

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, 2013

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, 2013

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE 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 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, 2013. 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, 2013.

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 2013-001. 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 2013-001, 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.

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, 2013, and have issued our report thereon dated October 8, 2013, 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, 2013



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, 2013 and 2012, 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, 2013.

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, 2013

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

Schedule of Current Year Findings and Questioned Costs

June 30, 2013

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, 2013

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 Pell Grant Program	84.063
Federal Direct Student Loans (Note 2)	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
Small Business Development Center	59.037

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 not qualify as a low-risk auditee because the University's Schedule of Federal Expenditures of Federal Awards has not been subjected to the Single Audit in the prior two years.

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

June 30, 2013

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

Criteria

According to 34 C.F.R. Section 675.19(b):

An 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 that 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.

Cause/Effect

The University's policy for "Reporting Time for College Work Study Employees" states that, "Completed time sheets must be submitted to the Financial Services office no later than 10 am on Friday of the current week." This policy was instituted to meet the timeframes of the state payroll system.

Recommendation

As discussed in management's response, management has instituted internal controls regarding this finding as of July 1, 2013. We recommend that management of the University ensure that the mitigating internal controls are working as intended.

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

June 30, 2013

Questioned Costs

Unknown

Views of Responsible Officials

In the prior year A-133 audit report dated October 10, 2012, a recommendation was made by the audit firm of O'Connor and Drew and adopted by the University to "develop mitigating internal controls" as they relate to the student payroll time reporting schedule and mechanism. After this report was issued the administration went through a thorough review of Commonwealth and University policies and procedures. Initially it was anticipated that this issue would best be handled by using the Self-Service reporting system developed by the Commonwealth. However, it became apparent that there were shortcomings with this approach and an alternative method was developed internally by the University. Working cooperatively with University staff, a time reporting mechanism was developed, documented, approved and implemented to address the criteria outlined in the prior year finding and in accord with federal regulations on such reporting. Following payroll and departmental staff training sessions, this mechanism was implemented for the fiscal year beginning July 1, 2013 and at this writing is functioning as designed and in line with the prior year audit recommendation.

Contact Person

Joseph F.X. Donovan
Associate Vice President for Finance

SALEM STATE UNIVERSITY
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Schedule of Prior Year Findings and Questioned Costs

June 30, 2013

Finding number: 2012-01
Federal agency: U.S. Department of Education
Programs: Federal Work Study Program
CFDA #'s: 84.033
Award year: 2012

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.

Students' timesheets who either 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.

Auditor's Current Year Comment

This finding was not corrected. See finding 2013-001 for more information and correction action plan.

Finding number: 2012-2
Federal agency: U.S. Department of Education
Programs: Student Financial Assistance Cluster
CFDA #'s: Multiple
Award year: 2012

Out of a sample of twenty-five students who had a change in enrollment status, one student's leave of absence was not properly documented. The Federal government requires a student's leave of absence to be evaluated after the student provides the University with a properly documented request that is signed and dated.

The University's "Request for Leave of Absence" form was not properly completed in this situation as the information contained on the form was according to a telephone conversation with the student and not signed or dated by the student.

Auditor's 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, 2013

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Federal Expenditures
<u>Student Financial Assistance Cluster:</u>		
<i>U.S. Department of Education:</i>		
Federal Supplemental Educational Opportunity Grants	84.007	\$ 408,588
Federal Work-Study Program	84.033	468,806
Federal Pell Grant Program	84.063	10,901,672
Federal Direct Student Loans	84.268	42,410,388
Federal Perkins Loans	84.038	187,578
Teacher Education Assistance for College and Higher Education (TEACH) Grants	84.379	18,573
 <i>U.S. Department of Health and Human Services:</i>		
Nursing Student Loans	93.364	207,000
Total Student Financial Assistance Cluster		54,602,605
 <u>TRIO Cluster</u>		
<i>U.S. Department of Education:</i>		
Support Services	84.042A	446,048
Upward Bound	84.047A	312,356
Total Trio Cluster		758,404
 <u>Non-Cluster</u>		
<i>U.S. National Science Foundation</i>		
Geosciences	47.050	28,721
 <i>U.S. Small Business Administration</i>		
Small Business Development Center (Passed through from University of Massachusetts Amherst)	59.037	357,391
 <i>U.S. Department of Education:</i>		
English Language Acquisition National Professional Development Program	84.195N	274,385
English Language Acquisition State Grants	84.365	237,649
Total U.S. Department of Education		512,034
 <i>U.S. Department of Health and Human Services:</i>		
Child Welfare Research Training or Demonstration	93.648	105,494
Total Expenditures of Federal Awards		\$ 56,364,649

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, 2013

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 \$42,410,388 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, 2013. 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, 2013, \$187,578 in loans were advanced under the Federal Perkins Loan Program and \$207,000, in loans were advanced under the Nursing Loan Program. As of June 30, 2013 loan balances receivable under the Perkins and Nursing Loan Programs were \$1,556,977 and \$762,511, respectively.