



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

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Official Audit Report – Issued May 17, 2012

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## Framingham State University -Student Financial Assistance Programs

For the period July 1, 2010 through June 30, 2011



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### **INTRODUCTION**

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Framingham State University (FSU) is authorized by Chapter 15A, Section 5, of the Massachusetts General Laws and operates under the oversight of the Board of Higher Education. A Board of Trustees appointed by the Governor of the Commonwealth controls its operation and FSU's President is responsible for implementing the policies set by the Board of Trustees, in accordance with the policies and procedures established by the Board of Higher Education.

In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, the Office of the State Auditor has conducted an audit of FSU's Federal Student Financial Assistance (SFA) programs funded through the United States Department of Education (ED) for the period July 1, 2010 through June 30, 2011. We conducted our audit in conjunction with the Single Audit of the Commonwealth of Massachusetts for the fiscal year ended June 30, 2011. 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.

We concluded that except as reported in the Audit Results section of this report, for the period July 1, 2010 through June 30, 2011, FSU had adequate internal controls in place; used, recorded, and accounted for SFA funds properly; and complied with the requirements of the United States ED, Office of Management and Budget (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**

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#### **1. STUDENT STATUS CHANGES NOT SUBMITTED AS REQUIRED**

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Our audit sample of 25 students for the Federal Direct Loan Program disclosed that FSU did not notify the National Student Loan Data System (NSLDS) of student status changes in a timely manner for three students who withdrew, as required by SFA regulations. FSU is required to identify and update the enrollment status of all students, including those who graduate or withdraw, via a periodic Enrollment Reporting Roster File (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.

Our audit disclosed that although FSU had policies and procedures for transmitting information to the National Student Clearinghouse (NSC), it did not establish a transmission schedule with NSC that ensured enrollment information was being received by NSLDS in a timely manner. FSU utilizes the NSC to facilitate its responsibility to notify the NSLDS of changes in enrollment status of its students. In addition, FSU does not have procedures in place, such as a reconciliation process, to ensure that the information sent to NSLDS from NSC is accurate and being received timely.

In its response, FSU stated that it had met with NSC and established a transmission schedule of once per month to ensure that all enrollment information is received by NSLDS within the required time limits. They will also implement a campus-based reconciliation practice, effective immediately, that will ensure the agreed-upon data flow from NSC to NSLDS is timely and accurate.

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## **2. DISBURSEMENT NOTIFICATION LETTERS NOT SENT**

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FSU did not send out Disbursement Notification Letters to students in the Direct Loan, Federal Perkins Loan (FPL), or the Teacher Education Assistance for College and Higher Education (TEACH) Grant Programs in compliance with federal notification requirements. Once the Student Accounts Office has credited a student's account with a loan or grant, a notification letter should be sent by FSU to the student or parent, informing them of the amount credited and their right to cancel all or part of the loan or grant. These letters have not been sent since July 2008, when the institution converted its student accounts software to a new program. When FSU converted to the current student account software, Banner, the disbursement notifications were believed to be sent out through an automated process that would email the student's account directly. However, although the software is capable of performing such tasks, FSU did not implement the procedures required to initiate the process.

In its response, FSU stated that it has developed a procedure that was adopted for the fall 2011 semester disbursements. When Direct Loans, FPLs, and TEACH Grant awards are disbursed to a student's financial account, the Student Accounts Office will notify the student that the award has been disbursed to the student's account within 30 days of disbursement through an email to the student's University email account.

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## **3. ENTRANCE COUNSELING NOT CONDUCTED PRIOR TO DISBURSEMENT OF DIRECT LOAN**

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Our review of 20 FSU files of students who were recipients of Direct Loans during the academic year disclosed that entrance counseling for one student had not been conducted prior to the disbursement of the Direct Loan funds as required by federal regulation. Federal regulations require institutions to conduct entrance counseling interviews with students as part of their due diligence in administration of the Direct Loan Program. Entrance counseling informs student borrowers of their rights and responsibilities relative to obtaining, using, and repaying the loans, such as: the seriousness of their obligations, the requirement to repay the loan regardless of finishing their program of study and/or finding employment, the authorized educational expenses the loan funds can be used for, and signing the Master Promissory note.

In its response, FSU stated that, effective July 1, 2011, the Financial Aid Office no longer certifies Federal Direct Stafford Loans until entrance counseling has been completed.

## **INTRODUCTION**

### ***Background***

Framingham State University (FSU) is authorized by Chapter 15A, Section 5, of the Massachusetts General Laws and operates under the oversight of the Board of Higher Education. A Board of Trustees appointed by the Governor of the Commonwealth controls its operation and FSU's President is responsible for implementing the policies set by the Board of Trustees, in accordance with the policies and procedures established by the Board of Higher Education.

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

In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, the Office of the State Auditor has conducted an audit of FSU's Federal Student Financial Assistance (SFA) programs funded through the United States Department of Education (ED) for the period July 1, 2010 through June 30, 2011. We conducted our audit in conjunction with the Single Audit of the Commonwealth of Massachusetts for the fiscal year ended June 30, 2011. The Commonwealth's Fiscal Year 2011 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 the Fiscal Year 2011 Single Audit of the Commonwealth of Massachusetts 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 audit evaluated FSU'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 audit of FSU's activities, we referred to OMB Circular A-133, March 2011 Compliance Supplement, to determine the compliance requirements that must be considered in an audit conducted under OMB Circular A-133. Specifically, our objectives were to:

- Assess the internal controls in place at FSU during the audit period.
- Determine that the SFA program funds were being used as intended, and properly recorded and accounted for.
- Assess and evaluate the programs for compliance with the requirements of the Compliance Supplement, ED, and the OSC.

The criteria for our review were drawn from OMB Circular A-133 and the March 2011 Compliance Supplement, the Code of Federal Regulations, and the OSC's Internal Control Guide. Those criteria dealt with FSU's responsibility for the administration and operation of the SFA 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

To achieve our objectives, we reviewed SFA guidelines applicable to the audit objectives to gain an understanding of applicable laws, regulations, and guidance. We reviewed written policies and procedures and interviewed FSU officials to gain an understanding and access FSU's system of internal control over the above mentioned federal A-133 OMB compliance areas. Based upon our review, we determined requirements applicable to the SFA program and designed appropriate tests to determine FSU's compliance with those requirements.

We examined, on a test basis, evidence regarding FSU's compliance with applicable requirements and performed other procedures as we considered necessary. Based on these tests, we concluded that except as reported in the Audit Results section of this report, for the period July 1, 2010 through June 30, 2011, FSU had adequate internal controls in place; used, recorded, and accounted for SFA funds properly; and complied with the requirements of the United States ED, 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. STUDENT STATUS CHANGES NOT SUBMITTED AS REQUIRED

Our audit sample of 25 students for the Federal Direct Loan Program disclosed that Framingham State University (FSU) did not notify the National Student Loan Data System (NSLDS) of student status changes in a timely manner for three students who withdrew, as required by Federal Student Financial Assistance (SFA) regulations. The remaining 22 students were reported correctly to NSLDS at the end of the fall academic term and spring academic term for the 2010/2011 academic year.

SFA regulations governing Title IV student assistance programs require institutions and the Direct Loan Servicer to monitor and update the enrollment status of all students who receive federal student loans. FSU is required to identify and update the enrollment status of all students, including those who graduate or withdraw, via a periodic Enrollment Reporting Roster File (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) states, in part:

*(b) Student status confirmation reports. A school shall—*

*(1) Upon receipt of a student status confirmation report from the Secretary, complete and return that report to the Secretary within 30 days of receipt; and*

*(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 students' loan privileges and the federal government's financial obligations. Under the Direct Loan Program, institutions are required to identify and update the status of all students, including those who graduate or withdraw, by completing periodic Enrollment Reporting Roster Files, which are sent by the United States Department of Education (ED). The institution determines how often it receives periodic Enrollment Reporting Roster Files, but the minimum is twice each year. Once received, the institution must update the files for changes in student status, report the date the enrollment status was effective, enter the new anticipated completion date, and submit the changes electronically through the batch method or the NSLDS website.

FSU reports changes in enrollment status to a contracted third party, the National Student Clearinghouse (NSC), three times each semester and two times during the summer. FSU utilizes the NSC to facilitate its responsibility to notify NSLDS of changes in the enrollment status of its students. However, FSU is ultimately responsible for ensuring that NSLDS is properly and timely notified of all student enrollment 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 servicer such as the NSC.

Our audit disclosed that although FSU had policies and procedures for transmitting information to NSC, they did not establish a transmission schedule with NSC that ensured enrollment information was being received by NSLDS in a timely manner. In addition, FSU does not have procedures in place, such as a reconciliation process, to ensure that the information sent to NSLDS from NSC is accurate and being received timely. Our audit testing of FSU enrollment records and NSLDS records revealed that for three students in our sample, FSU had not reported changes in their enrollment status to NSLDS through NSC within the time limits required under federal regulations. Delayed reporting for these students ranged between seven to 31 days beyond the 60-day limit to report. As a result, there is inadequate assurance that the enrollment status FSU reports to the NSC is being transmitted to NSLDS accurately and timely.

FSU officials stated that, in order to ensure timely reporting to the NSLDS, an additional transmission to NSC may be necessary.

**Recommendation**

FSU should establish a transmission schedule with NSC to ensure that all enrollment information is being received by NSLDS in the required time limits established by federal regulation. FSU should also develop a reconciliation process between its own records and NSLDS's to ensure that all student enrollment information is being accurately transferred to NSLDS. These reconciliations should be scheduled on a regular basis after each Student Enrollment Roster File has been reported to NSLDS.

**Auditee's Response**

*In keeping with the auditor's recommendations, FSU and NSC met via a phone conference on January 31, 2012 to establish a transmission schedule that will ensure that all enrollment information is received by NSLDS within the required time limits established by federal regulation.*

*Currently, the University Registrar transmits an enrollment file to NSC three times each semester; following the "add/drop courses" deadline, following the course withdrawal deadline, and following posting of grades for each term. NSC recommended, and the University concurred, that transmittal dates will increase to one per month. Transmittal dates of the full enrollment roster for each fall term will be September 20<sup>th</sup>, October 15<sup>th</sup>, November 15<sup>th</sup>, and December 15<sup>th</sup>. A final fall report will be transmitted as soon as the term is concluded but no later than January 10<sup>th</sup>. Transmittal dates for each spring term will be February 5<sup>th</sup>, March 1<sup>st</sup>, April 1<sup>st</sup>, May 1<sup>st</sup>; a final spring report will be uploaded no later than June 1<sup>st</sup>. Summer transmittals will continue to happen twice, July 15<sup>th</sup> and August 31<sup>st</sup>. NSC will upload FSU data to NSLDS within 30 days of each transmission of the University's roster of its unit-level enrollment data.*

*With respect to timely reporting of changes to individual student records, NSC confirmed its commitment to update records with NSLDS once per week. This update will occur each Wednesday. Effective immediately, FSU will implement a campus-based reconciliation practice, whereby changes made to individual student records are verified in NSLDS by a clerk in the University's Financial Aid office eight (8) working days after being recorded at the NSC website by the University Registrar. This will ensure that the agreed-upon data flow from NSC to NSLDS is timely. Should a discrepancy be noted, the student's record will be corrected in NSLDS by the University Registrar and NSC will be notified of the problem.*

**2. DISBURSEMENT NOTIFICATION LETTERS NOT SENT**

Our audit disclosed that FSU did not send out Disbursement Notification Letters to students in the Direct Loan, Federal Perkins Loan (FPL), or the Teacher Education Assistance for College and Higher Education (TEACH) Grant Programs in compliance with federal notification requirements. Once the Student Accounts Office has credited a student's account with a loan or grant, a notification letter should be sent by FSU to the student or parent, informing them of the amount credited and their right to cancel all or part of the loan or grant. These letters have not

been sent since July 2008, when the institution converted its student accounts software to a new program. The ED, the department that oversees the administration of Federal Title IV funding for Federal Student Aid has established regulations that govern the disbursement of SFA funds. Specifically, 34 Code of Federal Regulations (CFR) Section 668.165(a)(1)-(3) states that an institution participating in the Direct Loan, FPL, and TEACH Grant programs is required to do the following:

*(a) Notices. (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. If those funds include Direct Loan or FFEL Program funds, the notice must indicate which funds are from subsidized loans and which are from unsubsidized loans.*

*(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, DL, Federal Perkins Loan, or TEACH Grant Program funds, the institution must notify the student or parent of—*

*(i) The anticipated date and amount of the disbursement;*

*(ii) The student's right or parent's right to cancel all or a portion of that loan, loan disbursement TEACH Grant, or TEACH Grant disbursement and have the loan proceeds returned to the holder of that loan, the TEACH Grant proceeds returned to the Secretary. However, if the institution releases a check provided by a lender under the DL Program, the institution is not required to provide this information; and*

*(iii) The procedures and time by which the student or parent must notify the institution that he or she wishes to cancel the loan, loan disbursement, TEACH Grant, or TEACH Grant disbursement.*

*(3) The institution must provide the notice described in paragraph (a)(2) of this section in writing—*

*(i) No earlier than 30 days before, and no later than 30 days after, crediting the student's account at the institution, if the institution obtains affirmative confirmation from the student under paragraph (a)(6)(i) of this section; or*

*(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 disclosed that although FSU was sending students award letters notifying them of the amount of their awards, it was not sending out the required notification when their accounts were being credited with Direct Loan, FPL, or TEACH Grant funds. Until we brought this to

their attention, FSU officials were unaware that the Disbursement Notification Letters were not being sent out.

Prior to July 2008, the Business Office, which at the time administered student accounts, was responsible for sending the Disbursement Notification Letter to the student after funds were credited to the student's account. When FSU converted to the current student account software, Banner, the disbursement notifications were believed to be sent out through an automated process that would email the student's account directly. However, although the software is capable of performing such tasks, FSU did not implement the procedures required to initiate the process. FSU officials acknowledged that since the conversion, the notification letters have not been sent out and given that no written policy documenting responsibility for the process existed, they were unaware of the problem. FSU officials informed us that they immediately began working on a solution to the problem with their Information Technology Department and are currently making the necessary changes to ensure that the Disbursement Notification Letters will be generated from Banner when the accounts are credited with a Direct Loan, FPLs, or TEACH Grant.

### ***Recommendation***

FSU needs to improve its policies and procedures for documenting the process for issuing disbursement notifications for Direct Loans, FPLs, and TEACH Grants to its students to ensure compliance with Title IV requirements. FSU should incorporate procedures to ensure that Banner generates the notification letters as required by federal regulation.

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

*The University recognized the lapse created during the conversion to a new student records management system and developed a procedure that was adopted for the Fall 2011 disbursement. This procedure was developed to ensure compliance with 34 CFR 668.165 (Code of Federal Regulations). This procedure is based on the premise that a student must accept or decline the financial aid package (Affirmative Confirmation) contained in the Award letter sent out from the Financial Aid Office. When Direct Loans, FPL's and TEACH Grant awards are disbursed to a student's financial account, the Student Accounts Office, within 30 days of that disbursement, will notify the student that the award has been disbursed to the student's account. This is done through an email to the student's University e-mail account. Within 14 days of this notification, the student must inform the Financial Aid Office in writing that he or she wishes to decline all or a portion of the loan/grant. If the student does not respond within that time, the University assumes that the student is not declining the loan/grant and the credit will remain on the student's account. If the student responds that he or she wishes to*

*decline all or a portion of the loan/grant, the Financial Aid Office will cancel the loan. The Student Accounts Office will, upon notification by Financial Aid, create a cashiering session with a negative loan/grant amount for that student. A receipt voucher will then be created. After the cashiering session is reviewed, the receipt voucher will be signed by the Director of Student Accounts and both the voucher and cashiering session will be forwarded to the Business Office. The Staff Assistant in the Business Office will follow the procedures for returning funds to the Federal programs. Student Accounts will notify the student that, per the student's instructions, the loan/grant has been cancelled and the credit has been removed from the student's financial account. If this results in a balance due to the University, the student is responsible for paying that balance. If a student does not respond within the 14 day time period but responds at a later date to decline the loan/grant, FSU may cancel the loan/grant and follow previously stated procedures. FSU will notify the student of its decision by e-mail.*

### **3. ENTRANCE COUNSELING NOT CONDUCTED PRIOR TO DISBURSEMENT OF DIRECT LOAN**

Our review of 20 FSU files of students who were recipients of Direct Loans during the academic year disclosed that entrance counseling for one student had not been conducted prior to the disbursement of the Direct Loan funds as required by federal regulation. Federal regulations require institutions to conduct entrance counseling interviews with students as part of their due diligence in administration of the Direct Loan program. Entrance counseling informs student borrowers of their rights and responsibilities relative to obtaining, using, and repaying the loans, such as: the seriousness of their obligations, the requirement to repay the loan regardless of finishing their program of study and/or finding employment, the authorized educational expenses the loan funds can be used for, and signing the Master Promissory note.

With regard to counseling the borrower of the Direct Loan program, 34 CFR Section 685.304 states, in part:

*(a) Entrance counseling. (1) Except as provided in paragraph (a)(8) of this section, a school must ensure that entrance counseling is conducted with each Direct Subsidized Loan or Direct Unsubsidized Loan student borrower prior to making the first disbursement of the proceeds of a loan to a student borrower unless the student borrower has received a prior Direct Subsidized, Direct Unsubsidized, Federal Stafford, or Federal SLS Loan.*

Entrance counseling can be performed in person or online; either method used requires that documentation of the event be retained by the college to substantiate compliance with federal regulations. Our review of FSU financial aid records showed no indication that the entrance counseling for this student had occurred prior to the disbursement of the Direct Loan funds or that this student had received a prior loan. As a result, we could not ensure that the student

clearly understood his rights and obligations as a borrower and that the federal compliance regulations were met.

FSU has a policy regarding the entrance counseling of students in the Direct Loan program, which is discussed and included in the package given out at the orientation for new students. However, this student was a transfer student that FSU officials believe did not attend the orientation, and therefore did not receive the information. As a transfer student, entrance counseling may have been performed at a prior institution, but FSU officials were unaware as to whether this had occurred or not. Ultimately, it remains the responsibility of the current institution to document that an entrance counseling session has occurred prior to disbursing Direct Loan funds.

***Recommendation***

FSU needs to ensure that its policies and procedures for conducting entrance counseling sessions are being followed. This would ensure that FSU would be in compliance with the counseling requirements of administering the Direct Loan program.

***Auditee's Response***

*The Framingham State University Financial Aid Office no longer certifies Federal Direct Stafford Loans until entrance counseling has been completed. This ensures that no Direct Loan funds are disbursed prior to entrance counseling being completed. This change was put into effect as of July 1, 2011.*