

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, 2015

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, 2015

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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, 2015. 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, 2015.

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.

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, 2015, and have issued our report thereon dated December 2, 2015, 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 Dew, P.C.

**Certified Public Accountants
Braintree, Massachusetts**

December 2, 2015



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, 2015, the related statements of revenues, expenses and changes in net position and cash flows for the year 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 December 2, 2015.

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**

December 2, 2015

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

Schedule of Current Year Findings and Questioned Costs

June 30, 2015

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?	No
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?	No

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

June 30, 2015

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	84.268
Teacher Education Assistance for College and Higher Education	84.379
Nursing Student Loan Program	93.364
TRIO Cluster	
Student Support Services	84.042A
Upward Bound	84.047A

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, 2015

The University does not have any current year findings and questioned costs related to Federal awards.

SALEM STATE UNIVERSITY
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Schedule of Prior Year Findings and Questioned Costs

June 30, 2015

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.

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, 2015

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Federal Expenditures</u>
<u>Student Financial Assistance Cluster:</u>		
<i>U.S. Department of Education:</i>		
Federal Supplemental Educational Opportunity Grants	84.007	\$ 407,038
Federal Work-Study Program	84.033	389,493
Federal Pell Grant Program	84.063	11,498,262
Federal Direct Student Loans	84.268	45,812,773
Federal Perkins Loans	84.038	245,275
Teacher Education Assistance for College and Higher Education (TEACH) Grants	84.379	20,857
<i>U.S. Department of Health and Human Services:</i>		
Nursing Student Loans	93.364	<u>123,500</u>
Total Student Financial Assistance Cluster		<u>58,497,198</u>
<u>TRIO Cluster</u>		
<i>U.S. Department of Education:</i>		
Support Services	84.042A	426,778
Upward Bound	84.047A	<u>308,791</u>
Total Trio Cluster		<u>735,569</u>
<u>Non-Cluster</u>		
<i>U.S. National Science Foundation</i>		
Geosciences	47.050	<u>23,474</u>
Total U.S. National Science Foundation		<u>23,474</u>
<i>U.S. Small Business Administration</i>		
Small Business Development Center (Passed through from University of Massachusetts Amherst)	59.037	387,431
Jobs Bill (Passed through from University of Massachusetts Amherst)	59.xxx	5,000
Offshore Mussel Aquaculture (Passed through from University of Massachusetts Amherst)	59.xxx	43,467
Fullbright Visiting Scholar (Passed through from University of Massachusetts Amherst)	59.xxx	<u>93,569</u>
Total U.S. Small Business Administration		<u>529,467</u>
<i>U.S. Department of Education:</i>		
English Language Acquisition National Professional Development Program	84.195N	7,595
English Language Acquisition State Grants	84.365	<u>597,566</u>
Total U.S. Department of Education		<u>605,161</u>
<i>U.S. Department of Health and Human Services:</i>		
Child Welfare Research Training or Demonstration	93.648	<u>25,217</u>
Total Expenditures of Federal Awards		<u>\$ 60,416,086</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, 2015

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 \$45,812,773 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, 2015. 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, 2015, \$245,275 in loans was advanced under the Federal Perkins Loan Program, and \$123,500 in loans was advanced under the Nursing Loan Program. As of June 30, 2015 loan balances receivable under the Perkins and Nursing Loan Programs were \$1,505,610 and \$657,381, respectively.