

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

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**INDEPENDENT AUDITORS' REPORTS AS  
REQUIRED BY OFFICE OF MANAGEMENT AND  
BUDGET (OMB) CIRCULAR A-133 AND  
*GOVERNMENT AUDITING STANDARDS* AND  
RELATED INFORMATION**

**JUNE 30, 2014**

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

**Independent Auditors' Reports as Required by Office of Management and  
Budget (OMB) Circular A-133 and *Government Auditing Standards* and  
Related Information**

**June 30, 2014**

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133**

To the Board of Trustees of  
Salem State University  
Salem, Massachusetts

**Report on Compliance for Each Major Federal Program**

We have audited Salem State University's (an agency of the Commonwealth of Massachusetts) (the "University") compliance with the types of compliance requirements described in the *OMB Circular A-133 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, 2014. Salem State University's major Federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its Federal programs.

**Auditors' 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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, 2014.

## **Other Matters**

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as Finding 2014-001. Our opinion on each major Federal program is not modified with respect to this matter.

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

## **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 OMB Circular A-133, 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We

did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item Finding 2014-001, that we consider to be a significant deficiency.

Salem State University's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Salem State University's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### **Report on Schedule of Expenditures of Federal Awards**

We have audited the financial statements of Salem State University as of and for the year ended June 30, 2014, and have issued our report thereon dated October 8, 2014, which contained an unmodified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of Federal awards is presented for the purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organization* and not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*O'Connor and Drew, P.C.*

**Certified Public Accountants  
Braintree, Massachusetts**

October 8, 2014





**INDEPENDENT AUDITORS' 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 of  
Salem State University  
Salem, Massachusetts

We have audited, in accordance with 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 Salem State University (the "University"), which comprise the statements of net position as of June 30, 2014 and 2013, the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise Salem State University's basic financial statements and have issued our report thereon dated October 8, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Salem State 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 Salem State 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.

*O'Connor and Drew, P.C.*

**Certified Public Accountants  
Braintree, Massachusetts**

October 8, 2014

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

**Schedule of Current Year Findings and Questioned Costs**

**June 30, 2014**

**Summary of Auditors' Results**

***Financial Statements***

|   |               |
|---|---------------|
| Type of auditors' report issued:  | Unmodified    |
| Internal control over financial reporting:  |               |
| • Material weakness(es) identified?   | No            |
| • Significant deficiency(ies) identified that are not considered to be material weaknesses? | None reported |
| Noncompliance material to the financial statements noted?                                   | No            |

***Federal Award***

|  |            |
|--|------------|
| Internal control over major programs:  |            |
| • Material weakness(es) identified?  | No         |
| • Significant deficiency(ies) identified that are not considered to be material weaknesses?                            | Yes        |
| Type of auditors' report issued on compliance for major programs:  | Unmodified |
| Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? | Yes        |



**SALEM STATE UNIVERSITY**  
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**Schedule of Current Year Findings and Questioned Costs - Continued**

**June 30, 2014**

Major programs of Salem State University include:

| <u>Program Title</u>   | <u>CFDA Number</u> |
|--|--------------------|
| Student Financial Assistance Cluster:                            |                    |
| Federal Supplemental Education Opportunity Grant Program         | 84.007             |
| Federal Work Study Program                                       | 84.033             |
| Federal Perkins Loans  | 84.038             |
| Federal Pell Grant Program                                       | 84.063             |
| Federal Direct Student Loans (Note 2)                            | 84.268             |
| Teacher Education Assistance for College and Higher<br>Education | 84.379             |
| Nursing Student Loan Program                                     | 93.364             |
| TRIO Cluster   |                    |
| Student Support Services   | 84.042A            |
| Upward Bound   | 84.047A            |
| English Language Acquisition State Grants                        | 84.365             |

The dollar threshold to distinguish between Type A and Type B programs is \$300,000.

The Office of Management and Budget (OMB) has minimum requirements for a recipient of Federal funds to be considered a low-risk auditee. The University does qualify as a low-risk auditee.

**SALEM STATE UNIVERSITY**  
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**Schedule of Current Year Findings and Questioned Costs - Continued**

**June 30, 2014**

**Finding number:** 2014-001  
**Federal agency:** U.S. Department of Education  
**Programs:** Student Financial Assistance Cluster  
**CFDA #'s:** Multiple  
**Award year:** 2014

***Condition***

Federal regulations state that any unearned Title IV grant or loan assistance received by a student must be refunded to the Title IV programs upon a student's withdrawal from the institution. The academic institution is responsible for the calculation of the earned and unearned portion of Title IV assistance using a standard Return of Title IV Funds form ("R2T4"). In our testing sample of 10 students who were determined to have withdrawn from the University, we noted two students for whom funds were not returned within the required 45 days. Our audit disclosed that the funds were not returned until 120 days and 162 days after the 45 day disbursement timeframe, respectively. The total amount to return was \$3,889.

***Criteria***

According to 34 C.F.R. Section 668.22(j)(1):

An institution must return the amount of Title IV funds from which it is responsible as soon as possible but no later than 45 days after the date of the institution's determination that the student withdrew.

***Cause/Effect***

The College has policies and procedures in place to perform this calculation for all students who withdraw. However, one of these instances occurred during a period when a temporary employee held the responsibility for R2T4 calculations. The other instance was caused by a leave of absence for a student with a health issue. The final determination of the student's status was postponed, and the R2T4 was never finalized as a result of human error.

***Recommendation***

We recommend that management revise, implement training on, and enforce its policies to ensure that an R2T4 calculation and subsequent return of funds be reviewed and updated.

***Questioned Costs***

None - Funds have been returned.

**SALEM STATE UNIVERSITY**  
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**Schedule of Current Year Findings and Questioned Costs - Continued**

**June 30, 2014**

*Views of Responsible Officials*

For both situations there were medical concerns that resulted in final calculations being delayed beyond the required 45 day period.

In the first instance, as noted above, the calculation was made by a temporary employee while the permanent employee was on family medical leave. During this transition, the administrator responsible to formerly verify the calculation and forward the final reporting of same unfortunately missed the final step to reporting of such funds as required.

In the second instance, the student in question had medical issues and was working with the Dean of Students to satisfactorily resolve their withdrawal issue. Unfortunately, communication regarding final disposition was not received in a timely manner to return funds within the required 45 days.

The Financial Aid office's move into the Student Navigation Center, a One Stop Shop for Student Services, as of July 1 2014 has resulted in staff efficiencies. The resulting efficiencies means the following changes are now in place for other process reviews:

- All administrative staff with program management responsibilities have been cross-trained for areas that include R2T4 processing.
- Query training has been expanded to additional staff and projects are in development. Such data will then be used on a larger but more efficient scale to identify missing information as this type of reporting has identified.
- In addition, a new administrative position has been created and filled having primary responsibility to review process exceptions in the production environment. This staff member will identify problem areas and implement business process improvements.

It is anticipated that with such personnel additions, staff cross-training, and expanded system reporting capabilities, the checks and balances necessary to comply with regulations regarding R2T4 calculations and subsequent return of refunds will be in place for the future.

***Contact Person***

Joseph F.X. Donovan  
Associate Vice President for Finance

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

**Schedule of Prior Year Findings and Questioned Costs**

**June 30, 2014**

|                        |                              |
|------------------------|------------------------------|
| <b>Finding number:</b> | 2013-001                     |
| <b>Federal agency:</b> | U.S. Department of Education |
| <b>Programs:</b>       | Federal Work Study Program   |
| <b>CFDA #'s:</b>       | 84.033                       |
| <b>Award year:</b>     | 2013                         |

***Condition***

The Commonwealth of Massachusetts mandates that all University employees be paid through the state payroll system. The state payroll runs Sunday to Saturday, and all payroll information must be entered into the state payroll system by the following Monday.

Timesheets for students who work on Friday or Saturday were signed off by the student and the student's supervisor prior to the last day of the work week.

***Auditors' Current Year Comment***

Our current year testing revealed no findings in this area.



**SALEM STATE UNIVERSITY**  
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**Schedule of Expenditures of Federal Awards**

**For the Year Ended June 30, 2014**

| <u>Federal Grantor/Pass-Through Grantor/Program Title</u>                                      | <u>CFDA<br/>Number</u> | <u>Federal<br/>Expenditures</u> |
|--|------------------------|---------------------------------|
| <b><u>Student Financial Assistance Cluster:</u></b>  |                        |                                 |
| <i>U.S. Department of Education:</i>   |                        |                                 |
| Federal Supplemental Educational Opportunity Grants  | 84.007                 | \$ 407,637                      |
| Federal Work-Study Program   | 84.033                 | 422,902                         |
| Federal Pell Grant Program   | 84.063                 | 10,800,215                      |
| Federal Direct Student Loans   | 84.268                 | 43,490,133                      |
| Federal Perkins Loans  | 84.038                 | 263,775                         |
| Teacher Education Assistance for College and Higher Education (TEACH) Grants                   | 84.379                 | 20,004                          |
| <i>U.S. Department of Health and Human Services:</i>   |                        |                                 |
| Nursing Student Loans  | 93.364                 | 36,750                          |
| Total Student Financial Assistance Cluster   |                        | <u>55,441,416</u>               |
| <b><u>TRIO Cluster</u></b>   |                        |                                 |
| <i>U.S. Department of Education:</i>   |                        |                                 |
| Support Services   | 84.042A                | 383,327                         |
| Upward Bound   | 84.047A                | 298,642                         |
| Total Trio Cluster   |                        | <u>681,969</u>                  |
| <b><u>Non-Cluster</u></b>  |                        |                                 |
| <i>U.S. National Science Foundation</i>  |                        |                                 |
| Geosciences  | 47.050                 | 16,956                          |
| Trans -NSF Recovery Act Research Support   | 47.082                 | 10,796                          |
| Total U.S. National Science Foundation   |                        | <u>27,752</u>                   |
| <i>U.S. Small Business Administration</i>  |                        |                                 |
| Small Business Development Center (Passed through from University of Massachusetts Amherst)    | 59.037                 | 376,742                         |
| Jobs Bill (Passed through from University of Massachusetts Amherst)                            | 59.xxx                 | 54,358                          |
| Offshore Mussel Aquaculture (Passed through from University of Massachusetts Amherst)          | 59.xxx                 | 10,451                          |
| The United States Institute of Peace (Passed through from University of Massachusetts Amherst) | 59.xxx                 | 1,000                           |
| Fullbright Visiting Scholar (Passed through from University of Massachusetts Amherst)          | 59.xxx                 | 842                             |
| Total U.S. Small Business Administration   |                        | <u>443,393</u>                  |
| <i>U.S. Department of Education:</i>   |                        |                                 |
| English Language Acquisition National Professional Development Program                         | 84.195N                | 161,472                         |
| English Language Acquisition State Grants  | 84.365                 | 362,129                         |
| Total U.S. Department of Education   |                        | <u>523,601</u>                  |
| <i>U.S. Department of Health and Human Services:</i>   |                        |                                 |
| Child Welfare Research Training or Demonstration   | 93.648                 | 99,669                          |
| Total Expenditures of Federal Awards   |                        | <u>\$ 57,217,800</u>            |

See accompanying notes to schedule of expenditure of Federal awards.

**SALEM STATE UNIVERSITY**  
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**Notes to the Schedule of Expenditures of Federal Awards**

**June 30, 2014**

Note 1 - **Basis of Presentation**

The accompanying schedule of expenditures of Federal awards (the "Schedule") includes the Federal grant activities of Salem State University (the "University") (an agency of the Commonwealth of Massachusetts) and is presented on the accrual basis of accounting.

For purposes of the Schedule, Federal awards include all grants, contracts, and similar agreements entered into directly between the University, agencies, departments of the Federal government, and all subawards to the University by non-Federal organizations pursuant to Federal grants, contracts, and similar agreements.

Note 2 - **Federal Direct Student Loans Program**

The University disbursed \$43,490,133 of loans under the Federal Direct Student Loans program, which includes Stafford Subsidized and Unsubsidized Loans and Parents' Loans. It is not practical to determine the balances of loans outstanding to students of the University under this program as of June 30, 2014. The University is responsible for the performance of certain administrative duties and, accordingly, these loans are not included in the University's financial statements.

Note 3 - **Federal Perkins and Nursing Student Loan Programs**

During the year ended June 30, 2014, \$263,775 in loans was advanced under the Federal Perkins Loan Program, and \$36,750 in loans was advanced under the Nursing Loan Program. As of June 30, 2014 loan balances receivable under the Perkins and Nursing Loan Programs were \$1,536,464 and \$668,076, respectively.