



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

Making government work better

Official Audit Report – Issued May 12, 2011

Berkshire Community College

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



TABLE OF CONTENTS/EXECUTIVE SUMMARY

INTRODUCTION

1

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

In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, the Office of the State Auditor has conducted a follow-up audit of BCC's Federal Student Financial Assistance (SFA) programs funded through the United States Department of Education (ED) for the period of 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.

AUDIT RESULTS

3

1. PRIOR AUDIT RESULTS RESOLVED

3

Our follow-up audit disclosed that BCC has taken corrective action to address four prior audit issues regarding (a) Disbursement Notification Letters, (b) calculation and return of Title IV funds, (c) reporting of student status changes, and (d) Federal Work Study internal control payroll procedures.

a. Disbursement Notification Letters Improved

3

Our prior audit disclosed that Disbursement Notification Letters sent to Federal Family Education Loan (FFEL) students did not state disbursement dates or identify the proper timeframe for canceling all or part of their FFEL loans. Our follow-up audit indicated that BCC has reviewed and made improvements to its loan Disbursement Notification Letters. Specifically, BCC now includes specific dates and amounts of disbursements as well as notification of a student's right to cancel all or part of their loan within 30 days.

b. Timely and Accurate Calculations Implemented for the Return of Title IV Funds

3

Our prior audit report disclosed that BCC did not correctly calculate and return Title IV funds as required by federal regulations. Our follow-up audit indicated that BCC has reviewed and made improvements to its SFA policies and procedures regarding the calculation and return of Title IV funds to ensure that the funds are properly administered. Specifically, BCC verifies calculations on its Datatel software system by using an Excel spreadsheet to calculate the return of Title IV funds. BCC has also updated its policies and procedures to include the 45-day time frame in accordance with federal regulations to ensure the timely return of Title IV funds.

c. Timely and Accurate Reporting of Student Status Changes **4**

Our prior audit disclosed that BCC did not notify and update the National Student Loan Data System (NSLDS) of student status changes in a timely manner. BCC utilizes the National Student Clearinghouse (NSC) to report changes in student enrollment to the NSLDS. Our follow-up audit indicated that BCC has taken corrective action to process individual student course withdrawals and full college withdrawals affecting the reporting of student status changes. BCC has also updated its policies and procedures to ensure timely and accurate reporting of student status changes to the NSLDS through the NSC.

d. Improvements Made in Federal Work Study Internal Control and Payroll Procedures **4**

Our prior audit of internal controls and payroll procedures established for monitoring and controlling BCC's student Federal Work Study (FWS) payroll records and files indicated that BCC was not complying with guidelines and internal control policies identified in its student financial aid policies and procedures. Our follow-up audit indicated that BCC has taken corrective action to strengthen its FWS policies and procedures to comply with FWS guidelines. Also, BCC improved its internal controls with respect to monitoring of student timesheets to ensure greater compliance with existing BCC policies and procedures.

2. PRIOR AUDIT RESULT UNRESOLVED – INTERNAL CONTROL PLAN STILL NEEDS IMPROVEMENTS AND UPDATING **5**

Our follow-up audit disclosed that BCC has continued to make progress in updating its Internal Control Plan (ICP). However, BCC still had not sufficiently updated the ICP to comply with Office of the State Comptroller internal control guidelines. Our prior audit disclosed that BCC needed to address updates and improvements to strengthen its ICP in the following areas: Internal Environment, Event Identification, Risk Assessment and Response, Control Activities, Information and Communication, and Monitoring. In its response, BCC stated that it has established a committee to review its ICP and make changes and enhancements for improving and strengthening it by the end of fiscal year 2011.

INTRODUCTION

Background

Berkshire Community College (BCC) 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 BCC'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 conducted a follow-up audit of the issues contained in our prior audit report (No. 2010-0190-16S) and in the Single Audit of the Commonwealth of Massachusetts, and of BCC's Federal Financial Student Assistance programs funded through the United States Department of Education (ED) for the period July 1, 2009 through June 30, 2010. We conducted our audit in conjunction with the Single Audit of the Commonwealth of Massachusetts for the fiscal year ended June 30, 2010. The Commonwealth's Fiscal Year 2010 Single Audit Report consists of the following volumes.

- Statutory Basis Financial Report
- Comprehensive Annual Financial Report
- [Office of Management and Budget] OMB Circular A-133 Report

The audit results contained in this report are also reported in 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 audit evaluated BCC'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 BCC's activities, we referred to OMB Circular A-133, June 2010 Compliance Supplement, to determine the compliance requirements that must be considered in an audit conducted under OMB Circular A-133.

Our follow-up audit of BCC's procedures for corrective action and improvements in the areas identified in our prior audit report were to determine whether:

- Improvements were made to BCC's internal control plan.
- Improvements were made in Federal Work Study internal control and payroll procedures.
- Student status changes were reported on a timely basis.
- Title IV funds were correctly calculated and returned.
- Improvements were made to BCC's processing of Disbursement Notification Letters to students receiving direct loans.

We concluded that BCC has implemented the corrective action plan and has adequate internal controls in place to improve upon the areas previously cited in our prior audit report (No. 2010-0190-16S), except one issue regarding its internal control plan. Specifically, BCC still had not sufficiently updated its internal control plan to comply with Chapter 647 of the Acts of 1989 and the Office of State Comptroller's Internal Control Guide. We further concluded that, except as reported in the Audit Results section of this report, for the period July 1, 2009 through June 30, 2010, BCC has complied with the requirements of the United States Department of Education; OMB Circular A-133 and the Compliance Supplement; the Massachusetts General Laws; and other applicable laws, rules, and regulations for the areas tested.

AUDIT RESULTS

1. PRIOR AUDIT RESULTS RESOLVED

Our follow-up audit disclosed that Berkshire Community College (BCC) has taken corrective action to address four prior audit issues regarding (a) Disbursement Notification Letters, (b) calculation and return of Title IV funds, (c) reporting of student status changes, and (d) Federal Work Study internal control and payroll procedures.

a. Disbursement Notification Letters Improved

Our prior audit disclosed that Disbursement Notification Letters sent to Federal Family Education Loan (FFEL) students did not state disbursement dates or identify the proper timeframe for canceling all or part of their FFEL loans. Our follow-up audit indicated that BCC has reviewed and made improvements to its loan Disbursement Notification Letters. Specifically, BCC now includes specific dates and amounts of disbursements as well as notification of a student's right to cancel all or part of their loan within 30 days. In addition, BCC has transitioned to the Federal Direct Loan Program, whose Direct Loan Servicing Center sends a "Notice of Disbursement Made" form to student loan recipients. This notice also includes the specific required regulatory information and supplements BCC's Disbursement Notification Letter.

b. Timely and Accurate Calculations Implemented for the Return of Title IV Funds

Our prior audit report disclosed that BCC did not correctly calculate and return Title IV funds as required by federal regulations. Our follow-up audit indicated that BCC has reviewed and made improvements to its Student Financial Assistance (SFA) policies and procedures regarding the calculation and return of Title IV funds to ensure that the funds are properly administered. Specifically, to verify that the return of Title IV funds is calculated correctly, BCC verifies calculations on its Datatel software system by using an Excel spreadsheet to calculate the return of Title IV funds. BCC then compares both calculations and determines the lesser of the amounts to be returned in accordance with 34 Code of Federal Regulations (CFR) 668.22 Sections (e) (4) or (g) (2). BCC has also updated its policies and procedures to include the 45-day time frame in accordance with federal regulations to ensure the timely return of Title IV funds.

c. Timely and Accurate Reporting of Student Status Changes

Our prior audit disclosed that BCC did not notify and update the National Student Loan Data System (NSLDS) of student status changes in a timely manner. BCC utilizes the National Student Clearinghouse (NSC) to report changes in student enrollment to the NSLDS. Our follow-up audit indicated that BCC has taken corrective action to process the reporting of student status changes to the NSLDS. Specifically, individual student course withdrawals and full college withdrawals are now processed in a timely manner. Moreover, to ensure timely reporting of student status changes, BCC has increased its reporting frequency for submitting schedules of student status changes to the NSC to approximately once per month. In addition, to ensure correct and accurate information is reported to NSLDS by NSC, BCC now has access to the NSLDS website to verify all information regarding student status changes. BCC has also updated its policies and procedures to ensure timely and accurate reporting of student status changes.

d. Improvements Made in Federal Work Study Internal Control and Payroll Procedures

Our prior audit of internal controls and payroll procedures established for monitoring and controlling BCC's student Federal Work Study (FWS) payroll records and files indicated that BCC was not complying with guidelines and internal control policies identified in its student financial aid policies and procedures. Our follow-up audit indicated that BCC has taken corrective action to strengthen its FWS policies and procedures and comply with FWS guidelines. Specifically, BCC has improved its internal controls with respect to monitoring of student timesheets to ensure greater compliance with existing BCC policies and procedures. With each bi-weekly payroll, a random sample of student timesheets is selected and verified against student class schedules as a means of auditing the integrity of the FWS program. Supervisors and students are notified when an infraction occurs and are monitored during the weeks following the infraction. Also, supervisors and students are asked to indicate on their timesheets when classes or labs are cancelled if they work during those hours.

2. PRIOR AUDIT RESULT UNRESOLVED – INTERNAL CONTROL PLAN STILL NEEDS IMPROVEMENTS AND UPDATING

Our follow-up audit disclosed that BCC has continued to make progress in updating its Internal Control Plan (ICP) to comply with the Office of State Comptroller's (OSC) guidelines. However, BCC officials indicated that although some progress has been made reviewing the areas identified in our prior audit report, budget considerations and time constraints have prevented BCC staff from implementing the recommendations made in our prior report. Our prior audit specifically disclosed that BCC needed to address updates and improvements to strengthen its ICP the following areas: Internal Environment, Event Identification, Risk Assessment and Response, Control Activities, Information and Communication, and Monitoring.

Our follow-up audit indicated that BCC has established a committee within its Board of Trustees to perform reviews and updates in the ICP. Additionally, BCC has made some progress adding to its description of Internal Environment by identifying the internal control officer as the individual responsible for BCC's internal control. Further, BCC has also included Mission Statements, an Organization Chart, and a Fraud Waste, and Abuse Policy within its ICP. Although BCC has made improvements as noted, it still needs to further update and enhance its ICP to be in compliance with OSC guidelines. BCC officials indicated that they consider the necessity of making improvements to the ICP to be a serious matter and will strive to comply with implementing our prior recommendations and continue updating the ICP to current OSC guidelines.

Recommendation

BCC should continue to develop its ICP as a priority to comply with OSC guidelines.

Auditee's Response

As noted, BCC has made progress in updating our ICP to comply with the Office of the State Comptroller's guidelines. A committee within the college has been established to review the existing ICP and update as necessary. The committee has researched the Massachusetts Comptroller's Internal Control Guidelines, reviewed BCC's existing ICP, and has researched and reviewed other state and community college ICP's. To date, as identified in the review, BCC has updated the ICP to include its Fraud, Waste and Abuse policy, American Recovery and Reinvestment Act (ARRA) controls and cross referenced our Information Technologies (IT) policies and procedures. We have used all college email to distribute information to the campus from the Comptroller's Weekly Waste Fraud and Abuse e-updates that pertain to the College.

Berkshire Community College will continue the process of improving and enhancing its ICP as per the recommendations outlined in the 2009/2010 audit and identified in report No. 2010-0190-16S and as a general best practice. The ICP remains a priority for the College. We will include the risk assessments to strengthen our plan and will ensure our plan emulates the guidelines provided by OSC. We anticipate completing this effort in Fiscal Year [20]11.