NO. 2002-0204-2S2

INDEPENDENT STATE AUDITOR'S REPORT ON CERTAIN ACTIVITIES OF ROXBURY COMMUNITY COLLEGE

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Roxbury Community College (RCC) is authorized by Chapter 15A, Section 5, of the Massachusetts General Laws. Its operations are controlled by a Board of Trustees (appointed by the Governor of the Commonwealth) in accordance with policies and guidelines established by the Board of Higher Education.

We initiated our review as a result of our work on a student financial assistance audit (No. 2002-0204-2S1), which indicated that RCC's administration of student federal financial assistance programs was inadequate. We therefore extended our audit to other administrative operations of RCC. Those areas included cash management of tuition and fees, federal grants and trust funds, consultant contracts, tax reporting, and controls over credit card use.

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Our review of RCC's procurement of consultant services found that RCC did not obtain competitive bids for the procurement of consultant services as required by state laws and regulations and its trust fund guidelines, policies, and procedures. Specifically, RCC did not (1) document that procurements were competitively bid; (2) document its rationale for the selection of consultants; (3) sign contracts until after services were provided; (4) establish clear compensation rates; (5) amend a contract for changes in scope; and (6) monitor and audit invoices, due dates, deliverables, or performance.

Our review disclosed that one consultant submitted invoices with questionable costs totaling $27,996: undocumented travel expenses ($808), incorrect billing rates ($18,181), hours not supported by time records ($6,763), and hours billed that differ from time records ($2,244). Another consultant had questionable costs totaling $28,311: missing invoices ($10,841), no time records ($11,470), time record errors and omissions ($1,840), billings for holidays ($370), and expenses not supported by receipts ($3,790).

In its response, RCC's current administration acknowledged that procurement guidelines were not followed by RCC's former administrative officers. RCC also cited a commitment to implementing internal controls and the installation of new software to aid in complying with laws and regulations.

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RCC transferred federal, state, and trust fund revenue to its Division of Continuing Education (DCE) trust account to cover payroll and tax deposit requirements but did

not maintain appropriate accounting records to show that the federal and trust fund revenues were appropriately used for the purposes for which they were provided. The transfers were made to the DCE account because there was an insufficient balance of funds to meet the payroll expenditures. Also, in one instance, transfers were made to the DCE account to pay for interest and penalties totaling $26,311 for not filing payroll tax returns and not remitting withholding taxes on a timely basis.

There are specific prohibitions for the use of federal funds and general restrictions on the use of trust money. Moreover, the inappropriate use of federal and trust fund revenue could jeopardize the purposes for which the funds were provided.

In its response, RCC agreed that transfers had been made to cover revenue shortfalls in the DCE program. RCC added that funds were eventually restored to the proper accounts and it is documenting that expenditures were in accordance with the relevant guidelines.

3. IMPROPER TAX REPORTING AND WITHHOLDING ON FRINGE BENEFITS PROVIDED TO THE RCC PRESIDENT 33

Our audit disclosed that RCC did not withhold taxes for, or issue an Internal Revenue Service (IRS) Form W-2 income information statement reflecting, fringe benefits (i.e., housing allowance, leased automobile, automobile expenses, and miscellaneous benefits) provided to the RCC President during calendar years 1999 and 2000. As a result of our audit, the value of fringe benefits paid in 2001 was reported; however, taxes were again not withheld.

The standards promulgated by the Board of Higher Education regarding the expenditures of trust funds state that the President and other administrators should adhere to IRS guidelines for the personal use of an institutional vehicle. The Employer's Tax Guide for Fringe Benefits issued by the IRS requires that fringe benefits be included in the recipient's Form W-2. RCC could be assessed penalties by both IRS and the Massachusetts Department of Revenue for not reporting income and not withholding taxes.

RCC should report fringe benefits it has provided its employees and require the President to keep a log of all travel and related expenses. Also, RCC paid the President an insurance settlement of $3,051 for collision damages; it should recover that payment.

In its response, RCC agreed with our finding regarding proper reporting of fringe benefits and related withholding issues. RCC believes, however, that the payment of $3,051 to the former President was not improper because the former President had paid for the cost of the auto repairs. RCC plans to take this issue to the Finance and Audit Committee of the Board of Trustees for further discussion and study.

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Our audit revealed that RCC lacked written operating procedures governing employee use of a corporate credit card and had not established proper internal controls to ensure that card charges were reasonable, necessary, adequately

supported, and for school business purposes. As a result, 40% (or $3,925) of net credit card charges totaling $9,752 for hotels, restaurants, automobile-related purchases, conferences, finance charges, car washes, airfare, and office-supply stores were not supported by receipts. Verbal explanations and vendor copies of receipts provided by RCC did not fully attest to the nature of the expenditures, such as the business purpose or who was present at restaurants.

RCC should clearly document all transactions and establish written procedures and internal controls for the use of credit cards, and its trustees must provide prior approval of the President's expenses. Also, our review disclosed that RCC incurred $631 in avoidable late fees and finance charges.

Our audit covered the period October 2001 to December 2001, and we extended our audit tests before and after that period depending on the circumstances.

In its response, RCC stated that after the departure of the former President it had discontinued the use of credit cards, except for a gasoline credit card, and the current administration at Roxbury Community College had been hired after the findings in this audit. RCC also stated the following:

> *Further, the current administration is dedicated to the appropriate management of financial and administrative functions in full compliance with Commonwealth and Federal regulations. We recognize the importance of strengthening the operating policies and procedures in all offices. To advance this effort, the Finance and Audit Committee of the Board of Trustees has proposed and received Board approval to seek funding for assistance in writing/updating the current policies and procedures related to the financial administration of the College. In addition, we recognize the importance of both personal and professional integrity among the individuals holding key administrative positions. We believe we are making significant progress in these important areas.*

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INTRODUCTION

Background

Roxbury Community College (RCC) is authorized by Chapter 15A, Section 5, of the Massachusetts General Laws. Its operations are controlled by a Board of Trustees (appointed by the Governor of the Commonwealth) in accordance with policies and guidelines established by the Board of Higher Education.

We initiated our review at RCC as a result of our work on a student financial assistance audit (No. 2002-0204-2S1), which indicated that RCC's administration of the student federal financial assistance programs was inadequate. We therefore extended our audit to other administrative operations of RCC. We additionally conducted a phase of our work in conjunction with a task force composed of representatives from the Office of the State Comptroller, the Information Technology Division, the Human Resources Division, the Board of Higher Education, the Information Technology Division, and the Operational Services Division. That task force issued a report on November 7, 2001 that contained our remarks on certain aspects of RCC's operation related to accounts payable, accounts receivable, cash collections, and internal controls. After the conclusion of our task force work, we continued to review areas that had come to our attention to determine whether similar administrative weaknesses existed in cash management of tuition and fees, federal grants and trust funds, consultant contracts, tax reporting, and controls over credit card use.

Audit Scope, Objectives, and Methodology

In accordance with Chapter 11, Section 12, of the General Laws, we conducted an audit of certain activities at RCC for the period October 2001 to December 2001. We extended our audit before and after that period depending on the circumstances. Our audit was conducted in accordance with applicable generally accepted government auditing standards with the specific objective of reviewing RCC's policies regarding the following areas and functions: procurement of consultants, cash management of tuition and fees, federal grants and trust funds, tax reporting of employee benefits, and credit card use. The purpose of our review was to determine whether the administrative weaknesses in the administration of student financial assistance programs

were indicative of inadequate administration of other operations. We reviewed a selection of consultant contracts to verify adherence to sound procurement administrative practices; cash management of federal grant and trust funds to determine whether they were used for their intended purposes; tax reporting of benefits paid to the former President to determine that proper tax filings and reports were made; and credit card usage to determine whether RCC guidelines were adhered to and payments were substantiated.

The overall objectives of our review of RCC's procurement, monitoring, and payment process for consulting services were to (1) determine compliance with applicable laws, rules, regulations, and internal policies; (2) evaluate RCC's procedures for consultant selection; and (3) review RCC's procedures for contracting, monitoring of deliverables or performance targets, and payment of invoices.

We also reviewed RCC's procedures for documenting and recording the deposit and transfer of federal grants, trust funds, and state receipts to determine whether drawdowns of federal funds were for the intended purposes of the funds and whether transfers complied with the grant and trust agreements or the General Laws.

We reviewed RCC's tax reporting of employee benefits to ascertain whether RCC appropriately reported benefits paid to the former RCC President to the Internal Revenue Service (IRS) and the Massachusetts Department of Revenue. We reviewed the contract between RCC and its President, automobile leases, and available tax records and related documents.

We reviewed credit card use with the objective of determining whether RCC was adhering to trust fund guidelines and sound business practices. We interviewed personnel, reviewed the Board of Higher Education Standards for the Expenditures of Trust Funds, and reviewed supporting documentation for payments.

As a result of our audit, and as discussed in the audit result section of the report, RCC should (1) improve its administration of consultant contacts, (2) discontinue its practice of using state, federal, and trust funds to cover Division of Continuing Education payrolls and related

expenses, (3) withhold and properly report the President's fringe benefits, and (4) adequately monitor and document credit card charges.

An exit conference was held on May 29, 2003 with RCC's new president and his staff to discuss the details of our audit results.

AUDIT RESULTS

1. INADEQUATE ADMINISTRATION OF CONSULTANT CONTRACTS

Our review of the procurement, monitoring, and payment processes for consulting services at Roxbury Community College (RCC) showed that RCC did not adhere to state law, Code of Massachusetts Regulations (CMR), and Board of Trustees guidelines. The lack of monitoring may have resulted in RCC's making overpayments and not receiving the services it contracted for.

We noted that essentially all consultants at RCC are paid from the school's trust funds. The "Trust Fund Guidelines and Policies" adopted by RCC's Board of Trustees states, in part:

> *Contractor and consultant fees paid from trust funds shall conform to state law pertaining to such activities.*

The guidelines also incorporate by reference the Standards for the Expenditures of Trust Funds developed by the Commonwealth's Board of Higher Education, which contains the identical requirement to follow state law when engaging consultants. Therefore, RCC must follow Sections 29A (Consultants) and 27B (Purchase/Lease of Computers) of Chapter 29 (State Finance), as well as Sections 51 and 52 (Purchase and Approvals) of Chapter 30 (State Officers and Departments), of the Massachusetts General Laws. Chapter 30, Section 51, states, in part:

> *All goods, supplies, equipment and services, except for legislative or military purposes, needed by the various executive and administrative departments and for other activities of the commonwealth shall be purchased by or under the direction of the operational services division in the manner set forth in section fifty-two, and in sections twenty-two to twenty-six, inclusive, of chapter seven.*

RCC must also conform to other state statutes, such as the requirements of the state purchasing agent as noted in Chapter 7, Section 22, of the General Laws and related regulations; 801 CMR 21, Procurement of Commodities or Services; and the procedures described in the Commonwealth's Procurement Policies and Procedures Handbook published by the Operational Services Division.

We reviewed the following consultant contracts:

	Consultant Type	Maximum Agreement Amount	Amounts Paid	Date of Contract or Amendment	Stated Purpose
A.	Computer/MIS	$12,000	$11,211	10/09/01	Data entry, contract labor*
B.	Public Relations	$23,000	$23,000	08/01/01	Internal and external public relations for RCC
C.	Strategic Planning	$159,000	$86,703	07/01/99 09/14/00 08/08/01	Institutional plans, procedures, and policy development
D.	Financial Aid	$160,000	$178,467	10/23/00 06/29/01 09/19/01	Support services to Financial Aid Office
E.	Media Relations/Advertising	$90,000 $120,798	$63,250 $103,812	07/01/00 Various**	Media consulting, advertising, and advisory services

* The contract did not include a description of performance. A description was obtained from an invoice.
** Consists of five contracts.

Our review of these contracts identified questionable costs of $56,307. Also, our review showed that RCC did not have evidence of competitive procurement for any of the five consultants. 801 CMR 21.06 requires the following:

> *All acquisitions of Commodities or Services, or both, must be competitively procured unless the acquisition qualifies as an exception [emergency, incidental purchase, legal exemption, contract employees].... An RFR [Request for Responses] shall be used to solicit and select Responses from qualified Bidders under a competitive Procurement. The goal of all RFRs shall be to obtain the Best Value of Commodities or Services, or both, for the State.*

None of the contract files we reviewed contained any evidence of competitive procurement, and RCC's Cost Center/Contract Manager could not provide evidence of competitive solicitations or allowable exemptions.

We also detected issues in the overall administration of the procurements, such as untimely contract execution, unspecified or vague deliverables, unclear compensation rates, and a lack of monitoring and auditing of contractor invoices, due dates, deliverables, or performance targets. We also noted that RCC generally did not document the need for various consultants engaged, contrary to Chapter 29, Section 29A, of the General Laws.

The following sections provide examples of such contract administration issues.

a. Contract Executed after Performance of Services; Inadequate Monitoring of Consultant Time

On October 16, 2001, RCC paid $11,211 to a computer consultant for services performed between April 2, 2001 and June 15, 2001. The Commonwealth Standard Contract Form executed by RCC's President on October 9, 2001 indicated that performance was to begin on October 9, 2001 but did not describe the services to be provided. The contract noted a maximum obligation of $12,000. The consultant signed the contract on October 2, 2001, which also was the date of the invoice submitted by the consultant. 801 CMR 21.07 (2) states: "Performance may not begin, until a Contract is properly executed." The contract states, in part:

> *Performance shall begin on October 9, 2001, which shall be no earlier than the latest date this contract is signed by authorized signatures of the Department and the Contractor and approved under Section 1 of the applicable Commonwealth Terms and Conditions.*

Therefore, performance should not have begun until October 9, 2001, whereas it had already begun on April 2, 2001. Also, the contract states that it shall terminate on December 31, 2001, yet RCC made full and final payment on October 16, 2001.

The vendor invoice lists the following billable items:

Description	Date	Hours	Rate	Total
Data Entry Specialists	04/23/01 to 06/15/01	398.5	$19.50/hr	$7,771
Contract Professional Labor	04/02/01 to 06/15/01	80.0	$43/hr	$3,440

RCC could not provide evidence to verify that hours were monitored and could not otherwise support the payment, nor did the vendor file describe what the "professional labor" was. The RCC contract manager assigned to this procurement was no longer employed by RCC at the time of our inquiry.

Without a written contract in effect before performance begins, there is inadequate assurance that the services will be provided in the manner and at the price expected. In addition, without adequate monitoring of consultant time, there is inadequate assurance that services paid for were actually received.

b. Payments Not Made in Accordance with the Contract; Change in Contract Scope Not Documented

As stated in the contract, a consultant was retained to work directly with the RCC President "in developing internal and external public relations and community relations strategies for Roxbury Community College." The contract further defined that work as follows:

> *Work product includes overall assessment of internal and external needs, suggestions and recommendations based upon those assessments and execution of said recommendations as directed.*

The contract notes a start date of August 1, 2001 and a termination date of June 30, 2002, with a maximum obligation of $23,000. A contract attachment describes the compensation method as follows:

> *Agreed upon fees for said services shall be $100 per hour billed against a fee schedule of $5,000 for the first month of service and $3,000 per month for subsequent months for a minimum of 6 months of consecutive services provided.*

The consultant submitted two invoices for August 2001 (65 hours) and September 2001 (165 hours), at the rate of $100 per hour, for a total of $23,000. In accordance with the terms of the contract, the maximum amount that could be billed for August was $5,000 and the maximum that could be billed for September was $3,000. Therefore, for the first two months of performance, billings exceeded the contract limit by $15,000 ($23,000 –$8,000).

The October 5, 2001 cover letter from the consultant that accompanied the August and September invoices states, in part:

> *Enclosed are two invoices for extensive and expansive services to you and the Chairman. As you know, the amounts reflected in these two invoices represent expenditure of the total contract. Our initial agreement was to work with you and the Trustees to develop and implement internal and external communications and to begin the process of letting the greater public know about the many wonderful programs that I certainly am a witness to at RCC. None of us can judge unforeseen circumstances that sometimes arise necessitating the kind of intensive services that I have engaged in over the past two months.*

The August and September invoices in fact show services that are not contemplated in the contract and are generally described as "media and political consulting/crisis management services." Although the invoices were paid, there is no indication accompanying the

payment or in the contract file that the changes in scope were approved by RCC. Therefore, RCC either should have paid the consultant in accordance with the contract terms or should have amended the contract to reflect the changed scope and payment amounts. Furthermore, RCC should have insisted on timely billings so that it could be aware that monthly billing limits were being exceeded.

The former President of RCC, who was also the contract manager, acknowledged that she kept no records of days or hours worked by the consultant. Other college officials could not produce the assessments and recommendations identified as the work product in the contract.

Correspondence accompanying the $23,000 billing for August and September 2001 states, in part:

> *These invoices also do not include additional and ongoing hours that I have worked above and beyond the contracted hours submitted, which I will submit at the end of this month and which I have verbally kept you informed of.*

As of April 18, 2002, RCC's Business Office maintained that no additional invoices had been submitted by this consultant nor had any additional amounts been paid. Nonetheless, in the event that a claim is made, RCC should reject it by citing 801 CMR 21.08, which states, in part:

> *A Department shall be under no legal obligation to compensate a Contractor, or to obtain additional funding for any performance, costs or other commitments, which are made outside of the scope of a Contract.*

RCC must ensure that payments are in accordance with contract terms, amendments are prepared to document changes in a contract's scope or rate of compensation, and consultant billings are adequately monitored. Chapter 5 of the Commonwealth's Procurement Handbook gives specific guidance on such areas of contract management.

c. Contract Executed after Performance Began; Questionable Billings

On September 6, 2001, a consultant faxed an invoice for $8,035 to RCC for work performed in August 2001. Accompanying the invoice was a Commonwealth Standard Contract signed

by the Consultant on August 6, 2001 but not executed (signed) by the RCC President, who was also designated as the contract manager on the contract form.

The consultant had been previously retained by RCC and was RCC's Vice-President of Fiscal Affairs from March 1993 to May 1998. According to the former President, she rejected the contract and invoice because she wanted to make some changes regarding the contract's maximum obligation, duration, and expense-reimbursement policy. However, even with these changes, the invoiced total remained practically unchanged, as shown by the following summary of significant items for the original and revised contract and invoice for August 2001:

	Original	Amended
Contract		
Maximum Obligation	$60,000	$35,000
Duration	08/06/01 to 06/30/02	08/06/01 to 12/31/01
Date of Execution (Signature):		
RCC President	-	08/06/01
Consultant	08/06/01	08/06/01
Rate/Day	$395	$460
Housing Allowance	$1,000 per month	-
Roundtrip Airfare (Boston to Memphis, TN; and taxi)	100% Reimbursable	100% Reimbursable
Use of College Vehicle as Needed	Yes	Yes
College to Reimburse Consultant for Gasoline Purchase	Yes	Yes
Consultant Will Provide Receipts for All Expenses Claimed	Yes	Yes

Contract Performance

Institutional Effectiveness Plans, Policy Development, as follows:

- Complete institutional effectiveness plan for review, discussion, refinement, and implementation
- Assist in preparing for Fall 2001 Board of Trustees Retreat
- Prepare/assist in preparing institutional policies for Academic Affairs, Enrollment Management
- Institutionalize the organizational values, attitudes, and management behaviors emphasized at the 1999 and 2000 administrative retreats
- Other tasks as directed by the President

Invoice	Original	Amended
Duration	08/06/01 to 08/24/01	08/06/01 to 08/24/01
Days Worked	15	17
Rate Charged Per Day	$395	$460
Consultant Fee (Days x Rate)	$5,925	$7,820
Housing Allowance (July, August)	$2,000	-
Airfare	$99.25 (50%)	$198.50 (100%)

Taxi	$11	$11
Invoice Total	$8,035.25	$8,029.50
Amount Paid (September 21, 2001)	-	$8,029.50

The comparative data in the above table, along with other documents, display the many weaknesses in the hiring and administration of consulting contracts at RCC.

The consultant started performance on August 6, 2001—before the contract was executed by the President, although 801 CMR 21.07 (2) states, "Performance may not begin until a contract is properly executed."

The original contract was faxed from Tennessee on September 6, 2001 with a cover page that stated "Fiscal Year 2002 contract (11 pages) original being sent FEDEX Overnight for President's signature."

Because the original contract had not been signed by the RCC President as of September 6, 2001, it is not possible for the amended contract to have been signed by both parties on August 6, 2001. The consultant's invoice indicates that he was on campus for an August 6, 2001 meeting with the RCC President. If both parties were together on August 6, 2001 and executed the contract that day, it would not have been necessary to fax the contract for the President's signature a month later. It therefore appears that the signatures on the amended contract were backdated to match the beginning date of the consultant's performance. In addition, the Contractor Authorized Signature Verification Form, an attachment, was notarized by a Massachusetts notary who was an employee of the President's Office and claims to have witnessed the contractor's signature and verified his identity on August 6, 2001. However, the original contract, dated August 6, 2001 and faxed September 6, 2001, contains the signature verification form, signed by the contractor but without notary certification or date—further proof that the contract execution date could not have been August 6, 2001.

The original invoice ($8,035.25) and the amended version ($8,029.50) differ by less than $6 (see previous table). A comparison of the original and amended shows that the elimination

of a housing allowance ($2,000) was in effect replaced by an increase in daily rate ($395 to $460), and number of days billed (15 to 17): ($65 x 17=$1,105) + ($395 x 2=$790).

The original invoice faxed on September 6, 2001 shows 15 days worked ($5,925), whereas the resubmitted invoice, at the $460/day rate, shows 17 days worked ($7,820). The two days added to the original billing were August 11 and August 18, during which the consultant indicated that he worked on "the institutional effectiveness plan." If the consultant had worked the two additional days, there is no indication why he had not charged for those days in the original billing.

In addition to the $8,029 payment on September 21, 2001, the consultant received two other payments in fiscal year 2002: $7,305 on October 2, 2001 and $7,332 on November 27, 2001. Our review of the September 28, 2001 invoice supporting the $7,305 payment shows 15 days billed for the period September 10 to September 28, 2001; however, the invoice detail describing daily work does not show an entry for work performed on September 28, 2001. Therefore, 14 days were worked and 15 days were billed, resulting in an overbilling of $460. The check requisition form attached to the vendor invoice was signed by RCC's Comptroller, Provost, and President. Initially, RCC could not locate the invoice supporting the payment of $7,332 made on November 27, 2001, but documentation was located on May 21, 2002. Our review of the invoice and attachments revealed that three days were billed but not shown on the attached daily summary (3 x $460 = $1,380) and no receipts existed for airfare ($405) and taxi fare to Logan Airport ($27); those, together with the overbilling of $460, resulted in a total unsupported amount of $2,272.

RCC had engaged the same consultant in fiscal year 2001, during the period September 14, 2000 through June 30, 2001, and paid him a total of $55,396. The contract for fiscal year 2001 stated that the consultant was responsible for "institutional plans, priorities, procedures, and systems" and included an attached description of duties, including consultation in the following:

- Student financial aid policies and procedures, including Title IV compliance issues
- Enrollment management procedures and planning

- Institutional plans, procedures, and systems
- Other work activities that may be assigned by the President

The financial terms of the fiscal year 2001 contract included housing, 50% roundtrip airfare, use of a college automobile, and fees of $370 per day. The contract for fiscal year 2001 also stated, in part:

> *Consultant will complete official college timesheets for days worked and the college shall pay consultant on the 15th day of each month during the contract term.*

In fiscal year 2002, the requirement to submit time sheets was eliminated, the rate increased to $395 (and ultimately $460) per day, reimbursement for airfare increased from 50% to 100%, and the housing allowance was eliminated.

Because of the lack of documentation for fiscal year 2002 billings, we reviewed the documentation accompanying the $55,396 paid for fiscal year 2001 contract services. We calculated questionable costs of $26,039, as follows:

Missing invoices	$10,841
No time records	11,470
Billed for holiday	370
No receipts for expenses	3,358
	$26,039

The vendor invoice file at RCC indicated that this consultant was also under contract in fiscal year 2000 for $40,000 and was paid $8,241 (at a rate of $200 per day), plus expenses. That contract, which covered the period July 1, 1999 through June 30, 2000, described the scope of performance as follows:

> *Provide consultant services as needed by the college relating to Enrollment Management, Mission Implementation, New England Association of Schools and Colleges (NEASC) review preparation and Institutional Strategic Planning and Management.*

An attachment to the contract added the following to the scope of the engagement:

- Follow-up Presidential Executive Retreat

- Assistance with writing NEASC
- Follow-up Mission Statement Process Goals and Procedures
- Organizational Structure:
    1. Academic (Provost)
    2. Fiscal (Budget Director Departure)
- Technology: Y2K, registrations, and personnel

The contract did not require time reporting or due dates for deliverables or other performance measures. A review of these invoices totaling $8,241 disclosed that the consultant fee was $3,800 (19 days x $200/day) plus expenses of $4,441, mostly for hotels, meals, flights, and ground transportation.

We noted that the invoices do not specify what services the consultant actually provided. The first invoice submitted a consultant fee of $1,000 for five days' attendance at the President's Administrative Retreat. All three contracts with this consultant called for work on an Institutional Effectiveness Plan. A draft copy of this plan dated August 2001 contained a summary of what was discussed at the President's Retreat, a Mission Statement, and various attachments and appendices that were mostly articles written by other educators and consultants. Although RCC paid this consultant a total of $86,303 for contracted services in fiscal years 2000, 2001, and 2002, the benefit that RCC received in return is questionable.

d. Nonperformance of Contract Deliverables; Questionable Expenses Totaling $27,996

RCC hired an educational consulting group on October 23, 2000 to assist the Financial Aid Office by performing the following tasks and deliverables as specified in Attachment A of the contract:

1. Participate in an assessment of the Financial Aid Office to identify tasks that need to be completed to meet institutional objectives
2. Assist in the support of the day-to-day operation of the Financial Aid Office

3. Assist with related administrative functions associated with the awarding process
4. Complete file review for students receiving financial assistance for the 2000-2001 academic year
5. Create awarding manual and policies for the 2000-2001 academic period
6. Identify and correct deficiencies in the awarding process and other related functions in the Financial Aid Office
7. Act as Interim Director until the position is filled
8. Review policies on class attendance, class withdrawal, tuition refunds, and standards of satisfactory academic progress; make appropriate recommendations where above policies taken together are deemed inconsistent or inadequate for Title IV compliance

The contract stipulated a maximum obligation of $50,000 and a termination date of March 30, 2001. It established a compensation rate of $75 per hour when the consultant acted as RCC's Interim Financial Aid Director, and $50 per hour when he acted as Consulting Associate. RCC's Provost was designated as the contract manager.

Our review of the engagement of this consultant revealed issues in RCC's contract award process and monitoring of billings and contractor performance (deliverables). RCC paid the consultant $204,784; our review revealed that $27,996 of that amount was questionable due to lack of time sheets, inadequate documentation for travel, and improper billing rates.

The contract was ultimately extended to December 31, 2001 and the maximum obligation increased as follows:

Action	Amount	Date Executed	Duration	Maximum Obligation
Original Contract	$50,000	10/23/00	10/23/00 to 03/30/01	$50,000
Amendment	$40,000	Not Dated	10/23/00 to 06/30/01	$90,000
New Contract	$20,000	06/29/01	07/01/01 to 07/31/01	$20,000
Amendment	$40,000	Contractor: 09/19/2001 College: Undated	07/01/01 to 12/31/01	$160,000*

*Amendment should have increased maximum obligation only to $60,000. RCC believes that an amendment is missing from the files or the $40,000 amendment should have been $140,000 but was typed incorrectly.

Although the maximum obligation was increased and the date of performance extended, no change occurred in the tasks and deliverables. It appears, based on the available information, that all eight deliverables should have been completed during the original contract period for the original fee of $50,000, including deliverable No. 7 (acting as an Interim Financial Aid Director). RCC was without a Financial Aid Director from October 1, 2000 through December 31, 2000 and March 17, 2001 through April 1, 2001, which are intervals within the original contract period. Therefore, with the possible exception of providing additional day-to-day support (deliverable No. 2), all other deliverables should have been completed by March 30, 2001.

Our review showed that even after the contract extensions and renewals, an awarding manual (deliverable No. 5) was never created and the identification and correction of deficiencies in the awarding process (deliverable No. 6) was not addressed. The contractor's billing for December 2001 includes file verification for the 2000-2001 award year without any indication of whether the task was completed. RCC should have established performance dates in the contracts and insisted that vendor invoices or other reports show the number of files reviewed for a given period so that informed decisions could be made early on regarding extensions and additional payments. The terms and conditions of the contract should have clearly stated the deliverables or performance goals expected to be achieved during the duration of the contract.

Our review of the contract documents disclosed that the increase in the maximum obligation from $20,000 to $160,000 for fiscal year 2002 could not be adequately explained. The former President of RCC suggested that the $40,000 amendment was a typographical error and should have read "$140,000," thus increasing the maximum obligation from $20,000 to $160,000. The contractor, however, submitted invoices totaling approximately $30,000 for the period August 1, 2001 through September 17, 2001, when no contract was in effect. Moreover, the amendment signed by the contractor on September 19, 2001 has the handwritten notation "Revised Second" on the document, which may indicate that an amendment had been previously executed but not retained in the files.

Our review of invoices led us to question $27,996 in payments, as follows:

Differences: Hours Billed Versus Timesheets	Billings Not Supported by Timesheets	Incorrect Billing Rates	Travel Expense Not Documented	Total
$2,244	$6,763	$18,181	$808	$27,996

Part 4 of the consulting agreement defined hourly rates and time reporting requirements, in part stating:

> *The Interim Director and the Consulting Associate shall record the days and hours worked under this agreement on timesheets provided by the Client.*

Our review of billings showed that RCC did not monitor time reporting as required in the contract. The contractor generally billed on a biweekly basis. The billings for the period November 1, 2000 through May 31, 2001 were submitted to RCC without the timesheets required by the contract. RCC paid $65,598 in four installments from January 2001 to June 2001 in satisfaction of these invoices, even though the requisite timesheets did not accompany the billings. On June 28, 2001, the consultant, at the request of RCC, supplied timesheets for the November through May billings. Our review of hours recorded on these time sheets versus those shown on the related invoices revealed excess charges of $2,032 for November through May. We also noted similar differences in hours billed versus hours reported in the July 2001 and August 2001 billings, which resulted in questioned costs of $212. In addition, timesheets were not submitted to RCC for the periods June 1-8, 2001 and June 11-15, 2001, resulting in unsupported charges of $6,763.

The contract specified that the $75 hourly rate be applied only when the consultant was acting as the Interim Financial Aid Director; for all other tasks, the $50 Consulting Associate hourly rate would apply. During the period of the consultant's employment, RCC was without a Financial Aid Director during October, November, and December 2000 and March 17, 2001 through April 1, 2001. Our review of billings, however, showed that the consultant billed at the $75 per hour rate when RCC had a Financial Aid Director in office. For the period of performance, the hourly overcharges of $25 ($75 less $50) were as follows:

Month in 2001	Hours	Overbilling
January	110.00	$ 2,750
February	50.00	1,250

Month in 2001	Hours	Overbilling
March	25.50	638
April	46.25	1,156
May	42.75	1,069
June	47.25	1,181
July	42.25	1,056
August	69.75	1,744
September	76.50	1,912
October	114.00	2,850
November	49.50	1,237
December	53.50	1,338
	727.25	$18,181

The contract provided that the consultant be reimbursed for travel and other expenses as follows:

> ***Expenses****—Group shall be reimbursed for travel round-trip Newton to Boston at a rate of $.31 per mile and for other reasonable business expenses incurred by the Group during the term of the Agreement on behalf of the Client in the performance of services hereunder only upon the written assent of the Client, prior to the date of the expense. The Group is required to submit itemized requests for reimbursement of such expenditures supported by sufficient documentation of the expenditures and explanation of their purpose.*

Our review of fiscal year 2001 billings showed that the invoices did not provide documentation for the travel costs charged to RCC. The invoices typically had a travel line item stating "Travel round-trip Newton to Boston," followed by the typed initials of the consultant with a lump-sum amount. No detailed calculation or travel reimbursement request was included. The consultant billed $808 in travel for November 1, 2000 through June 15, 2001, a span that roughly corresponds to the period in which the consultant did not submit timesheets to accompany the consulting fee. Therefore, based on the lack of detailed calculations, travel vouchers, and timesheets, we question the entire amount of the travel costs for this period. In fiscal year 2002, the consultant's invoices supplied more detailed calculation of mileage-reimbursement requests.

RCC needs to recover funds from the contractor, based on billing errors and nondelivery of items specified in the contract.

e. Unsubstantiated Payments; Lack of Deliverables and Required Disclosures

RCC engaged a media/advertising consultant in fiscal years 2000, 2001, and 2002. The consultant was hired as an individual for one of the contracts and as a corporation for five other contracts. For the three fiscal years the consultant was paid $63,250 as an individual and $146,574 as a corporation; regarding the latter amount, RCC could not provide adequate documentation for $42,762 worth of expenses (see subsequent discussion). The following table shows the relevant data and purpose of each contract. We discuss the issues regarding the engagement of this consultant in the following sections.

Consultant	Maximum Obligation	Duration	Contract Manager	Payments	Purpose/Scope	Consultant Contractor Mandatory Submission Form
As an Individual	$90,000	07/01/00 to 06/30/02	President	$63,250	Media consultant, public relations, assist in developing the proposal for technology grant, President adviser	• Additional Income Disclosure—N/A • Disclosure of Persons with Financial Interest—N/A • Resume of Key Personnel—N/A
As a Corporation						
Contract (a)	$ 60,000	07/01/99 to 06/30/00	President	$ 49,959	Media relations	No form provided.
Contract (b)	8,699	01/15/01 to 06/30/01	Chief Administrative Officer	8,699	Creative design and general advertising consulting	• Additional Income Disclosure—N/A • Disclosure of Persons with Financial Interest—N/A • Resume of Key Personnel—N/A
Contract (c)	14,825	03/28/01 to 04/01/01	Chief Administrative Officer	14,825	Design coordination of the annual report	No form provided
Contract (d)	17,274	07/01/00 to 06/30/01	Chief Administrative Officer	17,274	Unknown: contract attachment detailing scope was missing; Invoices state "Design and Print School Catalog"	No form provided
Contract (e)	20,000	07/01/01 to 06/30/02	Chief Administrative Officer	13,055	Creative design and general advertising consulting	• Additional Income Disclosure—N/A • Disclosure of Persons with Financial Interest—N/A • Resume of Key Personnel—N/A
	$120,798			$103,812		

1. Individual Contract: Maximum Obligation $90,000; Paid $63,250

The contract does not establish an hourly or daily rate, even though the scope of work (public/media relations, President's adviser) suggests that RCC was paying for the consultant's time rather than tangible deliverables.

Based on the contract's maximum obligation ($90,000) and potential duration, the monthly payment would equal $3,750. A review of the contract billings shows that the consultant billed for 11 months' work, which should have resulted in payments of $41,250 (11 x $3,750); however, the consultant was paid $63,250. The contractor billed $7,000 per month and was paid $49,000 for the period July 2000 through January 2001 (7 months). Other billing and payment data were as follows:

Month Billed	Amount Billed	RCC Payment
February 2001	$ 7,000	$ 3,000
July 2001	7,000	3,750
August 2001	7,000	3,750
September 2001	7,000	3,750
	$28,000	$14,250

The last three invoices (July-September, 2001) were submitted together in March 2002. Each invoice lists work done by the consultant regarding RCC's response to an Office of the State Auditor (OSA) report on the Electronic Data Processing (EDP) functions at RCC. The OSA report (No. 2000-0204-4C) on information technology control was issued on December 28, 2000 and included RCC's response; therefore, that response had to have been written long before the months covered by the consultant's final billings (July, August, and September 2001).

RCC could not supply any of the other deliverables noted on the billings. The consultant was not required to submit timesheets, and RCC did not keep a record of the consultant's time. Officials in the business office stated that in their view the consultant performed no useful service during July, August, and September 2001 but they nevertheless decided to pay him $11,250, which equaled the 24-month billing rate ($90,000/24) for three months. Other RCC officials in the EDP function and some RCC faculty members questioned whether this consultant did any useful work on RCC's technology plan and grant, two other items that were billed for.

Our review of RCC documents raised other issues regarding the employment of the consultant. For example, the consultant listed his tax identification number (Social Security

number for an individual) on the Commonwealth's Request for Verification of Taxation Reporting Information form and RCC-issued Form 1099-MISC in reporting his earnings to the Internal Revenue Service and the Commonwealth. However, the consultant's Social Security number on his Massachusetts driver's license was different. (The contractor provided a picture of his license on the Contractor Authorized Signature Verification Form with his corporate contracts.) The number on the driver's license was not a substitute identification number. Therefore, either the Social Security number on his license was incorrect, or Forms 1099-MISC for calendar years 2000 and 2001, which reported cumulative income of $52,000, were issued with an incorrect Social Security number.

Chapter 29, Section 29A, of the General Laws requires consultants to provide "a resume setting forth the qualifications of the proposed consultant as they relate to the terms of the aforementioned contract" and "a disclosure statement setting forth any other income derived by the proposed consultant from the Commonwealth or any of its political subdivisions" and "a statement setting forth the names and addresses of all persons with any interest in the said contract." The Operational Services Division's (OSD's) Procurement Policies and Procedures Handbook provides the Consultant Contractor Mandatory Submission Form, which encompasses the aforementioned requirements of Chapter 29, Section 29A. The consultant entered "N/A" for each requirement of Chapter 29, Section 29A, as stated on the form and did not provide a resume as required. The consultant did not disclose his other income from the corporate contracts with RCC and did not list any persons with an interest in these contracts.

Because RCC could not produce an original contract, we relied on a copy from the paid invoice file that did not show the date of execution by the consultant. We also observed that RCC's reservation of funds document describes a scope of work that focuses on media relations, public relations, writing/editing, and advising, whereas the scope of work found with the contract copy includes work related to the EDP function and technology grants. RCC could provide no evidence that the consultant was qualified to do any of the work noted in either scope of work, nor could it provide deliverables indicating exactly what work was performed.

2. Corporate Contracts

Our review of the corporate contracts (a) through (e) (see prior table) and billing and payment data revealed issues regarding scope of work, matching payments to individual contracts, and contractor mandatory submission forms. We obtained an expenditure list for this consultant from RCC's trust fund accounting system for fiscal years 2000 through 2002 and tried to match payments totaling $146,574 to the appropriate contracts.

This process was inhibited by the limitations of the accounting and contracting systems at RCC. Because the invoice and payment data do not adequately reference a particular contract, RCC could not demonstrate that the services described on these invoices matched the intended scope of the contract or determine which payments applied to each contract. The trust fund accounting system also does not match payments with contract data and has no reliable method of associating payments with the time frame in which the services were provided.

We relied on time frames, maximum obligations, and invoice descriptions to determine the payments pertaining to the contracts shown in the previous table. We determined that $103,812 pertained to the corporate contracts in the table; the remainder, $42,762 in payments, did not appear to pertain to any of the contracts provided to us. The following table shows these payments with accompanying data and descriptions per RCC's accounting system. Of the eight payments listed, RCC could not provide invoices for the first six amounts, and the invoices RCC provided for the last two items did not appear to correspond to any of the contracts we reviewed.

Date	Check Number	Amount	Description	Disbursing Account
11/24/99	1024	$12,507	Cost Center Not Certain (Catalog Reimbursement)	Facility
07/10/99	1277	5,320	Invoice 1063	DCE
03/23/00	1420	3,965	Invoice 1050	DCE
01/28/00	2180	7,500	Invoice 1089	General
06/30/00	550	5,490	Invoice 1125	General
06/30/00	550	5,000	Invoice 1123	General
01/31/01	984	1,780	Invoice 1132	General
06/27/01	1372	1,200	Invoice 162357	General
		$42,762		

Contracts (a) and (d) in the exhibit both referred to "attachments" describing the scope of the contractor's performance. Copies of these contracts supplied by RCC did not have attachments that described the contractor's scope of work. However, invoices totaling the maximum obligation of contract (d) indicated that they were for "the design and printing of school catalog," and invoices totaling $49,959 that correspond to the time frame of contract (a) indicate that they are for media consulting, advising, and printing of RCC's annual reports.

3. Mandatory Disclosures

Chapter 29, Section 29A, of the General Laws requires consultants to make disclosures pertaining to persons with a financial interest in a contract and any other income that the consultant derives from other contracts with the Commonwealth. The same law also requires consultants to submit a resume detailing their qualifications in relation to the proposed engagement. OSD has developed a Consultant Contractor Mandatory Submission Form for contractors to complete. For three of the corporate contracts, no such form was completed, and in the two other corporate contracts the consultant answered all questions with "N/A," meaning that there was no conflict of interest and he had no other income from the Commonwealth. The consultant did not submit a resume for his corporate contracts. Given the overlapping time frame of the contracts and the consultant's dual role as individual and corporation, the consultant did not make the proper disclosures required by Chapter 29.

RCC must establish whether payments made to this consultant were appropriate and seek reimbursement when doing so is indicated.

Recommendation

RCC's trustees should strongly encourage RCC administrators to comply with its Trust Fund Guidelines and Policies, state laws, and regulations relating to procurement of goods and services. Specifically, RCC should (1) ensure that all contracts are competitively bid; (2) document its rationale for selection of the "best value" contractor; (3) ensure that contract work does not begin until the contract is signed; (4) ensure that compensation rates are

clearly set forth and adhered to; (5) ensure that contract managers monitor contractor performance invoices, due dates, and deliverables; and (6) obtain adequate supporting documentation or recover the $56,307 in unsupported contract payments ($28,311 and $27,996). Methods to improve contract administration can be found in the Commonwealth's Procurement Policies and Procedures Handbook.

Auditee's Response

The current administration of the College acknowledges that procurement guidelines were in place during the period of the findings, but, in the examples cited, the guidelines were not followed by the previous President or chief administrative officer. The procurement guidelines included procedures for competitive bidding, contracts specifying the services or deliverables, due dates and performance review. However, proper controls ensuring compliance with these policies were lacking.

The present administration has focused on instituting internal controls. In addition, the present Board of Trustees has made financial and administrative systems a top priority. To this end, the full Board of Trustees voted to hire an external consultant to review present financials, including financial aid, and to develop a strategic financial plan for the College. The Finance and Audit Committee of the Board has strongly recommended that compliance with procurement policies be linked to staff performance evaluations. In addition, the new Jenzabar administrative software has certain controls within each module to support sound business practices.

Auditor's Reply

In addition to instituting internal controls, the present RCC administration should recover the improper payments or obtain appropriate supporting documentation as cited in the audit result.

2. IMPROPER CASH TRANSFERS OF OVER $1 MILLION FROM FEDERAL, STATE, AND TRUST FUND ACCOUNTS TO COVER DIVISION OF CONTINUING EDUCATION PAYROLLS AND RELATED EXPENSES

During our review of cash records at RCC, we noted that more than $1 million was transferred from various state, federal, and fee-based trust fund accounts to pay for payroll costs and related expenses of RCC's Division of Continuing Education (DCE).

Because RCC maintained inadequate and untimely grant cost records, the drawdown and use of federal, grant fund, and tuition and fees revenue is questionable. RCC cannot demonstrate that the federal funds were appropriately used and that tuition and fees collected were timely deposited in the correct accounts and with the State Treasurer. Tuition

and fees collected from students are required to be either deposited into trust funds established to safeguard the fees or transferred to the State Treasurer as required by the General Laws. Similarly, federal grants and state grants are earmarked for specific purposes prescribed by grant requirements.

RCC records demonstrated a pattern, over an extended period, of transferring federal, trust, and income funds to DCE accounts to pay for payroll costs and related expenses, with no evidence that the funds were appropriately spent for their intended purposes. RCC officials transferred the money because of negative balances in DCE accounts.

a. Tuition and Fees

On May 25, 2001, RCC transferred $168,839 by check (signed by the RCC President) from the Commonwealth Receipts Trust Fund to the DCE Trust Fund. The documentation accompanying the check noted that the $168,839 included day tuition receipts of $85,531 and student fees of $25,087. However, the day tuition receipts of $85,531 should have been forwarded to the Commonwealth as specified by Chapter 29, Section 2, and Chapter 30, Section 27, of the General Laws:

- Chapter 30, Section 27: "Except as otherwise expressly provided, all fees or other money received on account of the commonwealth shall be paid daily into the treasury thereof…."
- Chapter 29, Section 2: "All revenue payable to the commonwealth shall be paid into the general fund, except revenue required by law to be paid into a fund other than the general fund…."

By transferring tuition and fees to DCE, RCC was also in noncompliance with its Trust Fund Guidelines and Policies, which states that the purpose of the Commonwealth Receipts Trust Fund (CRTF) is the following:

> *To serve as a clearing account for monies received from related services provided. On a monthly basis, the account is to be cleared and checks are to be written and deposited to the appropriate account.*

To comply with its trust fund policy, RCC should have deposited student remittances to CRTF, and the day division tuition amount should have been transferred to the

Commonwealth sweep account. The student fees should have been transferred to the College Fee Trust Fund (student activity fees, administrative fees, etc.), the purpose of which is "to receive monies derived from student fees." DCE is not an appropriate depository for day tuition and fees.

The DCE Trust Fund reimbursed the Commonwealth by transferring $85,531 on June 22, 2001 to the sweep account. However, as of November 30, 2001, the DCE cash records did not show the return of the $25,087 in fees to the appropriate trust fund.

The tuition and fees were combined with federal grant funds to cover the May 25, 2001 DCE payroll totaling $362,872 (discussed later).

b. Campus Managed Grants Account (CMGA)

Federal and state grant receipts, with the exception of Student Financial Aid funds, are deposited in a pooled cash account called the Campus Managed Grants Accounts. During our review we observed that funds were routinely transferred from CMGA to the DCE account, as follows:

- Advanced Training for Minorities in Science (ATOMS) Grant: On May 24, 2001, RCC received $120,000 from the Department of Health and Human Services (DHHS) for the ATOMS grant, the purpose of which is to provide paid internships at local universities for community college students with science or health-related majors. Prior to the $120,000 transfer from DHHS, CMGA had a balance of $100,000. On May 25, CMGA transferred $110,000 to the DCE account. On May 25, the DCE cash balance available to meet expenses was as follows:

Balance May 14, 2001	$182,280
May 25, 2001: Transfer from Commonwealth Receipts Account (See Previously Described Tuition and Fee Revenue)	168,839
May 25, 2001: CMGA Transfer (ATOMS Grant)	110,000
Cash Balance May 25, 2001	$461,119

On May 25, 2001, DCE processed a payroll of $362,872, which was paid predominantly to DCE faculty.

The Notice of Grant Award for the ATOMS grant stated that it is subject to 45 Code of Federal Regulations (CFR) 74, which in Section 21 requires each recipient's financial system to provide the following:

> *Effective control over and accountability for all funds, property, and other assets. Recipients shall adequately safeguard all such assets and assure they are used solely for authorized purposes.*
>
> *Written procedures for determining the reasonableness, allocability and allowability of costs in accordance with the provisions of the applicable Federal cost principles and terms and conditions of the award.*

A loan from the ATOMS grant to fund DCE faculty payroll represents neither an authorized purpose nor an allowable cost.

- Fund for the Improvement of Post Secondary Education: On October 12, 2001, RCC requested and received $300,000 through the federal Department of Education's Grant Award Payment System (GAPS). The funds were for a program titled Fund for the Improvement of Post Secondary Education (FIPSE) – Directed Grants and were wire-transferred into RCC's Department of Education Federal Assistance Financing System (DFAFS) bank account. The purpose of the project was to implement a Distance Learning Technology Access Project, and the overall federal budget was $723,000, which was to be used primarily to purchase equipment. RCC was to provide administrative and technology support through other sources (Math, Science/Technology, and Business Departments) at no cost to the federal grant.

  The FIPSE grant is subject to the provisions of 34 CFR 74.21, which contains the identical language regarding the safeguarding of assets and allowability of costs in 45 CFR 74.21, referenced earlier regarding the ATOMS grant.

  On October 22, 2001, RCC transferred $300,000 from the DFAFS account to CMGA. The check was signed by the President and Provost of RCC. Prior to the transfer, CMGA had a balance of $112,209, which was insufficient to finance transfers to DCE; therefore, the transfers could only be possible because of the FIPSE drawdown.

  On October 26, 2001, CMGA transferred $150,000 to the DCE Trust Fund, which prior to the transfer had a cash balance of $20,924. On October 26, 2001, DCE processed a payroll of $220,949, which resulted in a negative cash balance of $50,025.

  On November 5, CMGA transferred $50,000 to the DCE account to pay $26,311 to the Internal Revenue Service for interest and penalties for not filing payroll tax returns and remitting withholding taxes (W/H) on a timely basis for the quarters ended March 31, 2001 and June 30, 2001, as follows:

RCC Payroll Dates	Tax W/H Due Date	Dates Paid	Amounts Paid (W/H)	Date Payroll Tax Return (941) Due	Date Return Filed	Penalties and Interest
01/26/01 to 03/30/01	01/31/01 to 04/4/01	06/14/01	$ 61,836	04/30/01	09/24/01	$22,846
04/27/01 to 05/25/01	05/2/01 to 05/31/01	06/14/01	58,962	07/31/01	09/24/01	3,465
06/29/01	07/05/01	07/13/01	4,139			-
			$124,937			$26,311

- Other Grants and Overall CMGA Accounting: On November 7, 2001, RCC prepared a financial statement for CMGA that listed 14 grants. The Vocational Education Opportunity (VOCED) grant and the Ladders to Success grant are paid through the Commonwealth's Department of Education (DOE). An RCC official stated that the federal government disbursed VOCED grant funds to the state DOE, which then distributed these funds to various educational institutions. Because of this distribution method, the VOCED grants are known as "pass through" grants, and all federal requirements imposed upon the grantee (the Commonwealth) generally pass through to the ultimate subgrantee (RCC). The VOCED grants are subject to the requirements of 34 CFR 74.21, which requires using grant funds for authorized purposes only. The Ladders to Success program is a direct grant funded through DOE, and its purpose is to provide various forms of support to those involved in early childhood education.

  The CMGA July 1, 2001 to November 7, 2001 financial statement showed the following information for these grants.

	Vocational Education	Ladders Grant
Receipts	$187,529	$70,000
Expenditures	28,535	-
Difference	$158,994	$70,000

  The VOCED receipts were drawn down on September 10, 2001 ($130,009) and November 7, 2001 ($57,520). The Ladders to Success grant of $70,000 was received on September 17, 2001. The purpose of these drawdowns appears to have been to finance other grants within CMGA with insufficient cash balances and to replenish the overall CMGA cash balance. The RCC Comptroller informed us that there are no detailed grant cost records for fiscal year 2002 due to the absence of a grants accountant; therefore, it could not be readily determined whether there were additional costs that would justify these drawdowns.

> The financial statement also shows that transfers to trust funds outside of CMGA, such as DCE, are charged to an "Unallocated Grant Balance (UGB) account. On November 7, 2001, the UGB balance was $175,823, which represents cash disbursements to nongrant accounts that do not qualify as grant expenditures (i.e., loans).

In addition to these transfers in fiscal year 2002, RCC transferred $285,000 from CMGA to DCE on October 27, 2000 to help fund a DCE payroll of $334,895 processed on that day. The $285,000 transfer was funded by the following grants: System for Adult Basic Education Support (SABES), Preparatory Program for Adults (PREP), Ladders to Success grant, and VOCED. The transfers to DCE and relevant cash balances are shown in the following table:

	CMGA		DCE
Balance 08/03/00	$(64,114)	10/19/00	$ 50,997
Receipts:			
08/17/00 SABES Grant	77,750		
08/17/00 PREP Grant	82,012		
08/19/00 VOCED	171,109		
08/19/00 PREP Grant	15,101		
08/31/00 Ladders Grant	91,644		
	$373,502		
Expenditures 08/31/00 - 10/26/00	(64,335)		
10/27/00 Transfer	(285,000)		285,000
	$ 24,167		$335,997
10/27/00 DCE Payroll	-		334,895
Balance 10/27/00	$ 24,167		$ 1,102

Of the $64,335 in disbursements made from August 31, 2000 through October 26, 2000, only $707 (which was spent on VOCED) represents expenditures for these grants. RCC officials stated that within the DCE payrolls are personnel assigned to these grants, the cost of which was not assigned to any formal grant cost records and therefore the expenditures and disbursements shown by the cash records of the CMGA cannot be relied upon to show total grant expenditures.

The CMGA financial statement at June 30, 2001 shows $405,000 in cash transfers to DCE that were not paid back or reflected as expenditures by the individual grant accounts within the CMGA financial statement. In December 2001, the RCC Comptroller prepared a spreadsheet that attempted to reconcile transfers of CMGA grant funds for grant year 2000

with payroll paid by DCE on behalf of the grants. The spreadsheet shows $480,764 of grant payrolls compared with the same total amount transferred to DCE by CMGA. However, we noted that the spreadsheet analysis has the following deficiencies:

- Total CMGA transfers were compared with total grant payrolls processed by DCE rather than comparing individual grant transfers to individual grant payrolls.
- The spreadsheet analysis was not reflected on any formal grant records or financial reports.
- The analysis is for grant year 2000, which appears to be applied on a calendar year basis. However, since school financial records are on a state fiscal year basis, they cannot be easily compared.

c. Student Financial Aid Funds

RCC made two drawdowns of federal financial aid funds in November and December 2001, the major portions of which were used to fund DCE payroll expenses, as follows:

Drawdown Date	Date Credited to Student Account	Drawdown Amount	Date Transferred to DCE	Date of Net Checks to Students	Amount Transferred to DCE	DCE Payroll Amount	Payroll Date
11/21/01	11/26/01	$181,544	11/21/01	12/10/01	$160,000	$230,377	11/23/01
12/27/01	12/27/01	$323,918	12/28/01	01/07/02	$250,000	$290,308	12/28/01

The drawdowns were wire transferred into RCC's DFAFS account and subsequently transferred to the DCE bank account. The November 21, 2001 transfer to DCE occurred before student accounts were credited, indicating that funds were drawn down to meet the DCE payroll. Federal regulation Title 34, part 668.18, in part states:

> *Funds received under the FPELL, FSEOG…programs are held in trust for the intended student beneficiaries and the Secretary. The institution as a trustee of federal funds may not use or hypothecate (use as collateral) title IV funds for any other purpose.*

Chapter 5, Volume 2, of the Student Financial Aid [SFA] Handbook defines a disbursement of financial aid funds as follows:

> *SFA program funds are disbursed when a school credits a student's account with funds or pays a student or parent directly with SFA program funds received from the Department.*

The SFA Handbook states that "a school must make disbursements as soon as administratively feasible, but no later than three business days following the date the school receives those funds." The Handbook also notes that when SFA credits exceed allowable charges, the excess (credit balances) must be paid directly to the student as soon as possible but no later than 14 days after the date the balance occurred.

RCC provided two rosters of students with total awards (FPELL grant and Federal Supplemental Educational Opportunity Grant) equaling the drawdowns of $181,544 and $323,918, which were for the fall 2001 semester. The credits to student accounts appear to have been made within three days (excluding holidays and weekends) as required by federal regulations, and checks were issued in time to comply with the 14-day rule. However, because the drawdowns were used almost immediately to finance DCE payrolls, we question whether actual compliance had been achieved. Because $160,000 of the $181,544 in drawdowns was transferred to DCE on November 21, 2001, it was not available to apply (credit) against charges to student accounts on November 26, 2001. Additionally, after the transfer of $160,000 to DCE, only $21,544 of the drawdowns was available to fund net student checks totaling $62,437. Based on the actual use of the drawdown, it appears that its purpose was to finance DCE payrolls rather than meet student financial aid needs. Similarly, the data accompanying the $323,918 drawdown of December 27, 2001 indicate that net checks due students totaled $109,968. However, after the $250,000 transfer to DCE, only $73,918 ($323,918 – $250,000) would have been available to cover these checks. The following is a summary of the application of funds for each drawdown:

Date of Drawdown	Drawdown Amount	Unpaid Prior Balance	Day Tuition	DCE Tuition	Fees Day/DCE	Bookstore Vouchers	Health Insurance	Net Student Checks
11/21/01	$181,544	$2,445	$23,998	$ 6,474	$ 58,764	$11,228	$16,198	$ 62,437
12/27/01	323,918	200	26,338	29,172	107,394	28,722	22,864	109,228
Totals	$505,462	$2,645	$50,336	$35,646	$166,158	$39,950	$39,062	$171,665

In addition to federal compliance issues raised by RCC's use of student financial aid funds, the requirements regarding daily deposits of funds received on behalf of the Commonwealth had not been complied with (See Section a. of this Audit Result). Day tuition receipts

totaling $50,336 should have been paid to the Commonwealth on the days that amounts were credited to student accounts. Furthermore, in accordance with RCC's Trust Fund Guidelines and Policies, all student fees should have been deposited into the College Fee Trust Fund. As of December 31, 2001, amounts withheld from financial aid awards for health insurance ($39,062) and bookstore vouchers ($39,950) had not been remitted to the insurance carrier or bookstore vendor.

d. Facility Fund Trust Fund

On November 23, 2001, the Facility Trust Fund transferred $80,000 to DCE; that amount, along with the $160,000 in financial aid funds discussed in the previous section, funded a DCE payroll of $230,377. RCC's Trust Fund Guidelines and Policies states that the Facility Trust Fund "shall be used to pay expenses associated with the operation of the facility," not continuing education payroll expenses.

The cash transfers to DCE were deemed necessary because DCE could not cover its expenses with tuition and fee income. The DCE cash basis financial statement for the period July 1, 2001 to November 30, 2001 was as follows:

Balance July 1, 2001	$ 190,095
Receipts	744,662
Disbursements	1,017,540
Balance November 30, 2001	$ (82,783)

For fiscal year 2001, DCE had an excess of disbursements over receipts of $279,024. The actual deficits are larger than indicated in the financial statements because the receipts are inflated by the unpaid cash transfers to DCE previously discussed (in sections a through c).

RCC operates continuing education classes in evening, summer, and day programs. The purpose of the day program is to provide classes when enrollment exceeds the capacity of the regular day division in which faculty are paid from state-appropriated funds.

Both the operation of a day DCE program and the incurring of deficits may be in noncompliance with Chapter 15A, Section 26, of the General Laws, which states:

> *Each public institution of higher education may conduct summer sessions, provided such sessions are operated at no expense to the commonwealth. Each public institution of higher education may conduct evening classes, provided such classes are operated at no expense to the commonwealth.*

Chapter 15A, Section 26, makes no provision for institutions of higher education to operate a DCE program during the day. RCC needs to evaluate the fee structure and cost of operating the various programs within DCE and should seek guidance from the Board of Higher Education regarding the legality of operating a day division within DCE.

Recommendation

To comply with state and federal regulations, RCC should take the following actions:

- Develop an internal control system that will prevent transfers of funds for unauthorized purposes
- Remit all improper transfers to the appropriate fund
- Ensure that the DCE programs operate at no expense to the Commonwealth and develop cash budgets, as appropriate
- Cease operation of the day DCE program
- Develop a proper grant accounting system and make postings on a timely basis

Auditee's Response

In response to this finding, RCC's Interim Vice-President for Finance stated:

> *Based upon my understanding of the transfers which occurred, federal revenue was used to cover payroll and tax deposit requirements, and then funds were restored in the appropriate accounts. This was done due to the shortage of revenue in the Department of Continuing Education account.*
>
> *To prevent this cash flow problem, the College has mandated that all student bills be either paid or "in the process of being paid" through financial aid payment plans in which the student has participated. We are monitoring the payment of students so that sufficient funds should be available to pay College salaries and expenses.*
>
> *The College is focusing efforts to demonstrate that federal and trust funds are spent appropriately and consistent with the purposes for which they were provided.*

3. IMPROPER TAX REPORTING AND WITHHOLDING ON FRINGE BENEFITS PROVIDED TO THE RCC PRESIDENT

Our audit disclosed that RCC did not withhold taxes for, or issue Internal Revenue Service (IRS) W-2 income information forms accurately reflecting, fringe benefits (i.e., a housing allowance, a leased automobile, automobile expenses, and miscellaneous benefits) provided to the RCC President during calendar years 1999 and 2000. As a result of our audit, RCC issued a form W-2 for calendar year 2001 to reflect the value of the 2001 fringe benefits; however, federal and state income taxes were again not withheld.

The Employer's Tax Guide to Fringe Benefits (IRS Publication 15-B) states, in part:

> *Any fringe benefit you provide is taxable and must be included in the recipient's pay unless the law specifically excludes it.... If the recipient of a taxable fringe benefit is your employee, the benefit is subject to employment taxes and must be reported on Form W-2.*

The IRS provides for assessment of penalties for improper reporting and withholding of fringe benefits, and the Commonwealth's Department of Revenue (DOR) has adopted similar rules. Furthermore, the Standards for the Expenditures of Trust Funds, promulgated by the Commonwealth's Board of Higher Education, states, in part:

> *Compliance with IRS guidelines for the personal use of an institutional vehicle should be adhered to by a president or other administrator.*

In accordance with the terms of the President's employment contract, RCC supplemented the President's salary with a "housing allowance" and a "full-sized, mid-priced recent model automobile," which was obtained through a lease. The automobile fringe benefit included payments for monthly lease, insurance, maintenance/repairs, and gasoline. The housing allowance and automobile benefits were paid from trust funds that RCC maintains at local bank accounts. The President's salary, which was paid from state-appropriated funds, and tax withholdings for calendar years 1999, 2000, and 2001, are summarized in the following table:

Year	Salary	Federal Income Tax Withheld	State Income Tax Withheld	Medicare Tax Withheld
1999	$99,089	$15,588	$4,860	$1,437
2000	$108,362	$18,232	$5,372	$1,571
2001	$117,406	$20,274	$5,634	$1,702

Source: Form W-2 Wage and Tax Statement processed by the Office of the State Comptroller. Salary includes deferred compensation.

Benefits paid to the President from RCC trust funds and taxes withheld as reported to the IRS for calendar years 1999 to 2001 are as follows:

Year	Housing	Automobile	Miscellaneous	Total Benefits Received	Benefits Reported to IRS	Federal and State Income Tax Withheld
1999	$12,000	$6,444	-	$18,444	-	-
2000	$13,500	$4,783	$449	$18,732	-	-
2001	$19,500	$13,262	$893	$33,655	$33,655	-

Source: Form W-2 Wage and Tax Statement processed by Roxbury Community College.

Regarding 1998 and 2000 benefits reported to IRS, on March 20, 2002—after we completed our field work on this issue—RCC's legal counsel provided RCC the following documents, which RCC provided to us on April 4, 2002:

Year	Statement	Amount Reported as Income	Amount Withheld
2000	W-2	$13,500	-
1998	1099-Misc	$12,000	-

RCC's current comptroller could not verify that these forms were issued by RCC. The $13,500 income figure reflected on the 2000 Form W-2 does correspond to the housing allowance paid by RCC, which we derived from RCC's records. The Form W-2, however, does not reflect automobile allowance and other benefits paid in 2000, and no amounts were withheld.

Although 1998 was not part of our original analysis, our review of the Form 1099-MISC revealed that it does not reflect the President's correct Social Security number. Also, Form 1099-MISC was processed under the Commonwealth's Employer Identification number rather than RCC's. The $12,000 reported as income in 1998 reflects only the housing allowance paid, not the automobile allowance or other benefits received. Moreover, because the President is an employee of RCC, a Form W-2 rather than a Form 1099-MISC should have been used.

The automobile benefit noted in the first table of this section consisted of monthly lease payments for each of the three years. In 2001, repairs, maintenance, insurance, and gasoline expenses were included in determining the value of the automobile benefit; however, for calendar years 1999 and 2000, only lease payments are included. IRS Publication 463, Travel, Entertainment, Gift, and Car Expenses, gives employers two options in reporting the value of an employer-provided automobile on Form W-2:

- Full Value of Automobile Included as Income: The employee would deduct the business percentage of use on his tax return to compute the taxable personal use.
- Personal Use of Automobile Included as Income: The employee reports personal use as income and deducts any nonreimbursed out-of-pocket business expenses.

Our review of RCC's calculation of the automobile benefit found that RCC had used a combination of those methods and included maintenance, repair, and insurance expenses.

RCC executed a lease agreement for a 1999 Chrysler Concorde for a 36-month term (July 1999 to August 2002). The financial terms of the lease were as follows:

Amount Due at Lease Signing	$1,400
Monthly Payments	$431
Value of Vehicle	$25,630
Purchase Option at End of Lease ($.15/mile for Annual Mileage over 12,000 Miles)	$13,700

Prior to July 1999, RCC had leased a 1996 Chrysler Concorde for the exclusive use of the President. After the expiration of the lease, RCC purchased the automobile for the general use of RCC personnel.

The following summarizes RCC's worksheet for valuing the automobile benefit in 2001:

	Amount	Percentage Used for W-2	Included in W-2 Amount
Lease Payments	$5,300	100%	$5,300
Car Repairs and Maintenance	$4,669	100%	4,669
Insurance	$3,899	50%	1,949
Gasoline (Credit Cards)	$2,688	50%	1,344
			$13,262

An analysis of each element in the table follows:

- Lease Payments: The total lease payments should equal $5,172 (12 x $431 per month), not $5,300, which RCC paid. An analysis of the lease invoices indicated that the $128 difference ($5,300-5,172) was due to late-payment charges.

- Car Repairs: Whether car repairs should be included as income is questionable, because repairs would normally be considered necessary to get the leased automobile back into its pre-accident condition. Therefore, absent special circumstances, car repairs represent a return of capital rather than income. The $4,669 cited in the table consists of four payments by RCC to a Chrysler dealer, as follows:

Date of Check	Check Number	Amount	Explanation
01/03/01	911	$500	Payment of deductible on 1999 Chrysler Concorde. Date of accident December 5, 2000. Total repair cost $2,600.
03/14/01	1102	329	Repair side view mirror — 1999 Chrysler Concorde.
07/02/01	1384	417	Maintenance, brakes, air conditioner — 1996 Chrysler Concorde.
07/03/01	1392	3,423	Collision work on 1996 Chrysler Concorde, including $300 deductible and $72 additional repair. Net payment from insurance company $3,051. Date of loss: April 24, 2001.
		$4,669	

Most—$3,840 ($417 + $3,423)—of the repair and maintenance payments were not for the 1999 Concorde, which was the President's car, but for the 1996 Chrysler Concorde, which was purchased by RCC for general use. Furthermore, we found that although the insurance settlement of $3,051 for the collision damage on the 1996 Concorde was paid to RCC in July 2001, it was in turn paid to the President in February 2002. RCC offered various explanations regarding why an insurance settlement for property damage on an automobile leased by RCC should be paid to the President. One official stated that because the repair amount was on the W-2 form, the President should receive the settlement amount. Another employee

explained that upon receiving the W-2 the President complained that she lacked the necessary funds to pay the additional taxes that the W-2 would generate, so RCC made the payment to her in calendar year 2002 to help her with her tax situation.

- Insurance: An analysis of the invoices and insurance policies supporting the $3,899 showed that it consisted of combined premiums for the 1996 and 1999 Chrysler Concorde of $2,066 for the period September 12, 2000 to September 12, 2001 and $1,833 for the period September 12, 2001 to September 12, 2002. Premiums for two years were included on the W-2 because they were paid in calendar year 2001 to the same insurance company. RCC did not analyze the payments to determine whether they represented two years' worth of premiums for two automobiles. For the Form W-2 in 2001, only the insurance amount pertaining to calendar year 2001 for the 1999 Chrysler Concorde should have been included. The correct amount would be approximately half of the $1,949 reported.

- Gasoline: RCC computed the $1,344 amount by adding all payments made in calendar year 2001 to two major gasoline credit companies and multiplying that amount by 50%. Because the gasoline was purchased with the credit cards for both Chrysler Concordes, a truck, lawn mowers, snow blowers, and other equipment used by RCC, the $1,344 is only an approximation for the gasoline used for the President's car. Separate records were not kept for the President's car, and neither credit card was dedicated solely for that car.

The IRS offers a simpler method of determining the value of the lease to an employee called the Lease Value Rule (LVR). The IRS has constructed a Lease Value Table that yields annual lease values for automobiles with varying fair market values (Publication 15-B). The annual lease value amount includes insurance and maintenance but does not include fuel. Under the LVR, a 1999 Concorde with a value of $25,630 had a lease value of $6,850 in 2001. A requirement of using the LVR is that it must be used on the first day an employer makes the automobile available for personal use. Because RCC did not use this method in 1999 when it first leased the vehicle, it cannot use it in subsequent years.

We found that in addition to the lack of proper tax reporting, RCC did not withhold federal and state income taxes. Because taxable fringe benefits are considered supplemental wages, tax withholding is generally required. RCC could have complied with this requirement either by withholding a flat 27% or adding the benefits to salary processed by the Office of the State Comptroller, calculating the total tax to be withheld and computing the additional withholding by subtracting the amounts already withheld by the Office of the State Comptroller from the total tax previously computed. For the automobile portion of the

benefit (see Publication 15-A), RCC could have elected to not withhold income tax by providing the President a written notice of this election by the later of January 31 of the election year or 30 days after the vehicle was provided. The election is valid only if correct W-2 forms are filed. For the housing allowance, which was paid in cash, no such election is available and withholding is required.

RCC could be assessed penalties by both IRS and DOR for not reporting income and not withholding taxes. RCC officials stated that they did not know why benefits were not previously reported and amounts not withheld.

Recommendation

RCC should recover the $3,051 improperly paid to the President for the collision repair and file amended tax-reporting forms. In addition, to avoid interest and penalties, RCC should properly report fringe benefits paid or provided to employees to both IRS and DOR. Also, RCC should obtain all appropriate IRS and DOR publications and require the President of RCC to keep a log of all travel and related expenses.

Auditee's Response

The report's findings are correct with regard to the non-withholding of taxes and reporting of fringe benefits that should have included the housing allowances, leased automobile, automobile expenses, and miscellaneous benefits provided the former President during the 1999-2000 calendar years.

We wish to address the insurance settlement of $3,051 for collision damages. The report suggests that the former President may have benefited inappropriately from an insurance settlement of $3,051 for collision damages received by the former President from the insurance settlement.

The issue involves the cost of repair to a leased vehicle that, according to the Comptroller, was entirely paid by the former President. The value of the lease, insurance and maintenance were part of her fringe benefits and should have been included in her Form W-2 for previous years. Since the value of her use of the auto was included in her Form W-2, the former President paid the complete cost of the repair. The insurance payment was less than the total cost of repair. Since the former President paid the complete cost of repair, the College forwarded the insurance payment to her as reimbursement. The College also included the amount of the insurance payment in the Form W-2 report to both the Federal and State governments for 2001 tax year. Consequently, we do not believe the President benefited inappropriately from the insurance reimbursement for the repair that she paid.

However, we are taking under advisement the recommendation of the auditors and will discuss this recommendation with Finance and Audit Committee of the Board of Trustees....

Auditor's Reply

Regarding the insurance settlement of $3,051 and subsequent payment to the former President of the College, our report correctly states that the vehicle repaired was not the President's car, which was a 1999 Chrysler Concorde under lease; rather, the repaired vehicle was the 1996 Chrysler Concorde that was purchased by RCC and was under the control of another RCC official. The insurance settlement document names that other official in the claim information accompanying the insurance payment. Therefore, we do not agree with the auditee's response that the repair/insurance pertained to a leased vehicle—that is, the President's car. The repair was made to the 1996 vehicle formerly leased and then, long before the accident, purchased by RCC in August 1999.

We were not provided information that the former President made any payments related to damage to the 1996 vehicle. We believe that the RCC Comptroller is mistaken in his belief that the President paid for the repair or has information that we were not given.

From the records we were provided, we prepared the following chronology, which counters the Comptroller's interpretation of events:

04/24/01	Loss (collision) occurs.
05/08/01	Insurance company disburses $1,159, with notation that amount has been reduced by deductible of $300.
06/13/01	Insurance company disburses $1,892, noting this represents full and final payment for claim.
06/30/01	RCC deposits both insurance checks.
07/03/01	RCC disburses $3,423 to the Chrysler dealer; this sum represents the insurance settlement of $3,051 plus the $300 deductible and a $72 repair unrelated to the collision.
01/31/02	RCC provides auditors with W-2 for calendar year 2001 that includes $3,423 payment for collision repair.
02/12/02	RCC writes a check for $3,051 to the President of the College. Check cleared bank on 02/22/03.

4. INADEQUATE DOCUMENTATION OF CREDIT CARD CHARGES

The RCC President incurred credit charges of $9,752 for the period September 2000 to March 2002 on an educational institutional credit card issued to her in her capacity as President. The credit card was in addition to the gasoline credit cards for RCC's vehicles (see Audit Result No. 3). The $9,752 shown in the following table below consists of 111 individual charges, not including credits of approximately $2,400 for returns and cancellations, but including finance charges and late fees totaling $631:

Expenditure Classification	Amount Charged
Hotel/Lodging	$2,132
Business Office Expenses	1,576
Conference-Related Expenses	1,070
Meals/Restaurants	1,063
Automobile-Related Expenses	839
Airfare	587
Other	
Pen Shop	364
Internet Service Provider	622
Flowers	279
Museums	215
Custom Frame	110
Fast Lane (Mass Turnpike)	75
Miscellaneous	189
Credit Card Expenditures	$9,121
Finance Charges	457
Late Fees	174
Total Credit Card Charges	$9,752

Credit card statements and accompanying documentation were maintained by the President's administrative assistant rather than by RCC's Business Office, which was instructed to pay statements forwarded to it by the President's Office. Payments were made from RCC's fee-based trust funds. According to RCC's Business Office, the late fees of $174 were due to the late submission of credit card statements by the President's Office, which, in addition to RCC's cash flow problems, caused $457 in finance charges. The finance and late fees total $631, which added 7% to the credit card expenses of $9,121. The credit card company

charged interest at rates between 12% and 17% during the period that the charges were incurred. The mailing of the credit card statements to the President's Office is contrary to RCC's Internal Control Manual (October 2000), which requires vendor invoices be mailed to the Business Office.

Our review also revealed that the President's Office could not provide charge slips, invoices, or bills for 52 of the 111 charges incurred, or $3,925 of the total charges. Neither RCC's Internal Control Manual nor its Trust Fund Guidelines and Policies specifically addresses credit card expenditures; however, regarding disbursements, both documents discuss procedures and documentation that can be applied to credit card expenditures. Regarding travel and subsistence costs, the RCC trust fund policy states the following:

Expenses documentation should include:

- *Date, city restaurant and description of meal (lunch, dinner, etc.)*
- *Name(s), company, affiliation(s) and business relationship(s) of person(s) in attendance.*
- *Business purpose for incurring the expenses.*
- *Amount spent.*

In addition, the policy states that "a receipt must document business meal expenses" and "any unexplained or undocumented expenditures should not be reimbursed."

When informed of the missing credit card slips, the President's administrative assistant requested copies of invoices/charge slips from vendors for some of the charges and later provided copies of the credit card statements with her handwritten explanations next to the charges. At the completion of our fieldwork, we were given the following credit card bills not originally provided to us:

Airlines	$ 587
Conference	750
Hotels (2)	454
	$1,791

We excluded these items when arriving at the $3,925 in undocumented charges. The written notations on the monthly statements provided by the President's assistant did not fully

explain the business purpose of the expenditures or who was present at a restaurant or function. RCC provided a copy of a March 20, 2003 letter written by the former President that requested the closing of the account and referenced a payment from her personal funds of $389 that appears to correspond to an Internet service provider fee and other online purchases made during the period under audit.

The RCC Business Expense Policy (page 40), which appears as an attachment to the Trust Fund Policy, states that "all expenses must be fully documented." Furthermore, the President's employment contract, which was in effect during the period of these charges, provides the following guidance for expenses:

> *Travel*
>
> *The College shall reimburse the President for all reasonable travel and expenses which are necessary for the proper function of the Office of the President.*
>
> *Conferences and Memberships*
>
> *The College shall pay all reasonable fees and expenses for professional, civic, public service conferences and activities, provided however that any individual fee or expense in excess of one thousand dollars shall have the prior approval of the Board....*
>
> *Reimbursement of Expenses*
>
> *The College shall reimburse the President for all other expenses reasonably incurred in the performance of her duties under this agreement and consistent with applicable laws and regulations.*

Without appropriate expense documentation, RCC could not demonstrate that disbursements were reasonable, necessary for the benefit of the President in her role as chief executive of RCC, and consistent with laws and regulations.

The holder of a credit card has the power to bind RCC for expenses that are not subject to regular approval and review procedures. The credit card in question had a maximum credit limit of $13,500 during the period of our review and the ability to disburse cash advances (although none were noted), factors that require independent oversight by RCC's Board of Trustees and timely review by the RCC Business Office.

Recommendation

To better control credit card expenses, RCC should take the following actions:

- Establish written procedures for the use of credit cards to ensure that charges are reasonable, necessary, and adequately documented
- Ensure that credit card statements are mailed directly to the Business Office
- Require timely review of statements and documentation by the Business Office
- Make timely credit card payments to avoid finance and late charges
- Seek reimbursement from employees who do not adequately document charges
- Seek supporting documentation or reimbursement from the former President for the $3,925 in unsupported charges and the $174 in late fees resulting from late submission of credit card statements to the Business Office

Auditee's Response

The former President requested the use of an institutional credit card for College-related purchases. Guidelines for trust fund expenditures and sound business practices should have been in place and followed. The finding cites missing documentation for expenditures.

After the departure of the former President, and to avoid issues related to credit card use and the appropriateness of expenditures, the College discontinued the use of institutional credit cards with the exception of one gasoline credit card.

In addition to the remarks specific to each audit result, RCC presented written comments, excerpted in part below, noting the circumstances during the period of our review and improvements made since then:

This report covers the 1999-2001 years during the administration of the former President, chief financial officer, and chief administrative officer, all of whom have left the College. Since the time of the audit, a great number of resources have been spent to obtain new financial software and the training of staff in the use of the software. Only in this year, its first year of use, will the new software provide the capability of monitoring financial transactions effectively. In addition, the state Comptroller's Office staff has provided several training sessions for supervisors and staff on contracts, purchases, and encumbrances to assist our staff in following Commonwealth rules and regulations.

We want to make clear that all four findings, and particularly those of contracts and tax issues, involved the administration of (the) former President … None of the

principal officers at the presidential or vice presidential level during the period of the audit are employed at RCC at this time. The Board asked for (the President's) resignation in November 2001. The current administration is using the present audit as a basis for improving certain cited administrative weaknesses.

Our review of the documentation confirms the findings in all four areas cited…

Concluding Statement

The current administration of Roxbury Community College has been hired since the time of the findings in this audit. Further, the current administration is dedicated to the appropriate management of financial and administrative functions in full compliance with Commonwealth and Federal regulations. We recognize the importance of strengthening the operating policies and procedures in all offices. To advance this effort, the Finance and Audit Committee of the Board of Trustees has proposed and received Board approval to seek funding for assistance in writing/updating the current policies and procedures related to the financial administration of the College. In addition, we recognize the importance of both personal and professional integrity among the individuals holding key administrative positions. We believe we are making significant progress in these important areas.

APPENDIX I

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

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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 Fennimore, Speaker.

In Senate, December 22, 1989.

Passed to be enacted, William M. Bulger, President.

January 3, 1990.

Approved,

Michael Dukakis, Governor.

APPENDIX II

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 DeNUCCI
Auditor of the Commonwealth

MARTIN J. BENISON
State Comptroller