



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

Making government work better

Official Audit Report – Issued May 12, 2011

Greenfield Community College

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



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Greenfield Community College (GCC) 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 GCC's President is responsible for implementing the policies set forth by the Board of Trustees, in accordance with the policies and procedures established by the Board of Higher Education.

In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, the Office of the State Auditor has conducted an audit of GCC'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. Our audit was conducted in conjunction with the Single Audit of the Commonwealth of Massachusetts for the fiscal year ended June 30, 2010.

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Our audit determined that GCC entered into consortium agreements with other institutions to provide part of their educational programs to its students. During our audit period, GCC had 19 students receiving Title IV funds enrolled in educational institutions to complete part of their educational program. However, GCC did not maintain consortium agreements in compliance with federal requirements with host institutions for six students taking part of their educational program requirement at other institutions. As a result, there is inadequate assurance that GCC students taking part of their educational programs at other institutions had valid agreements with other

institutions. Moreover, GCC was not in compliance with SFA requirements regarding written agreements between colleges. In response to the audit report, GCC indicated that it is currently developing an internal policy and procedure for consortium agreements in compliance with SFA regulations.

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Our audit disclosed that the Direct Loan Program funds Disbursement Notification Letters that GCC sent to students were not in compliance with federal requirements regarding the contents of these notification letters. Specifically, the Disbursement Notification Letters did not contain disbursement dates or the proper timeframe for canceling all or part of the Direct Loans. Our review of Disbursement Notification Letters showed that eight of 15 students in our sample receiving Direct Loan Program disbursements for both fall and spring semesters were notified only once in the fall that disbursements would be made for both semesters. Also, Disbursement Notification Letters sent to our sample of 15 students receiving federal Title IV funds under the Direct Loan Program did not contain the proper Direct Loan cancellation notice as required by federal regulations governing SFA. In response to the audit report, GCC indicated that it would include the disbursement date, type of loan, and loan amount in the email notification of disbursement to students and that it will develop methods for confirming that the notification has been received.

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Our audit sample of 25 students for the Direct Loan Program disclosed that GCC did not notify the National Student Loan Data System (NSLDS) of student status changes in a timely manner for seven students, contrary to SFA regulations that require institutions such as GCC to monitor and update the enrollment status of all students who receive federal student loans. Under the program, GCC is required to identify and update the loan status of all students, including those who graduate or withdraw. However, GCC had not reported the enrollment status changes of the seven students who withdrew to the NSLDS within the 60-day time limit, contrary to federal regulations. As a result, there is inadequate assurance that GCC is transmitting enrollment status reports to the NSC in an accurate and timely manner. In fact, delayed reporting for these students ranged between five to nine days beyond the 60-day limit. GCC reports changes in enrollment status to a contracted third party, the National Student Clearinghouse (NSC) approximately once every two months. GCC utilizes the NSC to facilitate its responsibility to notify NSLDS of changes in the enrollment status of its students. However, GCC is ultimately responsible for ensuring that NSLDS is properly and timely notified of all student enrollment and status changes. 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 NSC. In response to the audit report, GCC indicated that it is in the process of reviewing internal controls for the reporting of student status changes and is considering changes to the current record transmission schedule to increase the frequency of student status changes throughout the award year in order to ensure that the changes are reported to NSLDS within the required timeframe.

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Our audit disclosed that GCC has prepared and developed an Internal Control Plan (ICP) that is generally in compliance with Chapter 647 of the Acts of 1989 (an Act Relative to Improving Internal Controls within state Agencies) and Office of the State Comptroller (OSC) guidelines. However, GCC needs to update and enhance the ICP to ensure that it contains an adequate high-level summarization of internal controls to mitigate its identified risks. Specifically, GCC needs to develop plans or responses to the risks identified in the ICP. In addition, GCC needs to cross-reference its ICP to its departmental policies and procedures to support lower-level detail for its organizational areas to help ensure that GCC meets its mission and sustains long-term viability. Moreover, GCC needs to update its ICP to be in compliance with the eight components of Enterprise Risk Management (ERM). For the ICP to be considered an effective high-level summarization, all eight components of the ERM must be present as described in the OSC Internal Control Guide. In response to the audit report, GCC indicated that its Comptroller will update the ICP to include the eight ERM components.

INTRODUCTION

Background

Greenfield Community College (GCC) 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 GCC'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 an audit of GCC'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:

- 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 review evaluated GCC's compliance with

the Office of the State Comptroller (OSC) policies and procedures; Massachusetts General Laws; and other applicable laws, rules, and regulations.

In performing our review of GCC'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. Based upon our review, we determined requirements applicable to Federal Student Financial Assistance programs, and designed appropriate tests to determine GCC's compliance with those requirements. Specifically, our objectives were to:

- Assess the internal controls in place at GCC during the audit period.
- Assess and evaluate the programs for compliance with the requirements of the Compliance Supplement, ED, and the OSC.
- Follow up on prior audit results, if any, to determine what corrective action has been taken.

The criteria for our review were drawn from OMB Circular A-133 and the June 2010 Compliance Supplement, the Code of Federal Regulations, and the OSC's Internal Control Guide. Those criteria dealt with GCC's responsibility for the administration and operation of the Federal Student Financial Assistance programs and for compliance with the laws and regulations governing:

- Activities Allowed and Unallowed
- Cash Management
- Eligibility
- Matching, Level of Effort, and Earmarking
- Period of Availability of Federal Funds
- Program Income
- Reporting
- Special Tests and Provisions

We examined, on a test basis, evidence regarding GCC'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, for the period July 1, 2009 through June 30, 2010, GCC had adequate internal controls in place and complied with the requirements of ED; OMB Circular A-133 and the Compliance Supplement; and other applicable laws, rules, and regulations for the areas tested.

AUDIT RESULTS

1. IMPROVEMENTS NEEDED IN FEDERAL WORK STUDY INTERNAL CONTROL PROCEDURES

Our review of internal controls and payroll procedures established for monitoring and controlling Greenfield Community College's (GCC) student Federal Work Study (FWS) payroll records and files indicated that it was generally complying with guidelines and internal control policies identified in GCC's Student Financial Aid (SFA) policies and procedures. However, contrary to Federal Student Aid Handbook policies, our review of FWS payroll records identified seven students who worked several hours during scheduled class time, and we noted that the college calendar showed no instances in which classes were cancelled for these students. In addition, our review of student files disclosed no evidence that this issue had been identified by the students' supervisors or the Student Financial Aid Office. Students who work during scheduled class hours are losing valuable time in class that is needed to complete their course work.

As part of our testing, we reviewed 104 timesheets for 51 students taken from payrolls for fiscal year 2010 for the following documentation: existence of student timesheets for both on-campus and off-campus employment, actual payroll reports compiled by GCC's Human Resources Department, and work study contracts and agreements with outside employers. Our review included tests for proper authorization, supporting documentation, accuracy, completeness, timeliness, and adherence to award specifications. For the audit tests applied, we found that GCC satisfactorily applied its FWS funds and payroll controls, with the exception of monitoring students working during class time. GCC is required to establish an appropriate system of checks and balances to ensure that adequate segregation of duties and adequate oversight are in place before disbursements of federal funds are made. These instances indicate a breakdown in the supervisory and monitoring controls that, if not addressed, could lead to further issues in the FWS program.

In administering the FWS program, institutions such as GCC are required to establish and maintain an internal control system of checks and balances that ensures that no office can both authorize payments and disburse funds to students as required by 34 Code of Federal Regulations (CFR) 675.19(a), which states, in part:

The institution must also establish and maintain program and fiscal records that; i) include a certification by the student's supervisor, an official of the institution or off-campus agency, that each student has worked and earned the amount being paid. The certification must include or be supported by, for students paid on an hourly basis, a time record showing the hours each student worked in clock time sequence, or the total hours worked per day; (ii) Include a payroll voucher containing sufficient information to support all payroll disbursements; (iii) Include a noncash contribution record to document any payment of the institution's share of the student's earnings in the form of services and equipment (see Sec. 675.27(a)); and (iv) Are reconciled at least monthly (34 CFR 675.19 (b)(2)).

Moreover, GCC must have administrative capabilities that address 34 CFR 668.16(c) (1) and (2), which state that an adequately administrating institution:

- (1) Administers Title IV, HEA programs with adequate checks and balances in its system of internal controls; and*
- (2) Divides the functions of authorizing payments and disbursing or delivering funds so that no office has responsibility for both functions with respect to any particular student aided under the programs. For example, the functions of authorizing payments and disbursing or delivering funds must be divided so that for any particular student aided under the programs, the two functions are carried out by at least two organizationally independent individuals who are not members of the same family, as defined in [Sec.] 668.15, or who do not together exercise substantial control. . . .*

GCC has not established SFA policies and procedures that govern the practice of students working during class time. GCC's Financial Aid Director stated that students are told that working during scheduled class time is prohibited and that they must note on their time sheet if class has been cancelled. However, FWS supervisors do not ask for class schedules, and the SFA and payroll department have not established monitoring procedures for FWS student timesheets and class schedules.

GCC officials stated that they would implement procedures to ensure that timesheets would be periodically monitored to verify that students are not working during scheduled class time.

Recommendation

GCC should review and improve its internal controls within its FWS program. Policies and procedures must be established to ensure that internal controls and payroll policies and procedures are functioning as intended and in compliance with all applicable laws, rules, and regulations. These internal controls must be extended throughout all GCC departments participating in the FWS program. Procedures should include the monitoring of timesheets and FWS supervisor monitoring of student's work time to ensure that it does not conflict with class

schedules. In addition, GCC staff should be advised of their responsibilities with regard to payroll procedures and student-employee practices.

Auditee's Response

The Office of Financial Aid is enhancing its FWS programming for both the student worker and the federal work study supervisor to include information about when the student is and is not allowed to perform work study hours. FWS supervisors are now required to know the student worker's class schedule and student worker will be required to provide their signature indicating that they are aware that they cannot work during scheduled class time. We are in the process of including this information on our website, in a section specifically designated to the FWS student and supervisor, as well as during all programming for the FWS. GCC is in the process of designing on-line class cancelation functionality on the GCC website for faculty. Once in place, this process will provide added checks and balances to ensure students are not working during regularly scheduled class time unless the class has been canceled in advance of the hours worked. GCC is in the process of modifying their FWS timecards to include a disclaimer to students that they cannot work during regularly scheduled class time. If a class is canceled, the student will have an area on the time card to indicate such and a place for the supervisor to acknowledge.

2. INSTITUTIONAL AGREEMENTS NOT MAINTAINED

Our audit determined that GCC entered into consortium agreements with other institutions to provide part of their educational programs to its students. During our audit period, GCC had 19 students receiving Title IV funds enrolled in educational institutions to complete part of their educational program. However, GCC did not maintain consortium agreements in compliance with federal requirements with host institutions for six students taking part of their educational program requirement at other institutions. As a result, there is inadequate assurance that GCC students taking part of their educational programs at other institutions had valid agreements with other institutions. Moreover, GCC was not in compliance with SFA requirements regarding written agreements between schools. Federal regulations allow such agreements under 34 CFR 668.5(a), as follows:

Written arrangements between eligible institutions. If an eligible institution enters into a written arrangement with another eligible institution, or with a consortium of eligible institutions, under which the other eligible institution or consortium provides all or part of the educational program of students enrolled in the former institution, the Secretary considers that educational program to be an eligible program if it otherwise satisfies the requirements of [Sec.] 668.8.

Two or more institutions may enter into a consortium or contractual agreement so that a student can continue to receive SFA funds while studying at an institution or organization

other than his or her “home” institution. (The home institution is the one that will grant the student’s degree or certificate.)

The United States Department of Education’s (ED) Federal Student Aid Blue Book, Chapter 6, Written Agreements Between Schools, states, in part:

Elements of a consortium agreement

A consortium agreement can be a blanket agreement between two or more eligible schools, or it can be written for a specific student. Such an agreement is often used when a student takes related courses at neighboring schools or when a student is enrolled in an exchange program with another eligible school for a term or more. A school could have –

- one agreement for each student;*
- a separate agreement with each host school; or*
- a blanket agreement with a group of schools.*

In a consortium agreement there is no limit on the portion of the eligible program that may be provided by eligible schools other than the home school. Agreement contents can vary widely and will depend upon the interests of the schools involved and the accrediting or state agency standards. The Department [ED] does not dictate the format of the agreement However, the following information should be included in all agreements:

- the school that will grant the degree or certificate;*
- the student’s tuition, fees, and room and board costs at each school;*
- the student’s enrollment status at each school;*
- the school that will be responsible for disbursing aid and monitoring student eligibility; and*
- the procedures for calculating awards, disbursing aid, monitoring satisfactory academic progress and other student eligibility requirements, keeping records and other distributing . . . [SFA] refunds.*

During our audit period, we found that GCC had entered into individual consortium agreements for students taking part of their educational program at other institutions. However, we determined that four of the 19 students who we reviewed did not have individual consortium agreements on file. In addition, two students had individual consortium agreements on file that were not signed by the host institution. Moreover, neither unsigned agreement documented the student’s enrollment status and tuition and fees at the host school.

GCC's Director of Student Financial Aid stated that this was an oversight that would be corrected going forward.

Recommendation

GCC should implement policies and procedures to ensure that written agreements between schools are in compliance with federal requirements regarding institutional agreements.

Auditee's Response

The staff person primarily responsible for this process retired in May, 2010 and subsequently, we were unable to confirm if consortium agreements existed for the four students in question or if signed agreements were not placed into the file for the two students who had agreements, but were not signed appropriately by the receiving institution. The Office of Financial Aid at GCC is currently developing an internal policy and procedure for Consortium agreements in compliance with SFA regulations. Our current consortium agreement form does relate the policy to both the student and the host institution, but there is no formal written documentation of the policy within the financial aid office. The form was updated for the 2010-2011 award year and the changes will be addressed in the stated policy. Office procedures will be noted, including the development of reports and keeping records on file.

3. DISBURSEMENT NOTIFICATION LETTERS NEED IMPROVEMENT

Our audit disclosed that the Direct Loan Program funds Disbursement Notification Letters that GCC sent to students were not in compliance with federal requirements regarding the contents of these notification letters. Specifically, we found that the letters did not contain such required information as disbursement dates or the proper timeframe for students to cancel all or part of their Direct Loans, as follows:

a. Disbursement Notification Letters Not Properly Sent

Disbursement Notification Letters sent to eight of 15 students in our sample receiving Title IV funds under the Direct Loan Program were not properly notified of spring semester disbursements, contrary to federal regulations governing student financial assistance. In accordance with the Federal Student Aid Handbook, Volume 4, Chapter 1, GCC must notify a student of the amount of funds the student and his or her parents can expect to receive from each FSA program, and how and when those funds will be disbursed. This notification must be sent before the disbursement is made.

In addition, ED, which oversees the administration of Title IV funding for FSA, has established regulations that govern the disbursement of FSA funds. Specifically, 34 CFR 668.165(a) states that an institution participating in the Direct Loan Program is required to do the following:

- (1) Before an institution disburses title IV, HEA program funds for any award year, the institution must notify a student of the amount of funds that the student or his or her parent can expect to receive under each title IV, HEA program, and how and when those funds will be disbursed. . . .*
- (2) Except in the case of a post-withdrawal disbursement made in accordance with Sec. 668.22(a)(5), if an institution credits a student's account at the institution with Direct Loan, FFEL, Federal Perkins Loan or TEACH Grant Program funds, the institution must notify the student or parent of--(i) The anticipated date of disbursement. . . .*
- (3) The institution must provide the notice described in paragraph (a)(2) of this section in writing— . . .(ii) No earlier than 30 days before, and no later than seven days after, crediting the student account at the institution, if the institution does not obtain affirmative confirmation from the student under paragraph (a)(6)(i) of this section.*

Our review of disbursement notification letters disclosed that the eight students receiving Direct Loan Program disbursements for both fall and spring semesters were notified only once in the fall that disbursements would be made for both semesters. In accordance with 34 CFR 668.165, these students should have received disbursement notification letters for both fall and spring semesters prior to each disbursement date.

Student Financial Aid officials indicated that they were not aware that letters were also required to be sent out with spring disbursements and that GCC's disbursement notification letter sent to the students in each fall semester notifying the students of their loans for the entire year was felt sufficient to meet the disbursement notification requirement. However, this fall letter does not meet the requirement of providing the student notice no earlier than 30 days before, and no later than seven days after, crediting the student account at the institution for loans disbursed in the spring semester

b. Cancellation Notice Not Documented in Disbursement Notification Letter

Disbursement notification letters sent to our sample of 15 students receiving Federal Title IV funds under the Direct Loan Program did not contain the proper cancellation notice required by

federal SFA regulations. Specifically, institutions that do not implement an affirmative confirmation process must notify a student no earlier than 30 days before but no later than seven days after crediting a student's account and must give the student 30 days to cancel all or part of the loan.

ED has established regulations that govern the disbursement of FSA funds. Specifically, 34 CFR 668.165(a) (2) states:

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

Our review of the disbursement notification letters sent by ED to Direct Loan recipients disclosed that they do not require affirmative confirmation. The letters state, in part:

Within 14 days after the date your school notifies you that it has credited loan money to your account at the school, or by the first day of your school's payment period, whichever is later, you may tell your school that you want to cancel all or part of the loan money that was credited to your account

GCC's Director of Financial Aid stated that ED sends out the Direct Loan Program disbursement notification letters and that she was not aware that GCC does not obtain affirmative confirmation. Because GCC does not use affirmative confirmation to notify students receiving title IV Direct loans, it is required under FSA regulations to notify Direct Loan recipients that they have 30 days to cancel all or part of their loan.

Recommendation

GCC should implement procedures to send disbursement notification letters to the student or parent receiving the Direct Loan. GCC should also ensure that the disbursement notification letter includes all areas of compliance with 34 CFR 668.165 and include notification to students of the actual disbursement dates of their loans. GCC should also ensure that the disbursement notification letters include the 30-day requirement for cancellation of all or part of the student's federal loans.

Auditee's Response

GCC notifies every loan recipient of his Direct Loan disbursement via student email. These email correspondence are automatically generated to each loan recipient on the day the disbursement action takes place within Banner. GCC's disbursement notification does not explicitly state the loan disbursement amount or type but it does direct the student to access his personal account information on the GCC student information portal My GCC. My GCC is a secure portal to which only the student has access to view his personal information. Once on MY GCC, the student sees both the loan type, disbursement date, and exact amount disbursed. We do not release confidential student information via GCC student email, rather the student is directed to view this information through the secure portal, My GCC.

GCC does not create a loan origination for any student without first obtaining confirmation from the student indicating the types and amounts of FSA program loans that he/she wants for an award year. All initial Direct Loan awards are made in offered status only. The status changes from "Offered" to "Certified" upon the student's action, by award acceptance, via My GCC. The electronic certification and acceptance remains in My GCC but paper copies of the Award Certification and Acceptance Form are also kept in the student's financial aid file. Because GCC obtains affirmative confirmation from the student, our notification states the 14-day requirement for cancellation of all or part of their federal loans as allowed by federal regulations. GCC is an affirmative confirmation school, we never create a Direct Loan record with COD without the student's award acceptance and confirmation

GCC will include the disbursement date, type of loan and the amount in the email notification of disbursement to students, and will develop methods for confirmation that the notification has been received.

Auditor's Reply

Although we commend the effort of the College to electronically streamline this loan notification process, GCC's position that its electronic notification via email represents appropriate affirmation confirmation is incorrect. Affirmative confirmation consists of confirming additional acknowledgement from the student or parent of that they have accepted the loan disbursement and the responsibilities that they will incur by acceptance. Affirmative confirmation also presents another opportunity to the student or parent of to reject the loan within stated timeframes provided by the GCC and the loan program subsequent to the notification date. The email system in place does not require a response to the affirmation by the student, which would satisfy the notification requirement. Further, unless email control features are in place, GCC does not know the extent to which students have even read their emails. The GCC can resolve this issue going forward by utilizing its email correspondence on loan disbursement notifications to effect and document an electronic affirmative response requirement by the student.

4. STUDENT STATUS CHANGES NOT SUBMITTED AS REQUIRED

Our audit sample of 25 students for the Direct Loan Program disclosed that GCC did not notify the National Student Loan Data System (NSLDS) of student status changes in a timely manner for seven students, contrary to 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. Under the program, GCC is required to identify and update the loan status of all students, including those who graduate or withdraw, via a periodic Roster Report (formerly a Student Status Confirmation Report). This notification must take place within 30 days of withdrawal or within 60 days of the next scheduled submission. Specifically, 34 CFR 685.309(b)(2), states:

(2) Unless it expects to submit its next student status confirmation report to the Secretary within the next 60 days, notify the Secretary within 30 days if it discovers that a Direct Subsidized, Direct Unsubsidized, or Direct PLUS Loan has been made to or on behalf of a student who--

- (i) Enrolled at that school but has ceased to be enrolled on at least a half-time basis;*
- (ii) Has been accepted for enrollment at that school but failed to enroll on at least a half-time basis for the period for which the loan was intended; or*
- (iii) Has changed his or her permanent address.*

(3) The Secretary provides student status confirmation reports to a school at least semi-annually.

A student's enrollment status determines eligibility for in-college status, deferment, grace period, and repayment schedules, as well as the government's payment of interest subsidies; therefore, enrollment reporting is critical for effective administration of Title IV programs. Enrollment reporting is the primary means of verifying a student's loan privileges and the federal government's financial obligations. Under the Direct Loan Program, colleges are required to identify and update the status of all students, including those who graduate or withdraw, by completing the Roster Reports, which are sent by ED or the guaranty agency. Each college determines how often it receives the Roster Report, but the minimum is twice each year. Once the college receives the Roster Report, it must update the report for changes in student status, indicate that the enrollment status was effective, enter the new anticipated completion date, and submit the changes electronically through the batch method or the NSLDS website.

GCC reports changes in enrollment status to a contracted third party, the National Student Clearinghouse (NSC) approximately once every two months. GCC utilizes the NSC to facilitate

its responsibility to notify NSLDS of changes in the enrollment status of its students. However, GCC is ultimately responsible for ensuring that NSLDS is properly and timely notified of all student enrollment and 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 NSC.

Our audit disclosed that GCC does have policies and procedures to monitor student enrollment data submitted to NSLDS; however, it did not have adequate internal controls and a policy as to the frequency or timing of reporting student enrollment to the NSC. Our sample of 25 students reported to NSLDS showed six students who officially withdrew in November 2009 and one who withdrew in April 2010 right after GCC's scheduled transmissions to NSLDS for those months. Our review of the GCC transmissions disclosed that there were no transmissions scheduled for December 2009 and May 2010. Due to its not having scheduled transmission for these months, GCC had not reported the enrollment status changes of the seven students who withdrew to the NSLDS within the 60-day time limit as required under federal regulations. Delayed reporting for these students ranged between five to nine days beyond the 60-day limit to report. As a result, there is inadequate assurance that the enrollment status it reports to the NSC is being transmitted accurately and timely.

GCC officials stated that, in order to ensure timely reporting to the NSLDS, they will be increasing the frequency of transmission to the NSC.

Recommendation

GCC should improve upon its internal controls and verify that the NSC is being notified of changes in student enrollment and the processing of this information by NSC is verified as being properly and timely reported to NSLDS in accordance with the requirements of 34 CFR 685.309(b)(2). GCC should also consider increasing the frequency of its transmission to the NSC to once every 30 days. In addition, GCC should update its internal control policies and procedures to include the monitoring of its transmissions to the NSC. This will ensure that student status changes submitted to the NSC will be reported to NSLDS timely as required.

Auditee's Response

GCC is in the process of reviewing our internal controls for the reporting of student status changes to NSC. We are considering changes to our current record transmission schedule to increase the frequency of student status changes throughout the award year in order to ensure that the changes are reported to NSLDS within the required timeframe.

5. INTERNAL CONTROL PLAN NEEDS IMPROVEMENTS AND UPDATING

Our audit disclosed that GCC has prepared and developed an Internal Control Plan (ICP) that is generally in compliance with Chapter 647 of the Acts of 1989 (An Act Relative to Improving Internal Controls within State Agencies) and Office of the State Comptroller (OSC) guidelines. However, GCC needs to update and improve its ICP to ensure that it contains an adequate high-level summarization of internal controls to mitigate its identified risks. Specifically, GCC needs to develop plans or responses to the risks identified and cross-reference the ICP to its departmental policies and procedures to support lower-level detail for its organizational areas to ensure that GCC meets its mission and sustains long-term viability.

Moreover, GCC needs to update its ICP to be in compliance with the eight components of Enterprise Risk Management (ERM). For the ICP to be considered an effective high-level summarization, all eight components of the ERM must be present as described in the OSC Internal Control Guide: Internal Environment, Objective Setting, Event Identification, Risk Assessment, Risk Response, Control Activities, Information and Communication, and Monitoring. Our audit indicated that GCC needs to make improvements in the ERM components of Internal Environment, Information and Communication, and Monitoring, as discussed below.

Internal Environment

The internal environment is the tone of the organization, which, among other things, determines an organization's "risk culture" and provides the basis for internal controls. Our review disclosed the following:

- GCC needs to include direct statements from top management in the ICP on the expectations of staff concerning integrity and high ethical standards and definitive statements that set the tone for the importance of internal controls. A statement of ethics and integrity requires engaged employees who understand why doing the right

thing is important for the organization's long-term viability and who have the determination to see that in fact the right thing does get done.

- GCC should identify how its mission is directed or is correlated to establishing its internal control environment and linking management's attitude, supervision, and organizational structure with the internal control environment.

The OSC's Internal Control Guide, Chapter 1, page 6, states, in part:

Management's attitude, actions, and values set the tone of the organization, influencing the control consciousness of its people. Internal Controls are likely to function well if management believes that those controls are important and communicates that view to employees at all levels. If management views internal controls as unrelated to achieving its objectives, or even worse as an obstacle, this attitude will also be communicated. Employees are aware of the practices followed by upper management including those that circumvent internal controls. Despite policies to the contrary, employees will then view internal controls as "red tape" to be "cut through" to get the job done. Management can show a positive attitude toward internal control by such actions as complying with their own policies and procedures, discussing internal controls at management and staff meetings, and rewarding employees for following good internal control practices. Although it is important to establish and implement policies and procedures, it is equally important to follow them.

Management's philosophy and operating style affect the way the organization is managed. They determine, for example whether the organization functions informally with verbal instructions or formally with written policies and procedures. They also define whether the organization is conservative or aggressive in its response to risks

An organization's culture evolves from the values of its members and the culture, in turn, exerts a strong influence on the actions, decisions, and behaviors of all employees.

GCC has developed some appropriate and adequate documents (including its mission statement), which are included in its current college catalog. However, GCC needs to better define its internal environment and management philosophy, which are not identified or referenced in the ICP.

To accomplish this, GCC can utilize other existing documents it has developed. For example, the GCC website defines and promotes its institutional vision, values, and mission. However, these principles and statements have not been included, reflected, or related in the ICP. GCC has also developed pertinent statements defining its philosophy addressing integrity, standards of behavior and respect for differences and service, but has not included these statements within its ICP. Inclusion of such language and other enhancements to better define GCC's management style and expectations would serve to enhance the ICP.

Information and Communication

The ICP did not include adequate references to GCC's channels for disseminating information and communications to address the specific references to GCC's overall mission, goals, and objectives, which is crucial for communicating to GCC management and staff how the information in place is used to attain these goals and objectives. For example, the ICP did not adequately reflect the use of the Banner Integrated Software System and how it is integrated with information useful to GCC departments. The OSC's Internal Control Guide, page 13, states, in part:

Management should establish communication channels that: Provide timely information; Can be tailored to individual needs; Inform employees of their duties and responsibilities; Enable the reporting of sensitive matters; Enable employees to provide suggestions for improvement; Provide the information necessary for all employees to carry out their responsibilities; Convey top management's message that internal control responsibilities are important and should be taken seriously; and Convey and enable communication with external parties.

Information and communication is the identification and dissemination of pertinent information in a form and timeframe that enables employees to carry out their responsibilities. Communication occurs in all directions – flowing down, across, and up through the organization as well as to external parties. Information provided to staff should be appropriate in content, current, accurate, and accessible. Communication can take such forms as policy manuals, accounting and financial reporting manuals, and regularly scheduled staff meetings. Identifying and referencing the information and communication processes in place at GCC, both internal and external, would enhance and improve the ICP.

Monitoring

Our review of the ICP found that GCC did not properly document its monitoring procedures and that GCC did have a section in its ICP on Monitoring. Moreover, during our review we noted that GCC did not identify the specific objectives and control areas as it relates to monitoring. The OSC's Internal Control Guide, Chapter 1, page 14, defines the purpose of monitoring as follows:

The review of an organization's activities and transactions to assess the quality of performance over time and to determine whether internal controls are effective.

According to the OSC's Internal Control Guide, management should focus monitoring efforts on achievement of the organization's mission, goals, and objectives. Management must consider whether internal controls are operating as intended and if they are properly modified when

conditions change. The purpose of monitoring is to determine whether internal control is adequately designed, properly executed, and effective. GCC did not document its monitoring procedures over the control activities of its fiscal and programmatic areas. Also, the ICP does not reference accountability either by responsibility or employee monitoring roles within the various departments.

Recommendation

GCC should improve the ICP as follows:

- Update and enhance its description of internal environment by including statements by top management on integrity and ethical values expected of all staff. These statements will set the tone for the importance of internal controls within GCC.
- Identify in the ICP how the mission of GCC is directed or is correlated to establishing its internal environment and linking management's attitude, supervision, and organizational structure within the internal environment.
- Include reference to GCC's financial reporting system, Banner integrated software system, and any other key information and communication system or process in place at GCC and cross-reference them within the ICP to departmental policies and procedures.
- Document monitoring activities and responsibilities to ensure that internal controls are implemented to mitigate fiscal and programmatic risks, are effective, and function as needed. Wherever monitoring is documented within the departmental policies and procedures, GCC should cross-reference its ICP to these policies and procedures.

Auditee's Response

Over the course of the next year, the Comptroller will update the Internal Control Plan to include the eight components of Enterprise Risk Management (ERM).