. Our follow-up audit disclosed that, although MCC has implemented some

policies and procedures for its drawdown of Title IV funds, it is still in need of improvement, especially when conducting monthly reconciliation. Specifically, policies and procedures do not monitor adjustments identified during the monthly reconciliation of SFA funds, thereby failing to ensure that adjustments are corrected in a timely manner. In response to the audit report, MCC indicated it was taking steps to enhance and improve cash management procedures. The Financial Aid Office and the Business Office will meet monthly to resolve reconciling items in a timely manner to ensure effective monitoring of SFA funds.

## **INTRODUCTION**

### ***Background***

Massasoit Community State College (MCC) 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 MCC'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. 2010-0197-16S) and in the Single Audit of the Commonwealth of Massachusetts, and of MCC'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 Fiscal Year 2010 Single Audit of the Commonwealth of Massachusetts OMB Circular A-133, 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 MCC's compliance with Office of the Comptroller (OSC) policies and procedures; Massachusetts General Laws; and other applicable laws, rules, and regulations.

In performing our audit of MCC'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 MCC's procedures for corrective action and improvements in the areas identified in our prior audit report were as follows:

- Determining the status of improvements made to MCC's internal control plan (ICP).
- Improvements were made in the area of students not making satisfactory academic progress.
- Return of Title IV funds not accurately calculated and returned in a timely manner.
- Student status changes not submitted as required.
- Federal cash management procedures in need of improvement.

We concluded that MCC has taken corrective action and implemented adequate internal controls regarding students making satisfactory progress. However, our follow-up audit disclosed that MCC has not taken sufficient corrective action to address prior audit issues regarding (a) the improvement and updating of its ICP, (b) return of Title IV funds not administered in compliance with federal requirements, (c) reporting student status changes on a timely and accurate basis, and (d) federal cash management procedures still in need of improvements.

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 MCC 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 – STUDENTS NOT MAKING SATISFACTORY ACADEMIC PROGRESS**

Our prior audit disclosed that Massasoit Community State College (MCC) needed to improve its practices regarding the reviewing and adequate monitoring of students' Satisfactory Academic Progress (SAP) for receiving Title IV funds, to ensure compliance with federal regulations. Our follow-up audit determined MCC has taken corrective action to address and to improve its procedures of reviewing SAP. An automated system now calculates SAP after each semester, whereas the manual system previously performed this task once a year.

### **2. PRIOR AUDIT RESULTS UNRESOLVED**

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

Our prior audit disclosed that MCC had not updated its internal control plan (ICP) to comply with the Office of the State Comptroller's (OSC) Internal Control Guidelines. Our follow-up audit disclosed that MCC has made limited progress in updating its ICP to comply with the OSC guidelines. According to the Comptroller, while some work has been done reviewing the areas identified in our prior report, budget considerations and time constraints have prevented MCC from implementing the recommendations made in our prior report. The Comptroller stated that MCC does consider the improvement of its ICP to be a serious matter and is in the process of complying with our recommendations.

Our prior audit had disclosed that MCC needed to more adequately identify a high-level summarization of its internal controls within its ICP to reflect the recently updated OSC guidelines, changes in top key administrative positions, and the recent re-alignment and turnover in personnel. Our audit disclosed that although MCC has started making updates and improvements to strengthen its ICP regarding Enterprise Risk Management (ERM): Internal Environment, Event Identification, Objective Setting, Risk Assessment, Control Activities, Information and Communication, and Monitoring, it is still a work in progress. MCC has added a section on the Risk Assessment page concerning the American Recovery and Reinvestment Act (ARRA) and created a separate manual on ARRA internal controls. MCC still needs to cross-reference its ICP to its departmental policies and procedures for most of its operational areas, which will help to ensure that MCC meets its mission and sustains long-term stability and viability.

MCC indicated that the process of updating the ICP is in its initial phase, scheduled for completion by the end of fiscal year 2011.

### ***Recommendation***

MCC should continue to update and improve its high-level summarization of internal controls that readily identifies and concisely describes the components of internal control within the plan in conformance with the latest OSC guidelines, including ERM.

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

*Massasoit Community College recognizes the need to update and improve its Internal Control Plan (ICP) in conformance with the latest OSC guidelines including ERM. MCC has started the process of updating the ICP. The Comptroller has met with the President and Cabinet members in each division to discuss the need to identify risks and to mitigate risks through written policies and procedures that are College wide. The ICP will cross reference department policies and procedures for each operational area of the college. This is a work in progress, and will require time and effort from all divisions to update an effective Internal Control Plan that addresses the eight components of Enterprise Risk Management: Internal Environment, Event Identification, Objective Setting, Risk Assessment, Risk Response, Control Activities, Information and Communication, and Monitoring.*

### **b. Return of Title IV Funds Not Processed in a Timely Manner**

Our prior audit disclosed that MCC did not correctly calculate the return of Title IV funds and return funds in a timely manner. Our follow-up audit determined that MCC still needs to continue to make improvements to its SFA policies and procedures regarding the return of Title IV funds to ensure that funds are administered in a timely manner. Our follow-up audit identified one student in our sample of five for whom MCC did not process the return of Title IV funds within the 45-day limit, as required by federal regulations, thus causing MCC to fail to return Title IV program funds to the United States Department of Education (ED) in a timely manner. Specifically, the one student had its refund calculated properly by MCC, but it was returned after the 45-day limit had expired. The refund in question was processed by the Financial Aid Office on March 10, 2010, but had not been returned to the ED as of September 30, 2010.

Additionally, during our follow-up audit on federal cash management practices, we noted that the MCC processed Title IV returns by electronic funds transfers. We identified other students besides those selected for Title IV refund testing in which cases MCC was also delinquent in processing Title IV refunds. Further review of the Direct Loan monthly reconciliations disclosed refunds



processed but not returned to ED within the 45-day requirement. MCC does not address the return of Title IV funds within its SFA policies. Consequently, the MCC did not comply with federal regulations regarding the processing of Title IV refunds in a timely manner.

An institution must return the amount of Title IV funds for which it is responsible as soon as possible. Returned Title IV funds are required to be deposited or transferred into the SFA account or electronic fund transfers initiated to the ED as soon as possible, but no later than 45 days after the date the institution determines that the student withdrew. The ED has established regulations that govern the timely return of Title IV funds. Specifically, 34 Code of Federal Regulations (CFR) 668.173 (b) states, in part:

- (a) Timely return of title IV, HEA program funds. In accordance with procedures established by the Secretary or FFEL program lender, an institution returns unearned title IV, HEA program funds timely if ...*
- (1) The institution deposits or transfers the funds into the bank account it maintains under Sec. 668.163 no later than 45 days after the date it determines that the student withdrew ...*

As disclosed in the prior audit, MCC still did not have adequate policies and procedures for processing and monitoring Title IV refunds to ED in the 45-day time limit.

### ***Recommendation***

MCC should continue to review and update its Student Financial Assistance policies and procedures regarding the Return of Title IV funds to ensure that the returns of these funds are properly administered and processed. MCC should enhance its procedures to ensure compliance with federal regulations regarding the timely and accurate return of Title IV funds. In addition, MCC should improve its monitoring of these procedures to ensure that they are working as intended.

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

*Massasoit Community College recognizes the importance of returning Title IV funds to the Department of Education as soon as possible within the appropriate time frame. The Financial Aid and Business Office have made several changes to the return of funds practices to ensure this happens.*

*The Financial Aid Office has added wording specific to the 45-day deadline to our existing withdrawal and R2T4 policies and procedures. All R2T4 calculations and subsequent return of funds will be processed within the 45-day time frame once the college is aware the student has withdrawn or stopped attending.*

*The weekly practice of forwarding disbursement rosters from the Financial Aid Office to the Business Office for reconciliation will continue. In addition, both of these offices will be meeting*

*in person on a monthly basis to discuss the reconciliation of Title IV funds and ensure that no issues go un-addressed.*

*The Financial Aid Office has also hired two additional professional financial aid staff members to assist with all aspects of the financial aid process. One of these new counselors will serve as backup to our current systems specialist. In the absence of our specialist, this person will be able to investigate any transmission and/or extraction issues so that they can be resolved as soon as possible but within the 45-day timeframe. We have also added to our return of Title IV Funds procedures the policy that funds will be returned within the 45-day limit even if some unresolved technical issues exist. Once the Financial Aid Office determines the return must be made, the Financial Aid Office will notify the Business Office of the adjustment and indicate where the funds should be returned, and the Business office will return the funds.*

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

Our prior audit disclosed that MCC did not notify the National Student Loan Data System (NSLDS) of student status changes in a timely and accurate manner 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, MCC is required by 34 CFR, Section 685.309, 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. According to Office of Management and Budget (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). MCC utilizes the NSC to facilitate its responsibility to notify NSLDS of changes in the enrollment status of its students. However, MCC is ultimately responsible for ensuring that NSLDS is properly notified of all student enrollment status changes in a timely manner. Because MCC 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, MCC 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 MCC still needs to strengthen its internal controls and written policies and procedures to ensure accurate and timely reporting of student enrollment status. Our follow-up audit disclosed that changes in enrollment status for eight of 25 students sampled were not reported in a timely manner to NSLDS via the NSC. The Registrar's Office and the Financial

Aid Office need to set up a system to ensure that every four to six weeks after each transmission, these offices can randomly test 10 student accounts for compliance to ensure that NSC has reported the enrollment status to NSLDS in an accurate and timely manner.

MCC officials indicated that they believe that MCC has been transmitting information as required to NSC; however, they indicated that NSC is not reporting and processing the data to NSLDS in a timely manner. MCC is continuing to work with NSC to resolve this issue.

The accuracy of Title IV student loan records relies heavily on the accuracy of the data reported by colleges to 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***

MCC 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 Section 685.309. Specifically, MCC should establish adequate internal controls, which verify 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 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***

*Massasoit Community College recognizes the importance of and has been working to improve timely notification of student enrollment status changes to NSLDS. To ensure there are no delays in reporting, we have increased our reporting schedule to each month school is in session: four times each semester, once each summer session, and an additional report in June to report graduated students.*

*Students are not reported by the Clearinghouse to NSDLS until NSDLS sends an enrollment status request report to them. The delay between the time of our disbursement of a student loan and reporting to [Common Origination and Disbursement system] COD, the receipt of this information by NSLDS, its subsequent request for the enrollment status of a student, and the Clearinghouse's response appears to be at the heart of this issue.*

*In order to better monitor this interaction, we are looking at reporting students' enrollment status information directly to NSLDS using the tools in our Banner system. Since this will take several months to investigate, test and set up properly, we will continue to monitor both the students and data included in the NSLDS request as well as the students and data in the Clearinghouse response file.*

**d. Federal Cash Management Procedures in Need of Improvement**

Our prior audit disclosed that MCC needed to improve its drawdown procedures and reconciling process for its SFA funds being requested from the United States Treasury Department (UST) for SFA awards to students. Specific rules and regulations regarding cash management of Title IV funds have been established and documented in the Federal Student Assistance Handbook. Included in the Handbook are procedures regarding the drawing down of SFA funds using the Grants Administration and Payments System (GAPS), as well as the reconciliation of SFA funds to the college's accounting and banking records, as a key component of internal control in the SFA program.

The GAPS system is used to drawdown available SFA program funds, using an authorized current funding level, as determined by the Common Origination and Disbursement (COD) system, which processes SFA disbursements. The COD system plays an integral role within GAPS, as it is part of the process by which the college requests, reports, and reconciles Title IV funds. It provides the back-up documentation to the GAPS system to authorize the release of SFA program funds to the college, based on the college's current funding level for each program.

Our follow-up audit disclosed the following regarding drawdown procedures and reconciliations:

**Drawdown Procedures:** During the audit period, MCC initiated 24 individual drawdowns totaling \$7,778,398 in SFA awards. We selected three drawdowns to test, to determine the extent of MCC's corrective action implemented since the prior audit. Our test of drawdown procedures and related transactions processed through GAPS disclosed that in two of the three drawdowns sampled, issues indicating a continued need for improvements follow:

- A GAPS drawdown in the amount of \$20,222 in PELL funds which represented the amount of PELL funds awarded and disbursed by the Financial Aid Office was requested on March 25, 2010. However, the actual drawdown received was \$18,915, resulting in \$1,307 less than was requested, for which MCC utilized other institutional funds.

- \$225,885 in PELL funds were awarded and disbursed by the Financial Aid Office for the period April 8 through April 14, 2010. The GAPS drawdown was not timely requested until June 24, 2010, thusly requiring MCC to utilize its own funds.

Although MCC has begun to perform monthly reconciliations of its federal SFA program funding, our audit indicated that the discrepancies identified during reconciliations are still not being corrected by MCC in a timely manner, as follows:

- MCC's monthly reconciliations of the Direct Loan Program identified a refund adjustment of \$739 as of March 31, 2010. This refund adjustment was still listed on the June 30, 2010 reconciliation and had not been corrected as of September 30, 2010.
- MCC's monthly reconciliations of PELL activity identified a refund adjustment of \$269 as of December 31, 2009. This refund adjustment was still listed on the June 30, 2010 reconciliation and had not been corrected as of September 30, 2010.

MCC's policies and procedures still did not adequately monitor adjustments identified during the monthly reconciliation of SFA funds, thereby not ensuring that adjustments are corrected in a timely manner and do not affect future GAPS activity. The result of not making timely adjustments is that MCC is continually loaning institutional funds to cover inaccurate and untimely GAPS drawdowns.

### ***Recommendation***

MCC should continue to improve upon its policies and procedures over its federal cash management system. MCC should ensure that it is making timely adjustments for its drawdowns to the GAPS system. In addition, monthly reconciliations and appropriate adjustments should be implemented to verify the timely receipt of and accuracy of SFA funds within each program. These monthly reconciliations should be supported through written policies and procedures to document the steps necessary to identify variances and reconciling items that need processing, thereby ensuring that effective monitoring of SFA funds occurs.

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

*Massasoit Community College recognizes the need to monitor the policies and procedures implemented in February 2010 in response to the FY 2009 Single Audit results. These policies and procedures were consistently followed weekly and reconciliations prepared monthly. There were a few reconciling items, the variances between COD and available funds for GAPS drawdown, that the Financial Aid Office was not able to identify in a timely manner. To enhance and improve cash management procedures, The Financial Aid Office and the Business Office will meet monthly to resolve reconciling items in a timely manner to ensure effective monitoring of SFA funds cash management is taking place.*