

SALEM STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

**INDEPENDENT AUDITOR'S REPORTS AS
REQUIRED BY THE UNIFORM GUIDANCE AND
GOVERNMENT AUDITING STANDARDS
AND RELATED INFORMATION**

June 30, 2016

SALEM STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

CONTENTS

Independent Auditor's Report on Supplementary Information Required by the Uniform Guidance	1
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	2-3
Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control over Compliance Required by the Uniform Guidance	4-6
Schedule of Expenditures of Federal Awards	7-8
Notes to the Schedule of Expenditures of Federal Awards	9
Schedule of Findings and Questioned Costs	10-15

Independent Auditor's Report on Supplementary Information
Required by the Uniform Guidance

To the Board of Trustees
Salem State University

We have audited the financial statements of the business-type activities and the discretely presented component units of Salem State University (an agency of the Commonwealth of Massachusetts) as of and for the year ended June 30, 2016, which collectively comprise Salem State University's basic financial statements, and our report thereon dated November 16, 2016, which included an emphasis of matter paragraph, expressed an unmodified opinion on those financial statements. That opinion made reference to the use of the report of other auditors who audited the discretely presented component units, Salem State University Foundation, Inc. and Salem State University Assistance Corporation. Our audit was conducted for the purpose of forming opinions on the 2016 financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and is not a required part of the 2016 financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2016 financial statements. The information has been subjected to the auditing procedures applied in the audit of the 2016 financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 2016 financial statements or to the 2016 financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the 2016 financial statements as a whole.



Boston, Massachusetts
November 16, 2016

Independent Auditor's Report on Internal Control over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards*

To the Board of Trustees
Salem State University

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the business-type activities and discretely presented component units of Salem State University (the "University") (an agency of the Commonwealth of Massachusetts), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated November 16, 2016, which includes an emphasis of matter paragraph. Our report includes a reference to other auditors who audited the financial statements of Salem State University Foundation, Inc. and Salem State University Assistance Corporation, as described in our report on Salem State University's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the University's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "CohnReznick LLP".

Boston, Massachusetts
November 16, 2016

Independent Auditor's Report on Compliance for
Each Major Federal Program and on Internal Control over
Compliance Required by the Uniform Guidance

To the Board of Trustees
Salem State University

Report on Compliance for Each Major Federal Program

We have audited Salem State University's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Salem State University's major federal programs for the year ended June 30, 2016. Salem State University's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Salem State University's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Salem State University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Salem State University's compliance.

Opinion on Each Major Federal Program

In our opinion, Salem State University complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Other Matters

The results of our auditing procedures disclosed two instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2016-001 and 2016-002. Our opinion on each major federal program is not modified with respect to these matters.

Salem State University's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Salem State University's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control over Compliance

Management of Salem State University is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Salem State University's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Salem State University's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

CohnReznick LLP

Boston, Massachusetts
November 16, 2016

SALEM STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2016

Federal Grantor/Program or Cluster Title	Federal CFDA Number	Agency or Pass through Agency Number	Passed Through to Subrecipients	Federal Expenditures
U.S. Department of Justice				
Direct Programs				
Grants to reduce domestic violence, dating violence, sexual assault, and stalking on campus	16.525	16	\$ -	\$ 71,035
Total U.S. Department of Justice			<u>\$ -</u>	<u>\$ 71,035</u>
U.S. Small Business Administration				
Direct Programs				
Small Business Development Centers	59.037	59	\$ -	\$ 341,660
Jobs Bill	59.xxx	59	-	2,500
Total U.S. Small Business Administration			<u>\$ -</u>	<u>\$ 344,160</u>

SALEM STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2016

Federal Grantor/Program or Cluster Title	Federal CFDA Number	Agency or Pass through Agency Number	Passed Through to Subrecipients	Federal Expenditures
U.S. Department of Education				
Direct Programs				
English Language Acquisition National Professional Development Program	84.195N	84	\$ -	\$ 398,999
<u>TRIO Cluster:</u>				
TRIO - Student Support Services	84.042	84	-	476,769
TRIO - Upward Bound	84.047	84	-	331,527
Total TRIO Cluster			-	808,296
<u>Student Financial Assistance Cluster:</u>				
Federal Supplemental Educational Opportunity Grants	84.007	84	-	409,136
Federal Work-Study Program	84.033	84	-	396,480
Federal Perkins Loan Program	84.038	84	-	1,693,811
Federal Pell Grant Program	84.063	84	-	11,428,138
Federal Direct Student Loans	84.268	84	-	47,579,501
Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)	84.379	84	-	19,572
Nursing Student Loans	93.364	93	-	809,756
Total Student Financial Assistance Cluster			-	62,336,394
Total U.S. Department of Education			\$ -	\$ 63,543,689
Total Federal Expenditures			\$ -	\$ 63,958,884

See Notes to Schedule of Expenditures of Federal Awards.

SALEM STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2016

Note 1 - **Basis of Presentation**

The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the federal award activity of Salem State University (the “University”) under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the University, it is not intended to and does not present the financial position, changes in net position, or cash flows of the University.

Note 2 - **Summary of Significant Accounting Policies**

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The University has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

Note 3 - **Federal Direct Student Loans (“FDL”)**

The Schedule includes FDL (“CFDA 84.268”) which are made directly from the U.S. Department of Education to individual students.

Note 4 - **Federal Perkins Loan Program**

The Federal Perkins Loan Program (“CFDA 84.038”) is administered by Salem State University. Fiscal year 2016 activity included loan funds disbursed of \$151,847. The outstanding liability to the federal government under this loan program at June 30, 2016 totaled \$1,507,927. For the year ended June 30, 2016, the University did not receive an administrative cost allowance for reimbursement of costs of administering the program.

Note 5 - **Nursing Student Loans**

The Nursing Student Loan Program (“CFDA 93.364”) is administered by Salem State University. Fiscal year 2016 activity included loan funds disbursed of \$61,250. The outstanding liability to the federal government under this loan program at June 30, 2016 totaled \$751,605.

SALEM STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

Schedule of Findings and Questioned Costs
Year Ended June 30, 2016

A. Summary of Auditor's Results

1. The auditor's report expresses an unmodified opinion on whether the financial statements of Salem State University were prepared in accordance with generally accepted accounting principles.
2. No significant deficiencies related to the audit of the financial statements were reported in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*. No material weaknesses were reported.
3. No instances of noncompliance material to the financial statements of Salem State University, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No significant deficiencies in internal control over major federal award programs were disclosed during the audit and reported in the Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control over Compliance Required by the Uniform Guidance. No material weaknesses were reported.
5. The auditor's report on compliance for the major federal award programs for Salem State University expresses an unmodified opinion on all major federal programs.
6. There are two audit findings (Finding 2016-001 and 2016-002) required to be reported in accordance with 2 CFR Section 200.516(a) in this Schedule.

SALEM STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

Schedule of Findings and Questioned Costs
Year Ended June 30, 2016

7. The programs tested as major programs were:

<u>Agency</u>	<u>Title</u>	<u>CFDA #</u>
<u>Student Financial Assistance Cluster:</u>		
U.S. Department of Education	Federal Supplemental Educational Opportunity Grants	84.007
U.S. Department of Education	Federal Work-Study Program	84.033
U.S. Department of Education	Federal Perkins Loan Program	84.038
U.S. Department of Education	Federal Pell Grant Program	84.063
U.S. Department of Education	Federal Direct Student Loans	84.268
U.S. Department of Education	Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)	84.379
U.S. Department of Health and Human Services	Nursing Student Loans	93.364

8. The threshold for distinguishing Type A and B programs for Salem State University was \$750,000.

9. Salem State University was determined to be a low-risk auditee.

B. Findings - Financial Statements Audit

None

C. Findings and Questioned Costs - Major Federal Award Programs Audit

See Findings 2016-001 and 2016-002 on the Schedule of Findings and Questioned Costs.

SALEM STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

Schedule of Findings and Questioned Costs
Year Ended June 30, 2016

Federal Work-Study Program (84.033)

Federal Award Number: P033A131863

Award Year: 2016

U.S. Department of Education

Finding Reference: 2016-001

Criteria:

In administering its Federal Work-Study Program (“FWS”), an institution shall establish and maintain an internal control system of checks and balances that insures that no office can both authorize payments and disburse funds to students (34CFR 675.19 (a)).

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)).

Further, in general, students are not permitted to work in FWS positions during scheduled class times.

Statement of Condition:

Salem State University has established policies and procedures for maintaining, monitoring and controlling student Federal Work-Study payroll records and files in accordance with both federal and state regulations. Salem State University also has established policies and procedures that govern the practice of students not working during class time. These policies and procedures include requirements that Federal Work-Study supervisors sign department time logs and that class schedules be provided and reviewed by the supervisors at the beginning of the semester to enable them to determine that there are no conflicts between class and work schedules.

Our audit procedures included tests for proper authorization, supporting documentation, accuracy, completeness, timeliness, and adherence to award specifications and campus policies. In our sample of two students, we noted seven instances for one of the students in which the student worked during scheduled class time, five instances in which no department time log was able to be produced for the student, and two instances in which the student’s department time log was not specific as to the time of day that was worked and therefore we were unable to determine if the student worked during a scheduled class.

SALEM STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

Schedule of Findings and Questioned Costs
Year Ended June 30, 2016

Statement of Cause:

Salem State University did not adequately monitor its policies and procedures governing the Federal Work-Study Program requirement to monitor this student's schedule and keep adequate records of hours worked.

Statement of Effect:

The University is not in compliance with U.S. Department of Education regulations.

Auditor's Recommendation:

We recommend that Salem State University emphasize to Federal Work-Study supervisors the importance of more complete timesheets to document and ensure that students do not work during scheduled class hours.

Questioned Costs:

None

Views of Responsible Officials and Corrective Actions:

During the 2016-2017 academic year, all FWS employees will be set up in HR/CMS as a "Punch Time Reporter" to use a Punch Time timesheet. They will use a Punch Zero Schedule and this will allow the employee to use the timesheet for any schedule. A punch timesheet has the employee record the time they began work and the time they ended including breaks. In addition, supervisors will be reminded of their responsibility to ensure that students do not work during their scheduled class hours.

Contact:

Mark Quigley

Director of Human Resources

Implementation dates:

Fiscal Year 2017

SALEM STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

Schedule of Findings and Questioned Costs
Year Ended June 30, 2016

Federal Pell Grant Program (84.063)

Federal Award Number: P063P150209

Award Year: 2016

U.S. Department of Education

Finding Reference: 2016-002

Criteria:

An institution must submit Federal Pell Grant disbursement records to the U.S. Department of Education Common Origination & Disbursement System (“COD”), as applicable, no later than 15 days after making the disbursement or becoming aware of the need to adjust a student’s previously reported Federal Pell Grant. In accordance with 34 CFR 668.164, Federal Pell Grants are considered disbursed on the date the institution: (i) credits those funds to a student’s account in the institution’s general ledger or any subledger of the general ledger, or (ii) pays those funds to a student directly. (Federal Register Volume 78, Number 40).

Statement of Condition:

Salem State University has established policies and procedures for maintaining, monitoring and controlling Federal Pell Grant disbursements and for timely submission of disbursement records to the COD. These policies and procedures include monthly reconciliations of the University’s Pell Grant Program participation.

Our audit procedures included comparing student account records and COD records and ensuring that disbursement records were submitted to the COD within 15 days of the disbursement. Our testing revealed that for one student out of a total of 13 tested in our sample, disbursement records were not submitted to the COD within the 15-day requirement.

Statement of Cause:

The finding is due to a staff leave of absence in the Financial Aid Department of the University, which created a delay in the commencement of the Pell reconciliation process.

Statement of Effect:

The University is not in compliance with U.S. Department of Education regulations.

Auditor’s Recommendation:

We recommend that Salem State University emphasize to employees the need and importance for more careful monitoring and supervisory oversight of monitoring of the monthly reconciliations to ensure meeting the 15-day requirement for reporting to COD.

SALEM STATE UNIVERSITY
(an agency of the Commonwealth of Massachusetts)

Schedule of Findings and Questioned Costs
Year Ended June 30, 2016

Questioned Costs:

None

Views of Responsible Officials and Corrective Actions:

We have updated our procedures to use a report to detect when individual records submitted to COD do not successfully transfer. This will enable us to identify issues that need to be resolved in a timely manner, thereby addressing the 15-day compliance window. We will continue to do the full reconciliation monthly.

Contact:

Judy Cramer

Director of Financial Aid

Implementation dates:

Fall, 2016