

A. JOSEPH DeNUCCI
AUDITOR

The Commonwealth of Massachusetts

AUDITOR OF THE COMMONWEALTH

ONE ASHBURTON PLACE, ROOM 1819

BOSTON, MASSACHUSETTS 02108

TEL. (617) 727-6200

NO. 2002-0178-12S

INDEPENDENT STATE AUDITOR'S REPORT
ON CERTAIN ACTIVITIES OF
FITCHBURG STATE COLLEGE

OFFICIAL AUDIT
REPORT
NOVEMBER 15, 2002

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Fitchburg State College (FSC), a four-year coeducational public college of liberal arts and professional programs, offers undergraduate, graduate, and continuing education programs on a full-and part-time basis with enrollment of approximately 3,350 undergraduate and 2,250 graduate students. FSC is one of 25 higher educational institutions in Massachusetts that are organized under Chapter 15A, Section 5, of the Massachusetts General Laws.

Our audit was initiated as a result of a Chapter 647 report filed by FSC with the Office of the State Auditor (OSA). The report indicated that computerized revenue batch reports for the Department of Graduate and Continuing Education (DGCE) may have been manipulated and altered, resulting in a possible theft of funds. Chapter 647 requires the OSA to determine the internal control weaknesses that contributed to or caused an unaccounted-for variance, loss, shortage, or theft of funds or property; make recommendations that address the correction of the condition found; identify the internal control policies and procedures that need modification; and report the matter to appropriate management and law enforcement officials.

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Our audit indicated that, although the DGCE had internal controls in place to receive, record, report, deposit, and safeguard cash receipts, the internal controls were circumvented, resulting in a theft of \$32,229 by the DGCE bookkeeper during the period December 1, 1999 to May 31, 2001. The theft occurred because there was an inadequate segregation of duties to provide checks and balances over cash operations, and computerized revenue batch reports were altered by the bookkeeper. It was noted that the bookkeeper acted as a cashier 129 times during the period reviewed, contrary to FSC's internal control policies and procedures. In response to the audit, the College has taken necessary corrective action to improve its internal controls over DGCE cash receipts. On November 14, 2002 the defendant pleaded guilty and received 5 years probation. The defendant must make restitution of \$32,229 and surrender all monies contributed toward her state pension. The court probation department must approve all future employment for the individual while she is on probation.

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INTRODUCTION

Background

Fitchburg State College (FSC), a four-year coeducational public college of liberal arts and professional programs, offers undergraduate, graduate, and continuing education programs on a full-and part-time basis with enrollment of approximately 3,350 undergraduate and 2,250 graduate students. FSC is one of 25 higher educational institutions in Massachusetts that are organized under Chapter 15A, Section 5, of the Massachusetts General Laws.

Our audit was initiated as a result of a Chapter 647 report filed by FSC with the Office of the State Auditor (OSA). The report indicated that computerized revenue batch reports for the Department of Graduate and Continuing Education (DGCE) may have been manipulated and altered, resulting in a possible theft of funds. Chapter 647 requires the OSA to determine the internal control weaknesses that contributed to or caused an unaccounted-for variance, loss, shortage, or theft of funds or property; make recommendations that address the correction of the condition found; identify the internal control policies and procedures that need modification; and report the matter to appropriate management and law enforcement officials.

Audit Scope, Objectives, and Methodology

In accordance with Chapter 11, Section 12, of the General Laws and Chapter 647 of the Acts of 1989, we have conducted an examination of certain activities of Fitchburg State College's DGCE cash receipt operations for the period December 1, 1999 to May 31, 2001. Our audit was conducted in accordance with applicable generally accepted government auditing standards.

The purpose of our review was to determine the internal control weaknesses that permitted the theft to occur, determine any corrective action taken, identify additional internal controls FSC could introduce to prevent a future occurrence, determine the actual amount of the theft, and ensure that the incident was reported to the proper law enforcement authorities.

To accomplish our objectives, we examined the conditions that surrounded the theft that was reported, including the accuracy of the amounts involved. We also assessed the measures, including newly implemented internal controls, taken by FSC to prevent future occurrences. We

met with the college's Treasurer, Director of Business Operations, and Director of Accounting to discuss the circumstances surrounding the theft. We also obtained and reviewed documents relating to the incident, including batch reports, deposit slips, trust fund cash deposit vouchers, bank copies of checks deposited, a copy of the internal control policies manual, and the revenue internal control procedures manual.

We also interviewed individuals involved with the flow of cash from receipt to the reconciliation of revenues. During our audit we met regularly with FSC's Treasurer and Director of Accounting. During these meetings we discussed and received explanations, documentation, and feedback on corrective measures that have been or will be implemented regarding the reported Chapter 647 theft of funds. This matter was referred to the Worcester District Attorney's Office for investigation.

At the completion of our audit we met with the President and Treasurer of FSC and discussed the results of our audit.

AUDIT RESULTS

IMPROVEMENTS NEEDED REGARDING INTERNAL CONTROLS OVER CASH RECEIPTS

The Department of Graduate and Continuing Education (DGCE) of Fitchburg State College (FSC) had internal controls in place to receive, record, report, deposit, and safeguard cash receipts. However, the internal controls were circumvented, resulting in a theft of \$32,229 (see Appendix I) by the DGCE bookkeeper during the period December 1, 1999 to May 31, 2001. The theft occurred because there was inadequate segregation of duties to provide checks and balances over cash operations, and computerized revenue batch reports were altered by the bookkeeper.

A primary principle in any internal control system or plan is adequate segregation of duties. The principle of segregation of duties is critical because it ensures that different functions, such as the receipt of cash, recording of cash, and deposit of cash, are not performed by one individual. The key is that no individual or small group of individuals should be in a position to control all aspects of a transaction and the use of resources.

Our review disclosed that the bookkeeper for the DGCE did not report, record, and deposit all of the cash collected by the DGCE cashiers (including herself working as a cashier on 129 occasions) from students registering for classes. We found that 28 batch reports (a batch is the college's term used for the receipts posted to the FSC accounting system for a period of time between deposits) during the period December 1999 to May 2001 were falsified and altered by the bookkeeper in order to cover the \$32,229 theft of funds. Also, the bookkeeper falsified deposit slips and altered batch reports to cover up the amount of funds stolen.

For example, in the batch processed on November 30, 2000, the bookkeeper received \$1,122 in cash from the cashiers. However, when the bookkeeper prepared the bank deposit slip and the Trust Fund Cash Deposit Voucher (TFCDV) report, only \$222 was reported as cash received. In order to cover up the theft of the remaining \$900, the bookkeeper added a \$300 and \$600 check that were received from other batches. After the deposit slip, money, and TFCDV report had been forwarded to the Treasurer's Office, the bookkeeper would prepare and print a batch report that reflected the actual amount received and would alter the summary page of that report

by manipulating (cut, paste, and copy) the amounts to cover up the theft of funds. We also noted that some of the cashier's reports were altered to reflect that no cash had been received when, in fact, cash was received, thus replacing the references to cash with references to checks. The summary page would be photocopied in order to disguise the alteration and then would be forwarded to the Treasurer's Office for account reconciliation.

We reviewed FSC's procedures regarding the recording, reporting, depositing, and safeguarding of cash receipts and determined that improvements were needed. The DGCE's cashier would register students for classes by accepting cash, checks, and credit cards. The cashier would close the registration activities each Tuesday and Thursday and transfer all cash, checks, and credit card payments to the department's bookkeeper. The bookkeeper would give a written "cash receipt" to the cashiers acknowledging the transfer of funds whenever cash was involved. According to the internal control procedures for the separation of duties in the college's procedures manual, the bookkeeper was not supposed to function as a cashier. Each cashier is required to close out the activity from the computer system and turn over all money to the bookkeeper each Tuesday and Thursday, including a report of the funds that each had collected. The bookkeeper then summarizes the reports from the cashiers and prepares a TFCDV, which lists the types of revenues collected (cash, checks, or credit cards) and prepares a deposit slip. The TFCDV, deposit slip, and revenues are required to be checked by another clerk in the department prior to being forwarded to the Treasurer's Office for deposit. The Treasurer's Office verifies the cash received from the DGCE based on what was reported on the TFCDV and deposit slip and processes the activity with the other deposits for that day. The DGCE bookkeeper prints a report of the batch activity, which is distributed to the cashiers for verification of activity. The summary section of the batch report is forwarded to the Treasurer's Office for account reconciliation, but a time frame has not been set for this section to be submitted.

The internal control weaknesses we found in the internal control system are as follows:

- FSC's internal control policy states, in part, that "the department will have two staff bookkeepers who maintain financial records but do not perform cashiering functions." However, our review noted that the bookkeeper in question acted as a cashier 129 times

during the period October 1999 to June 2001. In addition, the bookkeeper would open mail-delivered student registrations and enter them into the batch activity. Therefore, the bookkeeper functioned as a cashier and maintained financial records, bypassing the controls of separation of duties within the department.

- Whenever the cashiers turn over cash to the bookkeeper, either between batch closure dates or at the close of the batch, they receive a “cash receipt voucher.” However, it was noted that not all of the cashiers retained their “cash receipt vouchers” after the batch was closed; thus, the audit trail was not being maintained. Some cashiers did not want to keep the cash on hand for a period of time and would turn it over to the bookkeeper between the routine registration closings on Tuesdays and Thursdays of each week.
- FSC’s internal control policy states that the deposit is to be given to a supervisor for review. The supervisor was to review the TFCDV report and deposit slip and sign the report to show that they were in agreement. It was noted that the supervisors only reviewed materials given to them from the bookkeeper. The cashier’s CP screen report is printed from the computer system of each cashier in order to reconcile each cashier’s revenue activity for that batch. After the cashiers reconcile their revenue activity, they transfer the batch activity to the bookkeeper. The CP screen report indicates the cash, check, and credit card activity during that batch period. However, we noted that the CP screen report was not included in the package given to the supervisor to review and, therefore, the information on the report and deposit slip would not be verified to all available supporting documentation by the independent source. The supervisor was only verifying that the cash and checks agreed to the deposit slip and the TFCDV report. Our review also disclosed that the supervisor signature on a number of the TFCDV reports appeared to be forged. This would indicate that the supervisor was not always verifying the activity prior to transfer to the Treasurer’s Office. We were informed that more than one person could approve the TFCDV report and deposit slip, which could allow the bookkeeper to circumvent this review process by indicating that the other person had reviewed the batch activity.
- In order to allow the DGCE deposits to reach the Treasurer’s Office in a more timely manner, the internal control policy allowed the department to deposit its receipts upon proof of the cashiers’ revenues and CP screen report, rather than wait for the batch report to be prepared. The batches are closed every Tuesday and Thursday, and the deposit slip is given to the Treasurer’s Office for deposit. The batch reports are printed overnight or the next day, and are used to reconcile with the cashiers’ CP screen reports. After reconciliation, the batch reports are submitted to the Treasurer’s Office, but there is no required time frame for submittal. Thus the bookkeeper in question had the opportunity to alter the batch reports to cover the theft of cash.
- Some cashiers would return the “cash receipt voucher,” which they received between batch closings, to the bookkeeper at the close of the batch. We did note that some cashiers would turn over only a photocopy of the “cash receipt voucher.”

- The DGCE cashier who was supposed to review the TFCDV and deposit slip only had the TFCDV, money, and deposit slip as documentation to conduct the review. The person who reviews the TFCDV signs the report to verify its accuracy. However, based on our review, we found that some of these signatures were forged.
- Photocopies of the altered summary report were given to the Treasurer's Office. The Treasurer's Office did not know the reports were altered photocopies because they were printed on the same paper as the originals.

We also noted that the DGCE bookkeeper in question used checks received from students to cover up the cash taken by decreasing the amount of cash involved and increasing the check amount to cover the total amount to the batch cash/check activity. Since the bookkeeper acted as cashier on 129 occasions and received and opened mailed in registrations, checks were available to be used to disguise the theft of cash.

During the course of our review, FSC instituted a number of changes to its internal controls. Specifically, it has stopped accepting cash as a form of payment and is requiring that the DGCE print batch reports in color and is requiring colored paper stock for all transmittals.

On November 14, 2002 the defendant pleaded guilty and received 5 years probation. The defendant must make restitution of \$32,229 and surrender all monies contributed toward her state pension. The court probation department must approve all future employment for the individual while she is on probation.

Recommendation

FSC should review its internal control procedures and make the following changes:

The Treasurer's Office should perform a follow up test on FSC's revised internal control procedures periodically to ensure that they are being complied with and functioning as designed.

- The college should continue to not accept cash.
- The employee that reviews the bookkeeper's TFCDV and deposit should also review the batch close-out documentation from the cashiers and ensure that someone reviews each batch closure.

- The Treasurer's Office should ensure that it receives supporting documentation for each batch report in a timely manner. The use of colored computer paper would help prevent the alteration of amounts reported.
- The principle of segregation of duties should be enforced so that no individual controls all aspects of a transaction. The DGCE bookkeeper should not act as a cashier and should not be allowed to receive cash and open delivered registrations by mail.

APPENDIX I
**FITCHBURG STATE COLLEGE ANALYSIS OF CASH VARIANCES
DECEMBER 1999-MAY 2001**

Batch <u>Date</u>	Cash <u>Received</u>	Cash <u>Deposited</u>	Cash <u>Variance</u>
12/16/99	\$ 1,955	\$ 1,198	\$ 757
01/13/00	1,081	-	1,081
01/25/00	1,942	-	1,942
02/01/00	901	-	901
05/11/00	1,112	-	1,112
05/18/00	1,626	-	1,626
06/01/00	968	-	968
06/27/00	593	-	593
07/11/00	1,293	-	1,293
08/03/00	547	-	547
08/22/00	3,648	2,648	1,000
09/07/00	1,325	-	1,325
09/14/00	480	-	480
10/10/00	700	-	700
11/07/00	882	102	780
11/14/00	2,638	1,738	900
11/16/00	1,320	-	1,320
11/30/00	1,122	222	900
12/14/00	616	216	400
12/26/00	899	37	862
01/01/01	311	-	311
01/04/01	1,757	235	1,522
01/18/01	1,471	-	1,471
01/25/01	1,402	-	1,402
03/27/01	2,456	1,491	965
04/19/01	3,486	-	3,486
05/10/01	2,005	-	2,005
05/17/01	1,715	135	1,580
	<u>\$ 40,251</u>	<u>\$ 8,022</u>	<u>\$ 32,229</u>

APPENDIX II

Chapter 647, Acts of 1989, An Act Relative to Improving the Internal Controls within State Agencies

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Chapter 647

THE COMMONWEALTH OF MASSACHUSETTS

In the Year One Thousand Nine Hundred and Eighty-nine

AN ACT RELATIVE TO IMPROVING THE INTERNAL CONTROLS WITHIN STATE AGENCIES.

Be it enacted by the Senate and House of Representatives in General Court assembled, and by the authority of the same, as follows:

Notwithstanding any general or special law to the contrary, the following internal control standards shall define the minimum level of quality acceptable for internal control systems in operation throughout the various state agencies and departments and shall constitute the criteria against which such internal control systems will be evaluated. Internal control systems for the various state agencies and departments of the commonwealth shall be developed in accordance with internal control guidelines established by the office of the comptroller.

(A) Internal control systems of the agency are to be clearly documented and readily available for examination. Objectives for each of these standards are to be identified or developed for each agency activity and are to be logical, applicable and complete. Documentation of the agency's internal control systems should include (1) internal control procedures, (2) internal control accountability systems and (3), identification of the operating cycles. Documentation of the agency's internal control systems should appear in management directives, administrative policy, and accounting policies, procedures and manuals.

(B) All transactions and other significant events are to be promptly recorded, clearly documented and properly classified. Documentation of a transaction or event should include the entire process or life cycle of the transaction or event, including (1) the initiation or authorization of the transaction or event, (2) all aspects of the transaction while in process and (3), the final classification in summary records.

(C) Transactions and other significant events are to be authorized and executed only by persons acting within the scope of their authority. Authorizations should be clearly communicated to managers and employees and should

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include the specific conditions and terms under which authorizations are to be made.

(D) Key duties and responsibilities including (1) authorizing, approving, and recording transactions, (2) issuing and receiving assets, (3) making payments and (4), reviewing or auditing transactions, should be assigned systematically to a number of individuals to ensure that effective checks and balances exist.

(E) Qualified and continuous supervision is to be provided to ensure that internal control objectives are achieved. The duties of the supervisor in carrying out this responsibility shall include (1) clearly communicating the duties, responsibilities and accountabilities assigned to each staff member, (2) systematically reviewing each member's work to the extent necessary and (3), approving work at critical points to ensure that work flows as intended.

(F) Access to resources and records is to be limited to authorized individuals as determined by the agency head. Restrictions on access to resources will depend upon the vulnerability of the resource and the perceived risk of loss, both of which shall be periodically assessed. The agency head shall be responsible for maintaining accountability for the custody and use of resources and shall assign qualified individuals for that purpose. Periodic comparison shall be made between the resources and the recorded accountability of the resources to reduce the risk of unauthorized use or loss and protect against waste and wrongful acts. The vulnerability and value of the agency resources shall determine the frequency of this comparison.

Within each agency there shall be an official, equivalent in title or rank to an assistant or deputy to the department head, whose responsibility, in addition to his regularly assigned duties, shall be to ensure that the agency has written documentation of its internal accounting and administrative control system on file. Said official shall, annually, or more often as conditions warrant, evaluate the effectiveness of the agency's internal control system and establish and implement changes necessary to ensure the continued integrity of the system. Said official shall in the performance of his duties ensure that: (1) the documentation of all internal control systems is readily available for examination by the comptroller, the secretary of administration and finance and the state auditor, (2) the results of audits and recommendations to improve departmental internal controls are promptly evaluated by the agency management, (3) timely and appropriate corrective actions are effected

Chapter 647, Acts of 1989, An Act Relative to Improving the Internal Controls within State Agencies

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by the agency management in response to an audit and (4), all actions determined by the agency management as necessary to correct or otherwise resolve matters will be addressed by the agency in their budgetary request to the general court.

All unaccounted for variances, losses, shortages or thefts of funds or property shall be immediately reported to the state auditor's office, who shall review the matter to determine the amount involved which shall be reported to appropriate management and law enforcement officials. Said auditor shall also determine the internal control weaknesses that contributed to or caused the condition. Said auditor shall then make recommendations to the agency official overseeing the internal control system and other appropriate management officials. The recommendations of said auditor shall address the correction of the conditions found and the necessary internal control policies and procedures that must be modified. The agency oversight official and the appropriate management officials shall immediately implement policies and procedures necessary to prevent a recurrence of the problems identified.

House of Representatives, December 21, 1989.

Passed to be enacted, *George Luvaan*, Speaker.

In Senate, December 22, 1989.

Passed to be enacted, *William W. Budge*, President.

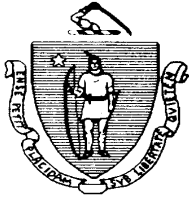
January 3, 1990.

Approved,

Richard H. Kiah Governor.

APPENDIX III

Chapter 647 Awareness Letter from the State Auditor and the State Comptroller



The Commonwealth of Massachusetts

Office of the State Auditor
State House
Boston, MA 02133

Office of the Comptroller
One Ashburton Place
Boston, MA 02108

September 19, 2000

Legislative Leadership
Judicial Branch Administrators
Elected Officials
Secretariats
Department Heads

The State Auditor and the Comptroller are both committed to departmental improvements in the Internal Control structure of the Commonwealth. A good system of controls, as you know, assists management in meeting objectives while avoiding serious problems. Chapter 647 of the Acts of 1989, *An Act Relative To Improving Internal Controls Within State Agencies*, establishes acceptable Internal Control systems for state government operations and constitutes the criteria against which we will evaluate internal controls. With the passage of this law, we began a campaign to educate all department staff on the significant role of internal controls in department operations.

In the past few years, departments have made significant progress in the area of internal controls. Every department has certified that they have documented internal controls in the form of an Internal Control Plan. In Fiscal Year 2001, we are focusing our Internal Control Campaign on the review of department risk assessments, as documented within the departments' internal control plans. Internal control plans must, of course, include all aspects of a department's business, programmatic operations as well as financial.

A major requirement of Chapter 647 is that "an official, equivalent in title or rank to an assistant or deputy to the department head, shall be responsible for the evaluation of the effectiveness of the department's internal controls and establish and implement changes necessary to ensure the continued integrity of the system". This official, whom we refer to as the Internal Control Officer, is responsible for ensuring that the plan is evaluated annually or more often as conditions warrant.

During this annual Statewide Single Audit, we continue with our review of the Commonwealth's internal controls. We analyze and evaluate information obtained during the audit process in our continuing effort to educate agencies regarding both the need for internal controls and the risks of not having adequate internal controls in place.

Chapter 647 Awareness Letter from the State Auditor and the State Comptroller

To assist departments with this effort, we provide the following support activities:

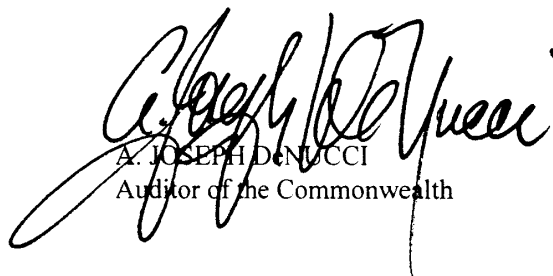
- ◆ The Office of the Comptroller offers departments free monthly training on internal controls. These classes are listed in the *OSC Training Bulletin*.
- ◆ The Office of the Comptroller provided a new document entitled the *Internal Control Guide for Managers* on the Office of the Comptroller's Web page: <http://www.osc.state.ma.us/>. Part II of the guide will be available shortly and will replace the current *Internal Control Guide for Departments*, currently available on the Web.
- ◆ Upon request, the Office of the Comptroller provides assistance to departments in the process of redefining or reviewing their internal control plans.
- ◆ As part of the Statewide Single Audit, auditors will review and comment upon departments' internal control plans, risk assessments, and the reporting level of the Internal Control Officers.
- ◆ We have updated and automated the Internal Control Questionnaire (ICQ) for easier submission. These changes to the ICQ will enable OSA and OSC to evaluate department internal controls and monitor their progress.

Chapter 647 also requires that "all unaccounted for variances, losses, shortages, or thefts of funds or property be immediately reported to the Office of the State Auditor" (OSA). The OSA is required to determine the amount involved and the internal control weaknesses that contributed to or caused the condition, make recommendations for corrective action, and make referrals to appropriate law enforcement officials. In order to comply with this law instances must be reported on the *Report on Unaccounted for Variances, Losses, Shortages, or Thefts of Funds or Property* and be submitted to the OSA. Reporting forms can be obtained by contacting the Auditor's office, Room 1819, McCormack State Office Building, or Web Site:

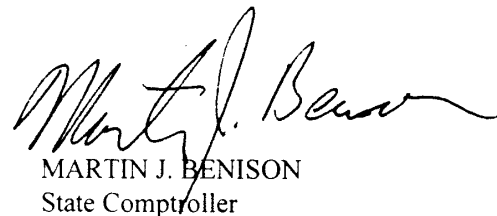
<http://www.magnet.state.ma.us/sao/>.

In conjunction with the above requirement, please note that management is responsible for financial records and systems and must inform, disclose and make representations to the auditors with regards to their management of funds, account activities, programs and systems.

The Offices of the State Comptroller and the State Auditor are committed to the goal of improving the Internal Control structure of the Commonwealth. Thank you for your cooperation and attention on this worthwhile task. Please do not hesitate to call upon the staff of either office for assistance.



A. JOSEPH D. NUCCI
Auditor of the Commonwealth



MARTIN J. BENISON
State Comptroller