



Commonwealth of Massachusetts
Office of the State Auditor
Suzanne M. Bump

Making government work better

Official Audit Report – Issued March 12, 2019

Massachusetts State College Building Authority

For the period July 1, 2016 through March 31, 2018





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Making government work better

March 12, 2019

Dr. David A. Ellis, Chair of the Board of Directors
Massachusetts State College Building Authority
251 Summer Street, Suite 300
Boston, MA 02210

Dear Dr. Ellis:

I am pleased to provide this performance audit of the Massachusetts State College Building Authority. This report details the audit objectives, scope, methodology, findings, and recommendations for the audit period, July 1, 2016 through March 31, 2018. My audit staff discussed the contents of this report with management of the agency, whose comments are reflected in this report.

I would also like to express my appreciation to the Massachusetts State College Building Authority for the cooperation and assistance provided to my staff during the audit.

Sincerely,

A handwritten signature in blue ink, appearing to read "SMB", written over a light blue circular watermark.

Suzanne M. Bump
Auditor of the Commonwealth

cc: Edward H. Adelman, Executive Director

TABLE OF CONTENTS

EXECUTIVE SUMMARY	1
OVERVIEW OF AUDITED ENTITY	2
AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY	3
DETAILED AUDIT FINDINGS WITH AUDITEE’S RESPONSE.....	6
1. The Massachusetts State College Building Authority did not ensure that the financial information it submitted for inclusion on the Comptroller of the Commonwealth’s CTHRU website was accurate.	6
2. MSCBA’s system of internal controls needs improvement.	7

LIST OF ABBREVIATIONS

CRE	Construction and Real Estate
CTR	Comptroller of the Commonwealth
EOAF	Executive Office for Administration and Finance
EOTSS	Executive Office of Technology Services and Security
ICP	internal control plan
MSCBA	Massachusetts State College Building Authority
OSA	Office of the State Auditor

EXECUTIVE SUMMARY

In accordance with Section 12 of Chapter 11 of the Massachusetts General Laws, the Office of the State Auditor has conducted a performance audit of the Massachusetts State College Building Authority (MSCBA) for the period July 1, 2016 through March 31, 2018.

In this performance audit, we determined whether MSCBA properly administered its design and construction contracts. We also determined whether MSCBA had developed an effective strategic plan to address the housing needs of students at Massachusetts state colleges and universities. Finally, we evaluated whether it complied with Section 14C of Chapter 7 of the General Laws regarding providing financial data to the Executive Office for Administration and Finance (EOAF) for public disclosure.

Below is a summary of our findings and recommendations, with links to each page listed.

Finding 1 Page 6	MSCBA did not ensure that the financial information it submitted for inclusion on the Comptroller of the Commonwealth's CTHRU website was accurate.
Recommendation Page 7	MSCBA should develop policies and procedures to ensure that the financial information submitted to EOAF for inclusion on CTHRU reconciles to its general ledger.
Finding 2 Page 7	MSCBA's system of internal controls needs improvement.
Recommendation Page 9	MSCBA should take the measures necessary to improve its system of internal controls, including performing an entity-wide risk assessment and then developing controls (i.e., policies and procedures) to mitigate identified risks; developing a business continuity plan; and annually testing its disaster recovery plan.

OVERVIEW OF AUDITED ENTITY

The Massachusetts State College Building Authority (MSCBA) was established under Chapter 703 of the Acts of 1963. This statute authorizes MSCBA to finance and oversee the design and construction of dormitories, dining facilities, and certain other buildings at 9 state universities¹ and 15 community colleges.² The financing and oversight are subject to written approval from the Secretary of Administration and Finance and the Commissioner of Higher Education for Massachusetts. MSCBA is also authorized to issue bonds and collect student rents and fees for the operation of student living facilities. MSCBA uses its rental and fee income to service the debt it incurs to finance its projects.

MSCBA is governed by a nine-member board appointed by the Governor; three members of the board must also be members of the state's Board of Higher Education. MSCBA's financial powers and functions are established by its enabling legislation, and it is also governed by various state procurement laws and regulations; the trust agreements for all of its bond issues; and the contract for financial assistance between it and the Board of Higher Education, which acts on behalf of the state colleges and universities served by MSCBA. Further, the Secretary of Administration and Finance and the State Treasurer must approve the sale of all bonds and notes issued by MSCBA to fund its projects. MSCBA's board appoints an executive director, who is responsible for overseeing the day-to-day operations of MSCBA.

The Commonwealth does not appropriate any state funding to MSCBA, nor does it guarantee the bonds issued by MSCBA for its building projects. According to its fiscal year 2017 audit report by an external auditor, MSCBA's principal amount of outstanding bond debt as of June 30, 2017 was \$1.23 billion, and for the fiscal year that ended June 30, 2017, MSCBA spent \$34,246,013 on land, construction, buildings and improvements, and furnishings and equipment for MSCBA capital assets located at universities and community colleges.

1. The state universities are Bridgewater, Fitchburg, Framingham, Salem, Westfield, and Worcester, as well as Massachusetts College of Art and Design, Massachusetts Maritime Academy, and Massachusetts College of Liberal Arts.
2. The community colleges are Berkshire, Bristol, Bunker Hill, Cape Cod, Greenfield, Holyoke, Massachusetts Bay, Massasoit, Middlesex, Mount Wachusett, North Shore, Northern Essex, Quinsigamond, Roxbury, and Springfield Technical.

AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY

In accordance with Section 12 of Chapter 11 of the Massachusetts General Laws, the Office of the State Auditor has conducted a performance audit of the Massachusetts State College Building Authority (MSCBA) for the period July 1, 2016 through March 31, 2018.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Below is a list of our audit objectives, indicating each question we intended our audit to answer; the conclusion we reached regarding each objective; and, if applicable, where each objective is discussed in the audit findings.

Objective	Conclusion
1. Did MSCBA properly administer its design and construction contracts?	Yes
2. Did MSCBA have an effective long-term plan to address the housing needs of the students at Massachusetts state colleges and universities?	Yes
3. Did MSCBA comply with Section 14C of Chapter 7 of the General Laws by providing accurate information that was required to be included on the searchable CTHRU website? ³	No; see Finding 1

To achieve our audit objectives, we gained an understanding of MSCBA's internal control environment related to our objectives by reviewing applicable laws and agency policies and procedures and conducting inquiries with MSCBA management. We evaluated the controls over the administration of MSCBA's design and construction contracts. While evaluating the internal control environment, we identified an issue with MSCBA's *Summary of Internal Control Plan* document ([Finding 2](#)).

MSCBA uses the Sage 300 Construction and Real Estate (CRE) software as its accounting system. We obtained a full copy of MSCBA's project-related financial activity from Sage 300 CRE to assess the

3. CTHRU is a website maintained by the Comptroller of the Commonwealth to allow public access to state spending and payroll data.

reliability of the data. We evaluated the design of the controls for access to programs and data, program changes, and computer operations. We also analyzed data in Sage 300 CRE by performing additional validity and integrity tests, including testing for missing financial activity and scanning for duplicate records. To verify completeness, we traced 30 invoices from a list provided by the chief financial officer to the 2017 Capital Asset Report⁴ generated by Sage 300 CRE, which we reconciled to the 2017 financial statements audited by an independent firm. We traced 100 invoices from the Sage 300 CRE Committed Cost Status Report⁵ for one entire project to verify its completeness. We determined that the data were sufficiently reliable for the purposes of this report.

We also performed the following procedures.

- We reviewed a judgmentally selected sample of 10 of the 48 projects MSCBA started during the audit period, representing a total project cost for the sample of \$25,926,492 out of the total costs of \$49,364,420. We chose our sample of projects by selecting projects that had the highest associated contract costs and were procured in accordance with four different procurement laws for different goods and/or services. The laws were Chapters 30, 149, 149A, and 193 of the General Laws. For each project in the sample, we reviewed the following:
 - use of the proper procurement method
 - approval to go to bid and the signed agreements awarding the contracts
 - the central registry,⁶ to determine whether the project specifications were accurate
 - the bid tabulations, to ensure that the required bid bonds were submitted with all the bids and that the 41 contractors selected for the 10 projects were the lowest qualified bidders
 - the 11 change orders for the projects, to ensure that they were properly authorized and within the limits prescribed by MSCBA's bylaws
- We reviewed the Department of Higher Education's database of undergraduate students at Massachusetts state universities to determine whether MSCBA met its strategic-plan goal of providing housing for 50% of full-time undergraduate students.
- We visually verified that the presidents of Massachusetts state universities had signed their schools' 2017 and 2018 Occupancy Certificates,⁷ which are used to prepare MSCBA's Occupancy Report⁸ and annual Rent Certificate.⁹

4. This report shows capital assets that MSCBA acquired in fiscal year 2017, including land, construction in progress, buildings and improvements, and furnishings and equipment.

5. This report shows amounts invoiced and paid and the balance remaining for a project as of the date of the report.

6. This registry records state projects publicly advertised for bid.

7. This type of certificate is issued by each university and reports design and actual occupancies for each of the residence halls.

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- We verified that the design occupancy and actual occupancy of residential housing for each college campus were properly reflected in MSCBA's Occupancy Report.
 - We reviewed the projects started during the audit period to determine whether they were included in MSCBA's strategic plan.
 - We interviewed officials at three state universities and documented their assessments of MSCBA's ability to respond to their universities' needs, as well as the competitiveness of the room rates with those of other schools and nearby rental units.
 - The audit team reviewed the Rent Certificate process established by MSCBA to determine whether the numbers of beds listed in schools' Occupancy Reports were accurate (i.e., whether they reconciled to the bed count totals in the Rent Certificates issued during the audit period).
 - To evaluate the accuracy of MSCBA's financial activity posted to CTHRU, we reconciled expenses from the Sage 300 CRE Committed Cost Status Reports to CTHRU for a sample of 8 out of the 48 projects started during the audit period.
 - We reconciled the payroll data on CTHRU to the Form W-3s¹⁰ and Form W-2s of all 18 employees for calendar year 2016 and all 17 employees for calendar year 2017 whose payroll data MSCBA submitted to the Social Security Administration.

Our samples were judgmentally selected; therefore, we did not project our results to the entire population.

8. This report summarizes each university's design and actual occupancies.

9. This certificate shows the design and actual occupancies, prior-year rent, and proposed rent for each of the universities, as well as MSCBA's operating budget. It is approved by MSCBA's board and the Board of Higher Education.

10. This form summarizes the total earnings, Social Security wages, Medicare wages, and withholdings for the W-2s for employees for the year.

DETAILED AUDIT FINDINGS WITH AUDITEE’S RESPONSE

1. The Massachusetts State College Building Authority did not ensure that the financial information it submitted for inclusion on the Comptroller of the Commonwealth’s CTHRU website was accurate.

The Massachusetts State College Building Authority (MSCBA) did not verify the accuracy of all the information it submitted to the Executive Office for Administration and Finance (EOAF) for inclusion on the Comptroller of the Commonwealth’s (CTR’s) searchable CTHRU website during our audit period. As a result, its financial activities are not reported accurately to the public. For the 8 projects we sampled out of the 48 that were started during the audit period, CTHRU showed \$10,538,940 less in project expenses than what was recorded in MSCBA’s financial records (its general ledger). The differences were the result of 101 duplicate entries MSCBA submitted to EOAF for inclusion on CTHRU, totaling \$2,841,849, and 159 transactions that were recorded in MSCBA’s general ledger but not on CTHRU, totaling \$13,380,789. The table below shows the net difference between the total expenditure amount recorded in the general ledger and that recorded on CTHRU for each of the projects sampled.

Project Number	General Ledger	CTHRU Total	Net Difference
FIT 0790-16	\$ 3,853,833	\$ 4,742,983	\$ (889,150)
FIT 0820-17	2,000,406	382,204	1,618,202
FRA 0802-17	1,614,770	779,054	835,716
FIT 0782-16	8,687,135	835,013	7,852,122
MCLA 0784-16	2,648,390	2,995,108	(346,718)
MMA 0800-17	2,060,480	2,632,733	(572,253)
SAL 0793-16	862,573	21,735	840,838
WES 0801-17	1,329,232	129,049	1,200,183
Total	<u>\$ 23,056,819</u>	<u>\$12,517,879</u>	<u>\$ 10,538,940</u>

Authoritative Guidance

Section 14C of Chapter 7 of the Massachusetts General Laws requires agencies, including quasi-public independent entities, to report their “appropriations, expenditures, grants, subgrants, loans, purchase orders, infrastructure assistance and other forms of financial assistance” to EOAF for inclusion on CTHRU. Section 14C(e) states,

All agencies shall provide to the secretary [of EOAF] all data that is required to be included in the searchable website not later than 30 days after the data becomes available to the agency.

CTHRU was created to provide transparency to the public, which requires accountability.

Reasons for Noncompliance

MSCBA does not have policies and procedures to ensure that the financial information submitted to EOAF for inclusion on CTHRU reconciles to the data in its general ledger. In addition, MSCBA officials told us that during the period in question, there was a technical issue that prevented quasi-public agencies such as MSCBA from downloading data from CTHRU so they could compare it to the information in their general ledgers.

Recommendation

MSCBA should develop policies and procedures to ensure that the financial information submitted to EOAF for inclusion on CTHRU reconciles to its general ledger.

Auditee's Response

The Authority accepts the recommendation to ensure accuracy of CTHRU data. . . . The Authority unequivocally supports the goals of CTHRU and was the first quasi-public entity to participate in CTHRU as it transitioned from Open Checkbook. The Authority acknowledges variances between CTHRU project expenses and . . . the Authority's general ledger. The Authority has confirmed that the data is accurate through December 31, 2018 and a quarterly review of all uploaded data has been added to our CTHRU procedures to ensure the accuracy of data in the future.

Auditor's Reply

Based on its response, MSCBA has taken measures to address our concerns in this area.

2. MSCBA's system of internal controls needs improvement.

We found problems with the system of internal controls MSCBA had established over its operations. Specifically, although MSCBA has documented, in its *Summary of Internal Control Plan* document, policies and procedures primarily related to its financial operations, it has not developed an internal control plan (ICP) that clearly summarizes all of the agency's risks and the controls that will be used to mitigate them. Without an adequately documented system of internal controls, including a department-wide risk assessment, MSCBA management cannot measure, prioritize, and manage risks that are relevant to achieving its mission.

In addition, MSCBA has not developed a business continuity plan or tested its disaster recovery plan. This may cause its critical operations to be disrupted if a loss of data or systems occurs.

Authoritative Guidance

There are no specific legal or regulatory requirements related to MSCBA's system of internal controls; however, Chapter 647 of the Acts of 1989 requires state agencies to develop and clearly document internal control systems in accordance with the guidelines established by CTR. These guidelines require that the ICP be based on a risk assessment and be revised annually. Although MSCBA is not required to comply with CTR guidelines, the Office of the State Auditor (OSA) believes they represent a best practice that should be followed.

The "Enterprise Business Continuity for IT Management Policy" issued June 5, 2013 by the Executive Office of Technology Services and Security (EOTSS) states,

1. *Agencies are required to develop, implement, test and maintain a Business Continuity Plan (BCP) for all Information Technology Resources (ITR) that deliver or support core Critical Business Functions on behalf of the Commonwealth of Massachusetts. . . .*
8. *Agencies are required to document, implement and annually test plans including the testing of all appropriate security provisions to minimize impact to systems or processes from the effects of major failures of IT Resources or disasters.*

In addition, EOTSS's "Enterprise Information Security Policy" requires agencies to do the following:

Document, implement and annually test plans including the testing of all appropriate security provisions to minimize impact to systems or processes from the effects of major failures of IT Resources or disasters via adoption of:

- *Continuity of operations plan and*
- *A disaster recovery plan.*

Although MSCBA is not specifically required to follow these policies, they represent a best practice that should be followed by all Commonwealth governmental agencies, as well as quasi-governmental agencies such as MSCBA.

Reasons for Noncompliance

MSCBA officials told us that they relied on the independent audit firm that conducts MSCBA's yearly audit to inform them of any weaknesses in the system of internal controls and that the firm had not pointed out any deficiencies that MSCBA needed to address in this area.

Recommendation

MSCBA should take the measures necessary to improve its system of internal controls, including performing an entity-wide risk assessment and then developing controls (i.e., policies and procedures) to mitigate identified risks; developing a business continuity plan; and annually testing its disaster recovery plan.

Auditee's Response

We agree with the draft audit report that . . . internal control can—and does—benefit from continuous improvement. . . . We reject the implication that the Authority has anything other than a vital and comprehensive internal control system and plan and processes consistent with best practices. We believe the draft audit report inaccurately describes the Authority's system of internal controls and we take specific exception to several of the draft audit comments on this topic:

- The draft audit establishes the "authoritative guidance" to be Chapter 647 of the Acts of 1989, to which the Authority is not subject. This is misleading to the reader.*
- The draft audit report's recommendation inaccurately implies that the Authority does not have an internal control plan or business continuity plan, both of which were provided to the audit team. Further, the recommendation states the Authority does not . . . test its disaster recovery plan. The Authority made the audit team aware that, in March 2018, the Authority underwent a complete overhaul of all IT services, controls, and recovery plans and policies, including a disaster recovery plan and business continuity plan. Since March 2018, the Authority has been implementing the new IT recommendations incrementally. The Authority agrees with the draft audit that the disaster recovery plan should be tested annually. The Authority intends to test the plan prior to its first anniversary (March 2019) which is outside of the audit period.*
- The Authority acknowledges that its internal control plan does not have a section that specifically identifies and summarizes risks. However, we maintain that the Authority's plan is consistent with best practices and adequately addresses the risks facing the organization, including financial, project, administrative and technological risks, with multi-faceted control policies in place to prevent, detect, protect and mitigate such risks.*

In addition to its written comments, MSCBA officials pointed out during a meeting with OSA that MSCBA had experienced several emergencies that required it to shut down its office, but was still able to

continue to operate. According to the officials, this suggested that although the agency did not have a tested disaster recovery plan, it had demonstrated its ability to continue operating in emergencies.

Auditor's Reply

Our report acknowledges that MSCBA has documented, in its *Summary of Internal Control Plan*, policies and procedures primarily related to its financial operations. However, these documented controls are limited to certain areas of MSCBA's operations and do not constitute a comprehensive ICP. As noted above, an effective ICP would be based on an agency-wide risk assessment and would summarize all of the agency's risks and the controls to be used to mitigate them. Simply documenting controls over certain activities is not consistent with best practices, which we describe in our report. Without an adequately documented system of internal controls, including a department-wide risk assessment, MSCBA management cannot measure, prioritize, and manage risks that are relevant to achieving its mission.

During our audit, MSCBA gave us a copy of its disaster recovery plan. However, MSCBA officials acknowledged to us that this plan had not been tested and that therefore its effectiveness had not been determined. Further, contrary to what it asserts, MSCBA did not give us a separate business continuity plan, but rather pointed us to a statement in its disaster recovery plan that in the case of a disaster, all employees would work remotely. However, this statement alone, in OSA's opinion, does not constitute an effective business continuity plan, which would address things like staff responsibilities, business processes and procedures that should be followed, and the physical location of activities in the event of an unforeseen interruption in business.

Based on its response, MSCBA is taking some measures to address our concerns in this area, but we urge it to fully implement our recommendation.