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2008-5135-17S

TO: College Presidents, Vice-Presidents of Administration and Finance,  
Chief Financial Officers, and Student Financial Assistance Administrators

FROM: A. Joseph DeNucci, Auditor of the Commonwealth

DATE: May 19, 2008

RE: Student Financial Assistance (SFA) Awareness of Audit Issues

The purpose of this memorandum is to provide you with a synopsis of findings contained in our past student financial assistance (SFA) audits that were disclosed during our continued participation, now with KPMG, in the Commonwealth's annual Single Audit. Over the past few years these SFA audits have identified and reported on certain issues, including instances of noncompliance with federal and state laws and regulations, and made recommendations for corrective action. Accordingly, we believe it would be helpful to make you aware of these audit issues so that they may be considered when making any necessary adjustments or enhancements at your college to prevent future audit findings.

**Areas of Audit Issues:**

**Internal Controls**

- **Internal Control Plans (ICP):** ICPs were found to be incomplete and had not been updated annually, as required by Chapter 647 of the Acts of 1989 (An Act to Improve Internal Controls within State Agencies) and the Office of the State Comptroller (OSC) guidelines. Specifically, ICPs often did not include all the interrelated internal control components (control environment, risk assessment, control activities, information and communication, and monitoring) detailed in the OSC's guidelines; properly identify the college's process or results of a risk assessment; identify risks and steps to mitigate these risks; contain accurate and updated information and references; and include references on the college's operating cycles and operations.
- **OSC New Revised Commonwealth Internal Control Guide:** Responses to our 2008 audit risk assessment questionnaires indicated that colleges had not yet addressed changes to OSC guidelines issued on September 13, 2007 for internal controls and the Committee of Sponsoring Organizations of the Treadway Commission's (COSO) Enterprise Risk Management – Integrated Framework (ERM). The ERM framework requires an entity to take a portfolio view of risk from two perspectives (business-unit level and entity level) and expands and elaborates on the risk assessment and internal environment components formerly identified in prior OSC guidelines. These changes have been made to address revised COSO components and elements of internal control by requiring that effective ICPs include additional statements of top management within its internal environment (formerly called control environment). A primary change that has been added is the requirement that top-level management (e.g., Board of Trustees, President) set the tone by identifying the entity's philosophy and operating style, including ethics and accountability. Other new components added include objective setting, event identification, and risk response.

- **Chapter 647 Compliance:** Colleges did not immediately report unaccounted-for variances, losses, shortages, or thefts of funds or property to the OSA in accordance with Chapter 647 of the Acts of 1989, an Act Relative to Improving the Internal Controls within State Agencies. Instances of theft (including five instances of thefts by employees), losses of funds, and significant accounting variances were found not to have been reported to the OSA until four to six months after they were discovered by the college or were not reported at all.

### Cash Management

- **Bank Reconciliations and Outstanding Checks:** Audits of colleges' June 30 bank reconciliations identified instances in which checks went uncashed and were outstanding for periods between one and 13 years. Many of these uncashed checks represented unclaimed student refunds for federal and state financial assistance and non-financial assistance refunds. Because in most instances colleges maintain only one individual account for each student for billing and receiving all student funds, federal student assistance becomes commingled with other sources of funds. Credit balances resulting in the overpayment of student charges were not being reviewed on a timely basis for resolution by either returning these federal funds balances to programs or distributing them to students. By not resolving these outstanding checks in a timely manner, colleges were not adhering to their fiscal responsibility to their students and its federal student assistance programs under Title IV. Also, the rightful owners of these funds are not receiving the funds to which they are entitled.
- **Monitoring of Cash Balances:** Because colleges did not perform timely reconciliations of Federal Perkins Loans (FPL) fiscal and program records, students received loan awards exceeding the FPL funds available. This resulted in the disbursement of other non-federal college funds to meet awards for the FPL program.
- **Timeliness of Refunds:** Colleges were not making timely refunds to students or the federal SFA programs as required by federal regulations. Colleges must pay excess SFA program funds (the credit balance) directly to the student as soon as possible, but no later than 14 days after the later of: the date the balance occurred on the student's account if the credit balance occurred after the first day of class of a payment period, or the first day of classes of the payment period if the credit balance occurred on or before the first day of classes of that payment period.
- **Timely Return of Federal Program Funds:** Colleges did not return funds to federal program accounts for students who were not attending classes as required by federal regulations. In the case of "walk-away" students who do not officially withdraw, federal regulations require schools to calculate refunds based on the last recorded date of attendance and base refund calculations on the last date that academic attendance can be demonstrated. The regulations also require that the funds identified be returned to the proper Title IV program within 30 days.

### Reporting

- **Untimely Federal Program Loan Reporting:** Colleges did not notify the National Student Loan Data System (NSLDS) of student status changes, including required dispersal dates, in the case of students with Stafford Loans, Direct Loans, and PLUS Loans. Federal regulations require colleges to identify and update the loan status of all students, including those who graduate or withdraw, via periodic Student Status Confirmation Reports (SSCR).
- **Compliance Reporting of Non-Appropriated Funds:** Colleges had not been entering and reconciling its Non-Appropriated Fund (Fund 901) activity monthly as required by state laws and regulations. Colleges are required to post financial activity to the Massachusetts Management Accounting and Reporting System (MMARS) and reconcile MMARS data with its internal records on a monthly basis.

**SFA Program Specific Compliance Issues**

- **Payroll Internal Controls and Procedures in the Federal Work-Study Program (FWS):** Reviews of the internal controls and payroll procedures established for maintaining, monitoring, and controlling college FWS payroll records and files indicated instances of noncompliance with FWS regulations/guidelines and the colleges' written policies and procedures.
- **Untimely Student Loan Exit Counseling Sessions and Inadequate Coordination between College Departments for the Administration of the Federal Loan Programs:** Colleges were not timely in conducting loan exit counseling sessions with students and were not complying with Loan Program due diligence requirements regarding the coordination of reporting information among their departments that manage and administer federal loan programs.
- **Aggregate Loan Limit For Federal Perkins Loans Exceeded:** Reviews of FPL student financial assistance programs indicated that colleges exceeded the aggregate loan limit for individual students, not in compliance with federal regulations.
- **Inadequate Procedures to Identify Walk-Away Students:** Colleges had not developed, monitored, or properly enforced internal controls procedures to identify "walk-away" students, to comply with federal regulations. Participating SFA Colleges are expected to monitor student attendance for the purpose of determining a withdrawal date in cases of unofficial withdrawal.
- **Pell Grants Awarded without Documentation of High School Diploma or Equivalent:** Colleges did not have adequate procedures in place to ensure that all student admission files contain any evidence or documentation to verify that the student had been granted the required high school diploma or its recognized equivalent.
- **Federal Pell Grants Awarded to Students Who Had Not Made Satisfactory Academic Progress:** Colleges awarded funds to students who were not in compliance with the Pell Grant program award requirements of satisfactory progress.

This information is being provided to assist you in managing your SFA programs. Should you have any questions or need assistance concerning this information or any other financial matter, please contact John Wilkes, Assistant Director of Audits, at 413-784-1080 or by email [John.Wilkes@SAO.state.ma.us](mailto:John.Wilkes@SAO.state.ma.us)

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