



# The Commonwealth of Massachusetts

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INDEPENDENT STATE AUDITOR'S REPORT ON  
CERTAIN ACTIVITIES OF  
NORTH SHORE COMMUNITY COLLEGE  
JULY 1, 2006 TO JUNE 30, 2007

OFFICIAL AUDIT  
REPORT  
APRIL 3, 2008

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North Shore Community College (NSCC) 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 NSCC'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.

We have conducted a review of NSCC's federal student financial assistance programs funded through the United States Department of Education (DOE) for the period July 1, 2006 to June 30, 2007. Our review was conducted in conjunction with the Single Audit of the Commonwealth of Massachusetts for the fiscal year ended June 30, 2007.

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#### 1. IMPROVEMENTS NEEDED IN FEDERAL WORK STUDY INTERNAL CONTROL AND PAYROLL PROCEDURES

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Our review of internal controls and payroll procedures established for maintaining, monitoring and controlling NSCC's Federal Work Study (FWS) payroll records and files indicated that NSCC was not complying with FWS regulations, guidelines, and internal policies and procedures as identified in NSCC's Work Study document and certain FWS program regulations. Specifically, our review found weaknesses in timesheet preparation, processing, calculations, authorizations, approvals and certifications, supporting documentation, and contracts. As a result of this noncompliance, we identified questioned costs of \$23,225. In response to the audit report NSCC indicated that it has implemented steps to review and revise existing FWS policies and procedures to strengthen internal controls and provide for monitoring of departmental compliance.

#### 2. STUDENT STATUS CHANGES NOT SUBMITTED AS REQUIRED

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During our audit we noted that for three of the six students sampled who received Stafford Loans, NSCC did not notify the National Student Loan Data System (NSLDS) of student status changes as required by regulations. We noted that the students in question had unofficially withdrawn (walk-away) from NSCC at approximately midpoint during the semester; however, their status was not communicated to the registrar. As a result, the subsequent Student Status Confirmation Report incorrectly listed the students as being full-time, rather than withdrawn. In two of the three cases, the students were still listed as being full-time as of October 2007. In response to the audit report, NSCC indicated that it will take steps to implement and document a procedure of timely and accurate reporting of enrollment data to the NSLDS in accordance with federal regulations.

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## INTRODUCTION

### ***Background***

North Shore Community College (NSCC) is part of the system of public institutions of higher education as promulgated by Chapter 15A, Section 5, of the Massachusetts General Laws. A Board of Trustees appointed by the Governor, which establishes its administrative policies, governs NSCC. NSCC's President is responsible for implementing the policies set by the Board of Trustees, in accordance with the policies and guidelines established by the Board of Higher Education.

### ***Audit Scope, Objectives, and Methodology***

In accordance with Chapter 11, Section 12, of the General Laws, we conducted a review of NSCC's federal student financial assistance programs funded through the United States Department of Education (DOE) for the period July 1, 2006 through June 30, 2007. We conducted our review in conjunction with the Single Audit of the Commonwealth of Massachusetts for the fiscal year ended June 30, 2007. The Commonwealth's Fiscal Year 2007 Single Audit Report consists of the following volumes:

- Statutory Basis Financial Report
- Comprehensive Annual Financial Report
- Reports on Compliance and Internal Controls in Accordance with Governmental Auditing Standards and Requirements of the Office of Management and Budget (OMB) Circular A-133, and the Schedule of Expenditures of Federal Awards

The audit results contained in this report are also reported in the Fiscal Year 2007 Single Audit of the Commonwealth of Massachusetts Reports on Compliance and Internal Controls in Accordance with Governmental Auditing Standards and Requirements of the Office of Management and Budget (OMB) Circular A-133, and the Schedule of Expenditures of Federal Awards mentioned above.

Our review was conducted in accordance with applicable generally accepted government auditing standards and standards set forth in OMB Circular A-133, revised June 27, 2003, and the American Institute of Certified Public Accountants (AICPA) Audit and Accounting Guide, Audits of State and Local Governments. Additionally, our review evaluated NSCC's compliance with Office of the State Comptroller (OSC) policies and procedures, Massachusetts General Laws, and other applicable laws, rules, and regulations.

In performing our review of NSCC's activities, we referred to OMB Circular A-133, March 2007 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 specific requirements applicable to the federal student financial assistance programs, and designed appropriate tests to determine NSCC's compliance with those requirements. Specifically, our objectives were to:

- Assess the internal controls in place at NSCC during our review period; and
- Assess and evaluate the programs for compliance with the requirements of the Compliance Supplement, DOE, 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, the Code of Federal Regulations, and the OSC's Internal Control Guide. Those criteria dealt with NSCC'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 or 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 NSCC's compliance with the 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, NSCC had adequate internal controls in place and complied with the requirements of the United States DOE, OMB Circular A-133 and the Compliance Supplement, and other applicable laws, rules, and regulations, for the areas tested.

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## AUDIT RESULTS

### 1. IMPROVEMENTS NEEDED IN FEDERAL WORK STUDY INTERNAL CONTROL AND PAYROLL PROCEDURES

Our review of the internal controls and payroll procedures established for maintaining, monitoring and controlling North Shore Community College's (NSCC) Federal Work Study (FWS) payroll records and files indicated that NSCC was not complying with FWS regulations, guidelines, and internal policies and procedures as identified in NSCC's Work Study document and certain FWS program regulations.

Federal regulations require that institutions may use FWS funds only for awards to students, a Job Location and Development (JLD) Program, Work-Colleges Program, administrative costs, and transfers to Federal Supplemental Education Opportunity Grants (FSEOG) (34 Code of Federal Regulations [CFR] Sections 675.18 and 675.33). Also, student wages are earned when the work is performed. The institution shall pay the student at least once per month. The federal share must be paid by check or similar instrument the student can cash on his or her endorsement, or as authorized by the student, by crediting FWS funds to a student's account or by electronic funds transfer to a bank account designated by the student. The institution may only credit the account for tuition, fees, institutional room and board, and other school-provided goods and services (34 CFR Section 675.16).

Our audit testing was to determine compliance with FWS regulations, whether there were adequate internal controls over the FWS payroll, and whether the payroll was properly documented and adequately supported. As part of our audit testing, we reviewed the following documentation: student timesheets for both on-campus and off-campus employment, payroll submission data (templates used by timekeepers to communicate hours worked to the payroll department), actual payroll reports compiled by NSCC's Human Resources Department, work study contracts, revised financial aid award letters, and agreements with outside employers. Our review included tests for proper authorization, supporting documentation, accuracy, completeness, timeliness, and adherence to award specifications.

Our audit tests for compliance of 17 students, which involved a review of 374 time records for fiscal year 2007, indicated conditions of noncompliance with FWS's and NSCC's established student financial aid policies and procedures. Our review disclosed the following:

**a. Timesheet Preparation And Processing**

- Timesheet preparation in general tended to be done haphazardly and incompletely – often dates were missing, incorrect, or did not correspond to the pay period.
- Timesheets used by various departments were inconsistent in format.
- There was no procedure for tracking ongoing individual student expenditures to ensure that students are not earning beyond their stipulated contract amount.
- FWS disbursements were incorrectly posted within the Financial Aid Module of the NSCC's information system (Banner).
- Timesheets are prepared and submitted to payroll in advance resulting in estimating hours that may be worked during the week.
- Nine timesheets totaling \$732 could not be located for pay periods for which students were paid.

These conditions are contrary to FWS program requirements cited within Chapter 7 of the Blue Book, which states, in part:

*A school must keep comprehensive, accurate program and fiscal records related to its use of FSA program funds. The importance of maintaining complete, accurate records cannot be overemphasized.*

**b. Timesheet Calculations, Authorizations, Approvals, and Certifications**

- Thirty timesheets were calculated incorrectly, resulting in both overpayments and underpayments. (In 15 instances, students were paid more than actual hours worked during a pay period totaling \$867. In the other 15 instances, students were paid less than actual hours worked during a pay period totaling \$907).
- Thirty-one timesheets totaling \$2,874 did not include the signature/initials of the student.
- Fifty-nine timesheets totaling \$5,961 did not include the signature of a supervisor.
- One timesheet totaling \$164 was signed by the supervisor before the student signed.
- One timesheet totaling \$128 appeared to be completed by someone other than the work-study student.

NSC is required by 34 CFR 675.19(b)(2)(i) to establish fiscal procedures in order to have safeguards in place over the certification of student's FWS program work prior to making a payment to the student, as follows:

*The institution shall also establish and maintain program and fiscal records that include a certification that each student has worked and earned the amount being paid. The student's supervisor, an official of the institution or off-campus agency, shall sign the certification. The certification shall 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...*

The U.S. Department of Education's Blue Book states, in "Chapter 18 – The Business Office and the Campus-Based Programs," that the college:

*...must maintain adequate timesheets or records of hours for FWS students. These timesheets must show, separately for each day worked, the hours a student worked, and the total hours worked during the job's payment cycle (i.e., twice a month, every week, every two weeks, etc.). These amounts and hours recorded must match the hours for which the student is paid.*

**c. Timesheet Supporting Documentation, Contracts, and Hours Worked**

- Nine students worked during periods for which they had no contract, covering 27 weeks totaling \$3,456.
- Work-study payments exceeded amount authorized in 19 students' contracts totaling \$6,276. These payments ranged from \$14 to \$768.
- In 53 instances totaling \$1,860 students worked more than the 15 hours per week stipulated in NSCC's work-study policy. The range of hours exceeding 15 hours per week was between 15 minutes and 14 hours.

The total questioned costs identified in these instances were \$23,225.

NSCC's policy and procedure document for FWS includes a section entitled Work-Study Award Notification (contract), which includes an exhibit of the contract to be used. The information outlined in the contract includes: the amount of the award, the time period during which the students may work, the job title, department/agency, the hourly rate, and the name of the supervisor. In addition, the contract states that:

*A student may not work more than 15 hours per week... and Students who work beyond their allocation as stated in this contract will not be paid for the excess.*

Additionally, the contract makes reference to the need:

*... to track the number of hours that the FWS student works and make sure that the student does not exceed the amount of work study funds as stated for each term in this contract.*

Federal regulations 34 CFR 675.16 (a)(3) and (2) state that:

*...a student's FWS wages are earned when the student performs the work.... and ...the institution is responsible for ensuring that the student is paid for work performed....*

Moreover, Chapter 18, page 2-215, of The Blue Book states that:

*Before a school may make an initial disbursement of the FWS compensation to a student for an award period, the school must notify the student of the total amount of FWS funds the student is authorized to earn...*

Due to these conditions, NSCC did not have an adequate monitoring process in place to oversee the FWS program. When apprised of the weaknesses noted in the FWS review, college personnel immediately began development of a system that included monitoring mechanisms with required supporting documentation in a consistent format, to ensure FWS compliance with federal guidelines and internal policies and procedures.

### ***Recommendation***

NSCC should review and improve its internal controls within its FWS program. Procedures must be established to ensure that internal controls and payroll policies and procedures are functioning as intended. These internal controls must be extended throughout all NSCC departments as well as off-campus programs participating in the FWS program. NSCC needs to ensure that:

- Staff are advised of their responsibilities with regard to payroll procedures and student employee practices;
- Supervisors are monitoring work time and timesheet hours;
- Internal FWS policies and procedures are reviewed and revised and responsible persons are following those policies; and
- Adherence to these procedures are periodically monitored and ongoing oversight is provided to prevent the conditions cited from recurring.

Finally, any unresolved discrepancies regarding overpayments/underpayments must be resolved and reimbursements, if appropriate, must be made.

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

*North Shore Community College concurs with the audit recommendations relative to improvement of internal controls within its FWS program. Further, the College agrees with the recommendation to review and revise existing FWS policies and procedures to strengthen internal controls and provide for monitoring of departmental compliance. The College recognizes the*

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*need to provide mandatory training to FWS supervisors and individuals responsible for collecting and reporting FWS time and attendance.*

*North Shore Community College has taken immediate steps to review, revise and document its Policies and Procedures related to Federal Work Study. The following actions have been implemented:*

- 1. In November of 2007, the HR/Payroll supervisor and FWS Coordinator conducted mandatory training to FWS supervisors and time keepers. A training packet was disseminated providing an overview of the FWS procedural processes, process improvement changes, and an overview of the responsibilities of the individuals who maintain time and attendance records.*
- 2. HR/Payroll changed the time reporting day for Federal Work study to Friday at 12:00pm each week to eliminate prediction of hours. If a student works beyond the 12:00 cut off for reporting time, those hours will be recorded in the next pay period. This change will facilitate the reporting and payment of actual FWS hours worked.*
- 3. The Payroll Office created a new standardized time slip and reporting template for work-study students requiring the use of clock hours, and reported time in and out. Additionally, specific reporting requirements have been detailed on the time slip as a continuous reminder of the reporting requirements:*
  - Time slips must be submitted in actual pay period being paid.*
  - Hours will be actual hours worked.*
  - All breaks and lunches must be recorded.*
  - Hours worked are not to exceed the 15-hour limit per week.*
  - Supervisors will check addition on time slips for accuracy prior to signing.*
  - Signatures must be full name of student and supervisor (no initials).*
- 4. HR/Payroll supervisor will conduct audits with attendance timekeepers to check on departmental compliance with attendance reporting procedures.*
- 5. Overpayments of FWS funds were reviewed by HR/Payroll Office and all disbursements verified as overpayments were reimbursed to US Department of Education in November, 2007. Underpayments due respective FWS students have been paid from College funds during the month of November, 2007.*
- 6. The Payroll Office, FWS Coordinator and Information Systems are working in concert to implement a sub-module within Banner financial aid called Student Employment for both on-campus and off-campus FWS employment. On a bi-weekly basis the FWS paid through HRCMS will be extracted from the Commonwealth's Information Warehouse, the exact hours worked and gross pay. This data will be used to update the RPAAWRD form by aid year and by semester. In addition, a work history will reside within the Student employment module. This data will provide timely and accurate data to monitor and reconcile individual student expenditures to ensure that students are not earning beyond their stipulated contract amount. The implementation is scheduled to go live in December, 2007.*

7. *The FWS Coordinator and HR/ Payroll supervisor will ensure that contracts and amended contracts are in place prior to FWS payroll disbursements. FWS awards for each student will be entered in the Earning Cap screen in HRCMS. Payroll will monitor students who are approaching their total award amount and notify FWS Coordinator. If an adjustment is needed, the FWS Coordinator will send a revised contract with new contract amount to HR/Payroll.*

## 2. STUDENT STATUS CHANGES NOT SUBMITTED AS REQUIRED

Contrary to federal regulations, NSCC did not notify the National Student Loan Data System (NSLDS) of student status changes in the case of three of six students with Stafford Loans covered in our review. NSCC is required to identify and update the loan status of all students, including those who graduate or withdraw, via periodic Student Status Confirmation Reports (SSCR). This notification must take place within 30 days of withdrawal, or within 60 days of the next scheduled submission.

Federal regulations 34 CFR 682.610(b)(2) states:

*Unless it expects to submit its next student status confirmation report to the Secretary within the next 60 days, notify the Secretary or the guaranty agency within 30 days if it discovers that a Stafford, SLS, or 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 eased to be enrolled on a full-time basis, or (iv) has changed his or her permanent address.*

The students in question had unofficially withdrawn (walk-away) from NSCC at approximately midpoint during the semester; however, their status was not communicated to the registrar. As a result, the subsequent SSCR incorrectly listed the students as being full-time, rather than withdrawn. In fact, in two of the cases, the students were still listed as being full-time as of October 2007.

Timely reporting of enrollment data for federal student loan borrowers is critical because student enrollment status determines the date a federal loan borrower enters a grace or repayment period, the timing of the government's payment of interest subsidies and whether a borrower is eligible for in-school deferment privileges. Not reporting accurate student status to NSLDS could result in NSCC's not maximizing the fiscal integrity of the Title IV loan programs because loans may not be moved into repayment status in a timely manner, and student entitlements to grace and deferment periods would be compromised due to inadequate tracking of enrollment status dates.

NSCC reported that the department responsible for reporting this information was in transition at the time (the financial aid director had resigned and this particular responsibility was not adequately carried forward) and has acknowledged the oversight. NSCC indicated that it has since communicated with NSLDS regarding the reporting requirements and will be implementing a better reporting procedure effective immediately.

***Recommendation***

NSCC should implement a procedure of timely and accurate reporting of enrollment data to NSLDS in accordance with the requirements of federal regulations 34 CFR 682.610(b)(2). In addition, the two aforementioned cases should be immediately corrected and reported to NSLDS.

***Auditee's Response***

*North Shore Community College concurs with the audit recommendation to implement and document a procedure of timely and accurate reporting of enrollment data to the National Student Loan Data System (NSLDS) in accordance with the requirement of federal regulations 34 CFR 682.610 (c)(2). During fiscal year 2007, the responsibility for the reporting of student status changes has been transitioned to the Director of Enrollment and Student Records office. Policies and procedures are being reviewed, revised and documented. A reporting schedule has been established and implemented with the National Student Loan Data System. The College expects that the transition and appropriate reporting structures will be in place and that the College will be in full compliance by December, 2007.*

**OTHER MATTERS****United States Department of Education Final Determination Program Review Report NSCC - English as a Second Language Program**

On August 30, 2007, the United States Department of Education (DOE) issued a Final Determination Program Review Report (FDPR) containing two findings covering the administration of NSCC's Title IV programs related to federal aid awarded to students who received English as a Second Language (ESL) instruction at the college. DOE has asserted in the report that NSCC must repay approximately \$2.3 million in federal student financial aid awarded from 2003 to 2006. NSCC disagrees with the questioned costs of approximately \$2.3 million and disputes the factual and legal conclusions in the findings concerning the administration of the Federal Student Financial Assistance Programs contained in the FDPR dated August 30, 2007. NSCC's management, in consultation with legal counsel and in accordance with the appeal process outlined in the FDPR, has appealed the findings and taken other appropriate actions in response to the FDPR. NSCC's management has determined that the findings identified in the FDPR will remain open until resolution of these actions.

## APPENDIX

Chapter 647, Acts of 1989, An Act Relative to Improving the  
Internal Controls within State Agencies

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Chapter 647

THE COMMONWEALTH OF MASSACHUSETTS

*In the Year One Thousand Nine Hundred and Eighty-nine*

AN ACT RELATIVE TO IMPROVING THE INTERNAL CONTROLS WITHIN STATE AGENCIES.

*Be it enacted by the Senate and House of Representatives in General Court assembled, and by the authority of the same, as follows:*

Notwithstanding any general or special law to the contrary, the following internal control standards shall define the minimum level of quality acceptable for internal control systems in operation throughout the various state agencies and departments and shall constitute the criteria against which such internal control systems will be evaluated. Internal control systems for the various state agencies and departments of the commonwealth shall be developed in accordance with internal control guidelines established by the office of the comptroller.

(A) Internal control systems of the agency are to be clearly documented and readily available for examination. Objectives for each of these standards are to be identified or developed for each agency activity and are to be logical, applicable and complete. Documentation of the agency's internal control systems should include (1) internal control procedures, (2) internal control accountability systems and (3), identification of the operating cycles. Documentation of the agency's internal control systems should appear in management directives, administrative policy, and accounting policies, procedures and manuals.

(B) All transactions and other significant events are to be promptly recorded, clearly documented and properly classified. Documentation of a transaction or event should include the entire process or life cycle of the transaction or event, including (1) the initiation or authorization of the transaction or event, (2) all aspects of the transaction while in process and (3), the final classification in summary records.

(C) Transactions and other significant events are to be authorized and executed only by persons acting within the scope of their authority. Authorizations should be clearly communicated to managers and employees and should

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Include the specific conditions and terms under which authorizations are to be made.

(D) Key duties and responsibilities including (1) authorizing, approving, and recording transactions, (2) issuing and receiving assets, (3) making payments and (4), reviewing or auditing transactions, should be assigned systematically to a number of individuals to ensure that effective checks and balances exist.

(E) Qualified and continuous supervision is to be provided to ensure that internal control objectives are achieved. The duties of the supervisor in carrying out this responsibility shall include (1) clearly communicating the duties, responsibilities and accountabilities assigned to each staff member, (2) systematically reviewing each member's work to the extent necessary and (3), approving work at critical points to ensure that work flows as intended.

(F) Access to resources and records is to be limited to authorized individuals as determined by the agency head. Restrictions on access to resources will depend upon the vulnerability of the resource and the perceived risk of loss, both of which shall be periodically assessed. The agency head shall be responsible for maintaining accountability for the custody and use of resources and shall assign qualified individuals for that purpose. Periodic comparison shall be made between the resources and the recorded accountability of the resources to reduce the risk of unauthorized use or loss and protect against waste and wrongful acts. The vulnerability and value of the agency resources shall determine the frequency of this comparison.

Within each agency there shall be an official, equivalent in title or rank to an assistant or deputy to the department head, whose responsibility, in addition to his regularly assigned duties, shall be to ensure that the agency has written documentation of its internal accounting and administrative control system on file. Said official shall, annually, or more often as conditions warrant, evaluate the effectiveness of the agency's internal control system and establish and implement changes necessary to ensure the continued integrity of the system. Said official shall in the performance of his duties ensure that: (1) the documentation of all internal control systems is readily available for examination by the comptroller, the secretary of administration and finance and the state auditor, (2) the results of audits and recommendations to improve departmental internal controls are promptly evaluated by the agency management, (3) timely and appropriate corrective actions are effected

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by the agency management in response to an audit and (4), all actions determined by the agency management as necessary to correct or otherwise resolve matters will be addressed by the agency in their budgetary request to the general court.

All unaccounted for variances, losses, shortages or thefts of funds or property shall be immediately reported to the state auditor's office, who shall review the matter to determine the amount involved which shall be reported to appropriate management and law enforcement officials. Said auditor shall also determine the internal control weaknesses that contributed to or caused the condition. Said auditor shall then make recommendations to the agency official overseeing the internal control system and other appropriate management officials. The recommendations of said auditor shall address the correction of the conditions found and the necessary internal control policies and procedures that must be modified. The agency oversight official and the appropriate management officials shall immediately implement policies and procedures necessary to prevent a recurrence of the problems identified.

House of Representatives, December 21, 1989.

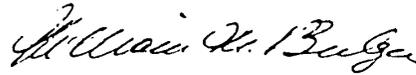
Passed to be enacted,



, Speaker.

In Senate, December 22, 1989.

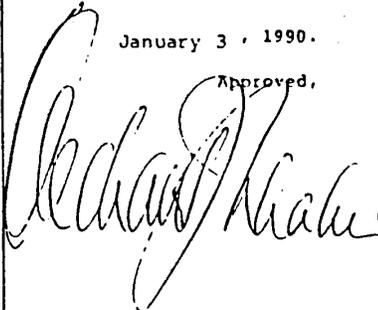
Passed to be enacted,



, President.

January 3, 1990.

Approved,



Governor.