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

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Official Audit Report – Issued June 10, 2014

Bridgewater State University

For the period July 1, 2010 through June 30, 2012

State House Room 230 ■ Boston, MA 02133 ■ auditor@sao.state.ma.us ■ www.mass.gov/auditor

June 10, 2014

President Dana Mohler-Faria
Office of the President
Bridgewater State University
131 Summer Street
Bridgewater, MA 02325

Dear President Mohler-Faria:

I am pleased to provide this performance audit of Bridgewater State University. This report details the audit objectives, scope, methodology, findings, and recommendations for the audit period, July 1, 2010 to June 30, 2012. My audit staff discussed the contents of this report with management of the university, and their comments are reflected in this report.

I would also like to express my appreciation to Bridgewater State University for the cooperation and assistance provided to my staff during the audit.

Sincerely,

Suzanne M. Bump
Auditor of the Commonwealth

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EXECUTIVE SUMMARY

This report summarizes the results of our audit of certain activities of Bridgewater State University (BSU) for the period July 1, 2010 through June 30, 2012. The scope of this audit included an examination of certain of BSU's activities related to financial management, administration of its food-service contract, student activity fees, trust funds, accounts receivable, and inventory of property and equipment. This audit was conducted as part of the Office of the State Auditor's (OSA's) mandated oversight of state government entities, including state universities.

Summary of Findings

- BSU has continually noncompetitively awarded a contract for food and beverage services to its food-service provider, Sodexo Operations LLC (Sodexo), contrary to its own internal procurement policies and procedures and a joint policy issued by the state's Operational Services Division and Office of the State Comptroller (OSC). Without using a competitive bidding process, BSU cannot be certain that it is obtaining the best value at the best price for these services.

- During our audit period, BSU was not performing various forms of monitoring of Sodexo that were allowed under the contract. Without obtaining and reviewing Sodexo's monthly operating statements and inventory reports or periodically inspecting Sodexo's records, BSU cannot fully assess Sodexo's performance under the contract, the reasonableness of the costs Sodexo is charging for its services, or any price increases it requests.

- BSU did not correctly calculate the balances in its accounts receivable, and as a result, it reported incorrect information about those accounts to OSC. It overstated its "current" (less than 30 days outstanding) accounts-receivable balance as of December 31, 2011 by $21,912,869 in a report submitted to OSC for fiscal year 2012. For fiscal years 2009 and 2011, BSU did not submit required reports to OSC.

- BSU is not following guidelines established by OSC for the accounting and reporting of certain expenditures in the state's Massachusetts Management Accounting and Reporting System (MMARS). Specifically, during our audit period, the university was using object code H15 in MMARS (established by OSC to report expenditures for honoraria) to report not only honoraria but also expenditures that should have been reported under 17 other separate object codes. As a result, for the 2011 and 2012 fiscal years, BSU's honoraria expenses reported in MMARS were incorrect: the university's actual honoraria expenses were $594,781 rather than the $6,257,470 reported in MMARS. Consequently, BSU honoraria expenses recorded in MMARS were misclassified and overstated by $5,662,689, and the expenses in MMARS for the 17 other object codes, representing consultant contract services (Appendix F), were understated by the same amount. Because MMARS is the Commonwealth's accounting system, inaccurate accounting in MMARS means that the Commonwealth's accounting records related to this account are inaccurate and cannot be relied on.

- BSU has prepared an internal control plan (ICP), but the plan does not contain all of the components required by OSC guidelines. Updating the ICP to include those components is essential for ensuring the integrity and effectiveness of BSU's internal control system and its ability to respond to changes that could affect its operations. An updated ICP could also ensure that BSU is able to achieve its objectives efficiently, effectively, and in compliance with applicable state laws and regulations and that its assets are properly safeguarded against loss, theft, and misuse.

- Contrary to Chapter 73, Section 14, of the Massachusetts General Laws, BSU established 43 of its 59 trust funds itself, rather than having its board of trustees establish them. Therefore, the board has not had the opportunity to review and approve the purpose for which each fund is created and to establish the specific requirements it wants to implement for revenues and disbursements from each fund.

- Contrary to the Board of Higher Education's Standards for Expenditures of Trust Funds, BSU has not established guidelines including policies and procedures concerning trust-fund revenue sources, appropriate and inappropriate expenditures, and required documentation for revenues and disbursements for 43 of its 59 trust funds. As a result, BSU cannot be certain that the revenues and expenses in these funds are being properly administered.

- During our audit, BSU could not provide us with any documentation to substantiate that it had conducted an inventory of its fixed assets during our audit period. Without adequate, properly maintained inventory controls, such as regular physical fixed-asset inventories, BSU cannot be certain that its accounting records and financial reports are accurate; that its assets are being adequately safeguarded against abuse and/or misuse; or that it can effectively detect lost, missing, or stolen items.

- During our audit, we found at least 16 instances of missing or stolen property, totaling approximately $9,020, that BSU did not report to OSA in accordance with Chapter 647 of the Acts of 1989. Because BSU did not report these missing assets, OSA did not have the opportunity to determine the internal control weakness that contributed to or caused the loss of these assets and make recommendations to BSU to address these problems and better ensure that the university's fixed assets are adequately safeguarded against abuse and misuse.

Recommendations

OSA recommends that BSU take the following actions:

- Ensure that, unless its procurement of Sodexo's services meets its established requirements for an approved exception, it complies with applicable state requirements and its own internal policies and procedures by using a competitive bidding process for its procurement of food services.

- Develop formal written policies and procedures for the monitoring of its food-service contract. They should include all the oversight activities allowed under the contract in addition to the activities BSU is currently conducting with regard to billing. BSU should also train the applicable staff on these new policies and procedures.

- Complete and file its required Open and Aged Summary Receivable Billing Midyear Reports (Midyear Reports) with OSC by the requested date.

- Develop detailed procedures for the preparation and filing of the annual Midyear Reports with OSC.

- Contact OSC for guidance as to whether BSU should prepare and submit an amended fiscal year 2012 Midyear Report, with the correct "current receivables" balances, and whether it should submit the reports for fiscal years 2009 and 2011.

- Develop a reporting system within its Banner integrated software system (BISS) to capture and substantiate the accounts-receivable balances reported in MMARS.

- Comply with all OSC requirements for the proper reporting of its expenses, including making sure that all expenses are properly reported and classified in MMARS using the correct OSC object codes.

- Prepare an updated ICP to include and identify all eight components of enterprise risk management in conformance to the latest OSC guidelines and ensure that the ICP is distributed to all departments so that departmental processes can be adjusted as changes to the ICP are made. To this end, in preparing an updated plan, BSU should refer to OSC's Internal Control Guide.

- Prepare an updated and improved high-level summarization of internal controls that contains cross-referencing to support lower-level department policies and procedures and the BSU mission statement.

- Assess the risks at each department and then ensure that the ICP risk section captures all significant risks to BSU's goals and objectives. Assess the likelihood and impact of occurrence of each risk and include a risk response in the plan, along with a mitigation plan aimed at improving the likelihood of BSU's achieving its mission, goals, and objectives over all fiscal and programmatic areas.

- Update and enhance its ICP's description of the internal control environment by including statements by BSU's administration on the expectations of all staff concerning integrity, requirements of high ethical standards and accountability, and other definitive statements that set the tone for the importance of internal controls within BSU operations.

- Document its monitoring activities and responsibilities to ensure that effective internal controls are implemented to mitigate fiscal and programmatic risks. Cross-reference its ICP to these monitoring policies and procedures.

- Update its ICP to include reference to the BSU financial reporting system, BISS, and any other key information and communication system or process in place at BSU and cross-reference it within the ICP to departmental policies and procedures.

- Identify an internal control officer and include in the ICP a description of the officer's role and responsibilities.

- Ensure that the Internal Control Questionnaire submitted to OSC each year is accurate.

- Ensure that it fully complies with Chapter 73, Section 14, of the General Laws and with the Board of Higher Education's Standards for Expenditures of Trust Funds for the creation and administration of all trust funds, including establishing guidelines for all trust funds.

- Develop sufficient oversight and monitoring procedures to ensure that the prescribed policies and procedures are consistently followed. At a minimum, BSU should ensure the following:

  - that physical annual inventories of all fixed assets are conducted in accordance with OSC's and BSU's established procedures and ICP to verify the existence, location, and value of inventory items;

  - that its asset management database is reconciled with the results of the physical inventory; and

  - that it fully complies with Chapter 647 of the Acts of 1989, which should include implementing written procedures within its Central Receiving and Inventory Management department (CRIM) to delineate the reporting requirements of Chapter 647.

Post-Audit Action

During our audit,

- BSU's director of CRIM stated that BSU is working on new inventory control policies and procedures, which will include conducting annual physical inventories of the university's fixed assets.

- BSU officials stated that they are taking measures to ensure that the university is using the correct object codes when reporting expenses.

- BSU informed us that they would develop an internal process to ensure compliance with Chapter 647 for reporting all unaccounted-for variances, losses, shortages, or thefts of funds or property to OSA.

OVERVIEW OF AUDITED AGENCY

Background

Bridgewater State University (BSU), formerly Bridgewater State College,[1] is authorized by Chapter 15A, Section 5, of the Massachusetts General Laws and operates under the direction of a board of trustees, whose members are appointed by the Governor. The board is responsible for operating under the regulations promulgated by the state's Board of Higher Education, which includes setting policy, approving annual budgets, monitoring quarterly budget performance, and participating in the approval of internal audits. The president of BSU reports to the board of trustees, is the administrative head of the university, and is supported by the vice presidents of External Affairs, Academic Affairs, Administration and Finance, University Advancement, and Student Affairs, as well as a chief information officer and an associate vice president of Human Resources.

BSU is a member of the Massachusetts Public Higher Education System, which consists of 15 community colleges, 9 state universities, and 5 University of Massachusetts campuses. BSU is located on Summer Street in Bridgewater and also has an offsite campus located in Attleboro. As of September 30, 2012, BSU had a student population of 11,417 and a full-time faculty of 321. BSU offers over 90 areas of undergraduate study, with more than 60 degree programs on a 270-acre campus. BSU conferred 2,270 degrees in 2012.

1 Chapter 189 of the Acts of 2010 amended Chapter 15A, which created a Massachusetts State University system. As a result of this legislation, the six state colleges were renamed as Bridgewater State University, Fitchburg State University, Framingham State University, Salem State University, Westfield State University, and Worcester State University. The three specialized state colleges—Massachusetts College of Art and Design, Massachusetts College of Liberal Arts, and Massachusetts Maritime Academy—retained their existing names.

AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY

In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, the Office of the State Auditor (OSA) has conducted a performance audit of certain activities of Bridgewater State University (BSU) for the period July 1, 2010 through June 30, 2012. In certain circumstances, we expanded the period of our review of accounts receivable to review BSU's compliance with the requirement of filing Open and Aged Summary Receivable Billing Midyear Reports (Midyear Reports) with the Office of the State Comptroller (OSC) and with the reporting requirements of Chapter 647 of the Acts of 1989.

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.

The scope of our audit included an examination of certain of BSU's activities related to financial management, administration of its food-service contract, student activity fees, trust funds, accounts receivable, and inventory of property and equipment. The objectives of our audit were to assess (1) the internal controls over BSU's administration of its food-service contract; (2) the internal controls over student activity accounts, in part by performing testing to determine whether funds in those accounts are being properly accounted for and expended for their intended purposes; (3) BSU's administration of its trust funds, including the internal controls over these funds, and whether expenditures made from these funds are appropriate; (4) the internal controls over BSU's inventory of fixed assets and its accounting of those assets; (5) BSU's compliance with Chapter 647 of the Acts of 1989; (6) the adequacy of the internal controls BSU has established over accounts receivable and its administration of receivables; and (7) the internal controls over administrative expenses, such as consultants, travel, honoraria, and credit cards, in part by performing testing to determine the reasonableness and appropriateness of tested expenditures.

To achieve our objectives, we gained an understanding of internal controls and tested their operating effectiveness over the following areas: financial management, BSU's administration of its food-service contract, student activity fees, trust funds, accounts receivable, and inventory of property and equipment. Further, we conducted audit testing in the following areas:

- We reviewed BSU policies and procedures for the procurement of goods and services as well as all applicable laws, regulations, and state policies for the administration of contracts. We reviewed and assessed the procurement and monitoring activities of BSU related to its food-service contract and reviewed various documents related to payments made by BSU under this contract. We interviewed BSU's director of Administrative Support Services, who is responsible for the oversight of food services provided to students, as well as other BSU officials involved in the administration of BSU's food-service contract.

- We reviewed controls over student activity fees by interviewing BSU's director of Student Services. We requested, received, and reviewed policies, procedures, and other documents to assess compliance with the identified controls. We selected a non-statistical judgmental sample of 30 transactions out of the 652 transactions of more than $250 each that were related to student activity fees to determine whether the fees were being properly accounted for and to verify that they were used for their intended purpose, consistent with Chapter 73, Section 1B, of the General Laws.

- We reviewed controls over the accounting and reporting of trust funds by, first, identifying all BSU trust funds and the revenues and expenditures associated with each fund. We reviewed the General Laws (Chapter 73, Section 14; Chapter 15A, Sections 9 and 22; and Chapter 75, Section 11) related to the establishment of each trust fund and regulations promulgated by the Board of Higher Education, as well as the BSU trust-fund policies and procedures. We interviewed the chairman of BSU's board of trustees, BSU's president, and BSU's comptroller to gain an understanding of the internal controls over the creation and management of the university's trust funds. We reviewed the process BSU used for creating trust funds and defined the purpose of each fund. We then selected a judgmental non-statistical sample of trust funds for review, based on the magnitude of revenue and expenses, as well as trust funds that were relevant to our audit objectives. We requested, received, and reviewed a sample of all trust-fund transactions for those selected and performed a combination of judgmental and statistical sampling of revenues and expenditures. We reviewed BSU's documentation of revenues and expenses in these funds to assess whether the revenues and expenses appeared to be consistent with the purposes of the trust funds.

- We reviewed regulations promulgated by OSC and reviewed BSU's internal policies and procedures for its inventory of fixed assets. We obtained a database list of the BSU non-GAAP[2] fixed assets and selected a statistical random sample of 40 inventory items to verify that each item existed, was identified, and was in the location indicated by the inventory listing. We also conducted a non-statistical test by randomly selecting 40 items from different locations on the BSU campus to determine whether each item was appropriately listed on the BSU inventory database.

- We reviewed Chapter 647 of the Acts of 1989, which requires the reporting of any loss or theft of funds to OSA. We reviewed and evaluated BSU's internal controls to determine whether BSU was complying with Chapter 647; we did this by interviewing the director of Central Receiving

[2] "GAAP" stands for "generally accepted accounting principles." Fixed assets are classified as either GAAP or non-GAAP fixed assets. Non-GAAP fixed assets include buildings, vehicles, infrastructure, and equipment, including computer software, with a useful life of more than one year and a historical unit cost between $1,000 and $49,999, including all electronic and computer components.

and Inventory Management to gain an understanding of the internal controls established for this reporting responsibility. We requested and reviewed documents, including a list of stolen or missing equipment reported to campus police on incident reports, and determined whether these items had been reported to OSA in compliance with Chapter 647.

- We reviewed Chapter 29 of the General Laws, OSC's policies, OSC's Expenditure Classification Handbook, BSU's internal control plan, and BSU's policies and procedures related to administrative expenses. We interviewed BSU's comptroller to understand the controls associated with the accounting of administrative expenses in the Massachusetts Management Accounting and Reporting System (MMARS). We obtained and reviewed MMARS reports to determine the amount of administrative expenses reported. We reviewed BSU financial records pertaining to certain administrative expenses, including consultants, travel, honoraria, and credit cards. Additionally, we obtained and reviewed documentation supporting the reasonableness, appropriateness, and accounting of administrative expenditures. We conducted testing of 100% of consultant expenses.

- We obtained an understanding of BSU's administration of the assignment and use of credit cards assigned to staff (Pro-Cards) and the internal controls established by BSU in this area by interviewing the BSU director of purchasing. We performed a Benford analysis[3] on over 14,000 Pro-Card expenses that were included in the trust-fund transactions supplied from BSU's accounting system to determine whether there were any unusual patterns that might suggest potential problems. We further analyzed the data to identify any negative amounts (chargebacks). Based on this analysis, we selected a non-statistical judgmental sample of Pro-Card transactions, in addition to the transactions already identified as part of the trust-fund transactions, to assess whether there were any significant internal control weaknesses in this area.

- We reviewed the controls BSU had established over the administration of its accounts receivable, including policies and procedures for write-offs and the monthly and midyear reporting of accounts receivable to OSC. We interviewed BSU's comptroller to gain an understanding of the internal controls over this process and requested and received additional documents to assess BSU's compliance with its controls and applicable OSC policy.

- We obtained an understanding of OSC's requirements of departments that have to send OSC a Midyear Report and assessed BSU's compliance with these submission requirements. We reviewed for accuracy a judgmental sample of monthly accounts-receivable transactions from BSU's Banner integrated software system (BISS),[4] with amounts entered in MMARS by BSU. The team also reviewed a random non-statistical sample of invoices that were more than 150 days past due to assess the effectiveness of BSU's accounts-receivable collection efforts. We reviewed dunning notices (demands for payment) sent by BSU to debtors, to determine whether delinquent accounts were being properly managed and whether BSU was writing off accounts it determined to be uncollectable in accordance with established requirements.

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3 An analysis based on Benford's Law, examining the validity of a set of numbers based on the frequency with which a particular digit appears as the leading digit or another given digit in a number.

4 Banner is an administrative software application developed specifically for higher-education institutions by the Systems and Computer Technology Corporation. The application maintains student, alumni, finance, and personnel data on six integrated system modules (Finance, Alumni Development, Student, Financial Aid, Human Resources, and General).

- We used a combination of judgmental, stratified, and both non-statistical and statistical random sampling approaches to achieve the audit objectives. We selected trust funds for testing based on a judgmental sample of the funds with the highest dollar amounts reported for revenues and expenses, as well as those that were aligned with our audit objectives. The trust funds were then stratified into three populations, with the largest population tested using a statistical sample, based on a medium internal control risk. We tested the other two strata judgmentally. We used both non-statistical and statistical random sampling approaches to test inventory of fixed assets. We tested food-service transactions using judgmental sampling, as we selected transactions from the population that represented significant contractual requirements, which merited testing. Based on results of a Benford analysis, we performed judgmental testing of Pro-Card transactions. When our sampling methodology included a non-statistical judgmental or random approach, the results cannot be projected to the entire population, but only apply to the items selected.

- We assessed the internal controls related to each of the audit objectives by reviewing the related policies, procedures, laws, and regulations and then interviewing BSU officials to gain an understanding of the internal control environment, as well as the actual processes used. Our interviews, along with follow-up questions, led us to make requests for supporting documentation, which we used to assess internal controls.

- To accomplish our audit objectives, we assessed data reliability based on audit evidence from BSU's BISS. We reviewed the controls associated with the BISS; our review included interviewing key BSU information-technology personnel, completing an information-technology questionnaire, and reviewing evidence to support the answers provided. In some instances, we compared BISS data with the MMARS data to determine consistency. We concluded that the data extracted from the BISS can be reasonably relied upon.

- We analyzed BSU payment information and state accounting records in MMARS to identify payments made by the Commonwealth to fund BSU's operations. The electronic data sources used for this analysis constitute the official procurement and accounting records of the Commonwealth, are widely accepted as accurate, and form the basis for the Commonwealth's audited annual financial statements. Accordingly, our audit did not involve a comprehensive assessment of the reliability of source Commonwealth data. However, we did perform analytical procedures, such as comparisons and reconciliations to available revenue and expenditure summary totals in BSU's accounts, to confirm that the Commonwealth database information we used was consistent with other available information. Based on that analysis, we concluded that the data used were of sufficient reliability for the background information, sampling methodology, and other purposes of our audit.

Based on our audit, we have determined that for the period July 1, 2010 through June 30, 2012, excluding the issues addressed in the Detailed Audit Results and Findings section of this report, BSU maintained adequate internal controls over its financial operations and program activities for the areas tested.

DETAILED AUDIT RESULTS AND FINDINGS WITH AUDITEE'S RESPONSE

1. Bridgewater State University did not competitively award its contract for food services or effectively monitor the contractor's performance.

Bridgewater State University (BSU) contracts with a company called Sodexo Operations LLC (Sodexo) to provide food and beverage services to its students, faculty, and administrative staff. The agreement with Sodexo that was in effect during our audit covered the period July 1, 2008 through June 30, 2013, with an option to extend the contract for an additional five years. Contrary to state policy and its own internal policies and procedures, since as far back as at least 1988, BSU has continued to award a contract noncompetitively to Sodexo for these services. In addition, BSU is not effectively monitoring Sodexo's performance under this contract. As a result, the university may not be receiving the best price and value for services and cannot effectively assess such things as whether any price increases imposed by Sodexo for its services are reasonable.

a. BSU has awarded a contract for food services without using a competitive bidding process.

BSU has continually noncompetitively awarded a contract for food and beverage services to Sodexo, contrary to its own internal procurement policies and procedures and a joint policy issued by the state's Operational Services Division (OSD) and Office of the State Comptroller (OSC). Without using a competitive bidding process, BSU cannot be certain that it is obtaining the best value at the best price for these services.

According to BSU officials, the university has contracted with Sodexo since 1988 to provide food and beverage services to its staff and students. During our audit period, BSU's Dining Trust Fund[5] reported receipts and disbursements amounting to $20,551,398 and $18,557,664, respectively. Of these amounts, $19,986,141 was for meal plan receipts and $17,581,640 was for payments to Sodexo.

Authoritative Guidance

A joint policy on procurements and contracts—State Finance Law and General Contract Requirements, jointly issued by OSC and OSD on May 20, 2011—establishes procurement

5 According to the BSU Standards for the Expenditure of Trust Funds, the Dining Trust Fund is used as a depository for all payments made to BSU in association with the delivery of the food-service program at the university by the contracted vendor for food services. Payments to the vendor for the support of students in university-sponsored meal plans are also made directly from this account.

requirements for departments. In BSU's case, this policy requires establishing internal written procurement policies and procedures that, at a minimum, state that all services and commodities shall be purchased in accordance with laws, regulations, and policies and procedures applicable to state and community colleges. The policies also must "contain the requirements for the advertisement and receipt of bids for commodities and services that stimulate open and public competitive procurements and best value."

The Policies and Internal Procedures issued by BSU's Purchasing department state that the university must use a competitive process unless a reasonable diligent investigation has revealed that a particular vendor is the only one that can perform the service and other vendors are not unreasonably restricted or that "a solicitation has failed to elicit a responsible bid, proposal, or quote."

Reasons for Procurement without Competitive Bidding

BSU's director of Administrative Services stated that since the university was satisfied with the quality of the food service provided by Sodexo, a change of vendors was not deemed necessary. She added that in her opinion, BSU was not required to rebid the contract upon its expiration. Further, the director and BSU's vice-president of Administration and Finance told us that the university interprets the applicable state competitive procurement requirement as an encouraged practice but not a required one. After our audit period, BSU officials told us that the university had again noncompetitively extended its food-service contract with Sodexo.

Recommendation

BSU should ensure that, unless this procurement meets its established requirements for an approved exception, it complies with applicable state requirements and its own internal policies and procedures by using a competitive bidding process for its procurement of food services.

Auditee's Response

> *Pursuant to MGL Chapter 30, Sections 51 and 52, the University is required to make purchases in conformance with the rules, regulations and orders adopted by the Secretary under Chapter 7, Section 22. 801 [Code of Massachusetts Regulations, or CMR] 21.00 sets forth the procurement regulations adopted by the Secretary pursuant to Chapter 7, Section 22.*
>
> *801 CMR 21.01(1)(a) states the procurement regulations do not apply to public institutions of higher education such as the University:*

> *"801 CMR 21.00 will not apply to the Legislative Branch, Judicial Branch, Constitutional Offices, Elected Offices, Public Institutions of Higher Education, the Military Division and Independent Public Authorities, although the use of 801 CMR 21.00 by these entities is encouraged."*

The joint policy issued by the Operational Services Division (OSD) and Office of the State Comptroller (OSC) requires the University's internal procurement policies to contain requirements for approved exceptions to the competitive procurement process.

The University will revise its internal procurement policies to better address exceptions to the competitive procurement process. The University intends to base its definitions of exceptions consistent with the elements of "Best Value" as set forth in 801 CMR 21.02, as well as other applicable exceptions, including those outlined in the OSD/OSC joint policy. The University will follow its revised internal procurement policies and procedures with respect to the renewal of the food contract.

Auditor's Reply

We acknowledge that BSU is encouraged but not required to use 801 CMR 21.00 when conducting procurements. We also acknowledge that the joint policy issued by OSD and OSC requires BSU's procurement policies to contain requirements for approved exceptions to the competitive procurement process. However, the joint policy also requires that BSU's internal procurement policies contain the requirements for the advertisement and receipt of bids for commodities and services that stimulate open and public competitive procurements and best value. As noted above, the Policies and Internal Procedures issued by BSU's Purchasing department state that the university must use a competitive process unless a reasonable diligent investigation has revealed that a particular vendor is the only one that can perform the service. In the case of Sodexo, BSU did not document that it had determined that Sodexo was the only vendor available to provide this service. Without periodically subjecting its food-service contract to a competitive procurement process, BSU cannot be certain that the price it is paying for food services is competitive, represents the best value for these services, and is therefore in the best interests of the Commonwealth.

b. BSU is not effectively monitoring the provider's services.

During our audit period, BSU was not performing various forms of monitoring of Sodexo that were allowed under the contract. Without obtaining and reviewing Sodexo's monthly operating statements and inventory reports or periodically inspecting Sodexo's records, BSU cannot fully assess Sodexo's performance under the contract, the reasonableness of the costs Sodexo is charging for its services, or any price increases it requests.

BSU has not developed formal policies and procedures and/or specific guidelines for monitoring its food-service contract. Rather, BSU's monitoring of this contract was limited to reviewing monthly invoices, verifying the number of meal plans purchased and the applicable costs, and ensuring that the correct payment was made. However, during our audit period, BSU did not

- request or receive monthly operating statements pertaining to food services for the university for each accounting period;
- audit or inspect Sodexo's books and records pertaining to the food services provided under the agreement to ensure compliance with contractual terms; or
- request or receive annual inventory reports from Sodexo.

BSU's contract with Sodexo stated that Sodexo would invoice BSU what is called a net daily rate[6] for the food services it provides and also allowed Sodexo to request annual increases to the cost of the individual meal plans during the term of the agreement, not to exceed the Consumer Price Index.[7]

Authoritative Guidance

According to the aforementioned policy on procurements and contracts jointly issued by OSC and OSD,

> *The Commonwealth has a responsibility to conduct monitoring and evaluation of the commodities and services it purchases. These activities can assist in identifying and reducing fiscal and programmatic risk as early as possible, thus protecting both public funds and clients being served. In addition, federal monitoring requirements must be observed if federal funds are used to purchase services.*

Further, BSU's contract with Sodexo contains the following language that establishes various monitoring procedures that were available to BSU:

> *Contractor shall submit operating statements pertaining to the Food Services of the College for each Accounting Period and maintain books and records in accordance with generally accepted accounting principles. College, at College's expense, shall have the right to inspect and audit Contractor's books and records pertaining to the Food Services provided under this Agreement.*

[6] According to its contract, Sodexo was authorized to bill BSU net daily rates for a predetermined number of meals it was offering. For the 2008-2009 contract, these rates were $12.99, $12.55, and $12.64 per meal depending on the plan.

[7] The Consumer Price Index is a measure of the average change over time in the prices paid by consumers for goods and services.

. . .

The contractor shall conduct an annual inventory of all furniture and equipment in the food service areas in August and present the report [of the inventory] to the director of administrative support services no later than September 1 of each year of the Agreement.

Reasons for Insufficient Monitoring

The university had not established any formal written policies and procedures for monitoring Sodexo's activities under this contract. BSU's director of Administrative Support Services could not explain why the university was not conducting all of the monitoring activities that the contract provides for.

Recommendation

BSU should develop formal written policies and procedures for the monitoring of its food-service contract. They should include all the oversight activities allowed under the contract in addition to the activities BSU is currently conducting with regard to billing. BSU should also train the applicable staff on these new policies and procedures.

Auditee's Response

BSU's response is excerpted below.

The University will review and establish formal procedures for monitoring its food service contract and evaluate the services thereunder. The University will provide training to applicable staff.

The University will review and evaluate the monitoring options set forth in the Sodexo contract to ensure such options effectively identify and reduce fiscal programmatic risk. The University may seek an amendment to the Sodexo contact to better align the relevant metrics with the desired outcomes.

In a follow-up e-mail, BSU stated,

The contract between Bridgewater State University and Sodexo states that BSU may monitor operating statements of Sodexo periodically. BSU will review Sodexo's operating statements and document the process to determine that reasonable pricing and profitability are within industry standards.

Auditor's Reply

Based on its response, BSU is taking measures to address our concerns in this area.

2. BSU misclassified and misreported its accounts-receivable balances and, in some years, did not submit required reports at all.

BSU did not correctly calculate the balances in its accounts receivable, and as a result, it reported incorrect information about those accounts to OSC. It overstated its "current" (less than 30 days outstanding) accounts-receivable balance as of December 31, 2011 by $21,912,869 in a report submitted to OSC for fiscal year 2012. For fiscal years 2009 and 2011, BSU did not submit required reports to OSC.

OSC has established the Billing and Accounts Receivable Subsystem (BARS), a statewide centralized, automated billing and collection subsystem that is fully integrated into the Massachusetts Management Accounting and Reporting System (MMARS). BARS provides departments with the mechanism to bill, collect revenue, provide customer statements, send delinquent notices to customers, and initialize the collection and intercept systems established by the Commonwealth. Departments are required to use BARS to report all earned revenue / accounts receivable activity, however, they have the option of using BARS as their billing and collection system or maintaining their own independent billing and accounts-receivable system. Departments that use BARS as their accounts-receivable system are considered to report receivables in "detail." Departments, such as BSU, that have their own accounts-receivable system report their receivables in BARS in one aggregate amount. OSC's Receivable Recognition and Reconciliation Policy requires departments authorized to post summary transactions in MMARS to update this information at least monthly to ensure that MMARS accurately reflects the outstanding accounts-receivable balances supported by departments' non-MMARS systems.

Each January, OSC sends a memorandum to entities such as BSU that have independent billing systems, asking them to prepare and transmit to OSC an Open and Aged Summary Receivable Billing Midyear Report (Midyear Report) summarizing the amounts and ages of all their receivable items. Along with the memorandum, OSC provides departments with a report showing the MMARS midyear balances of the departments' accounts receivable, organized by fund and revenue source code, and asks each department to provide an analysis of aging information of the recorded accounts-receivable balance in six assigned age categories: current, 1 – 30 days, 31 – 60 days, 61 – 90 days, 91 – 120 days, and over 120 days past due.

During our audit, we reviewed BSU's Midyear Reports for accuracy and completeness. We found that BSU did not submit these requested reports to OSC during fiscal years 2009 and 2011.

It did submit a report for fiscal year 2012. On January 27, 2012, OSC sent its annual memorandum with an attached Midyear Report to BSU, requesting that the university fill in the report with aging information on the accounts-receivable balances in the report as of January 22, 2012, which should reflect the period through December 31, 2011, and send it back to OSC by February 24, 2012. According to the report, as of December 31, 2011, BSU had a total accounts-receivable balance of $60,089,999. In response, BSU returned the report to OSC on February 22, 2012 (Appendix B). Our review of the information in this report indicated that the "current" accounts-receivable balances reported by BSU to OSC as of December 31, 2011 were overstated by $21,912,869 (Appendix A). This is because BSU computed and reported the balance of its current (less than 30 days outstanding) accounts receivable by subtracting its computation of overdue receivable items from the stated amount of total receivable items provided by OSC to arrive at the "current receivables" rather than actually totaling its receivables per its records from December 1, 2011 through December 31, 2011 to arrive at the current receivable balance.

Since BSU analyzed and reported the transactions on February 22, 2012, they included transactions dated as late as January 31, 2012, and many of the outstanding accounts that supported the MMARS balance of $60,068,999 as of December 31, 2011 had been collected by the time BSU performed its analysis. In addition to the errors in BSU's current receivable balance noted above, we computed the actual total accounts-receivable balances as of December 31, 2011 (according to BSU's Banner integrated software system, or BISS) to be $38,354,551 compared to OSC's reported balance of $60,068,999 (Appendix C), a difference of $21,714,448, with the difference most probably attributable to collections received between January 1, 2012 and February 22, 2012. Using BSU's BISS, we also analyzed accounts-receivable transactions and recomputed the accounts-receivable balances for the highest 5 of the 10 revenue sources provided by OSC with the Midyear Report as of December 31, 2011, to analyze the number of days outstanding for each revenue source, as shown in Appendix D.

Authoritative Guidance

OSC's Receivable Recognition and Reconciliation policy, with which BSU must comply, states,

> *MMARS is the official record of the Commonwealth for receivable and customer information. Departments must take special care to ensure that the information that is entered into MMARS for any receivable is accurate and complete.*
>
> . . .
>
> *[OSC] requires departments to prepare and transmit a mid-year Summary Aging Receivable Report which details the age of all receivables contained in the MMARS summary receivable by revenue source code. This report will be utilized by the [OSC] Revenue Bureau (REV) and its Financial Reporting Bureau (FRAB) for its semi-annual reporting activity and to ensure that departments are maintaining their internal revenue/receivable recording and accounting systems at the required level of detail.*

Reasons for Miscalculation of Account Balances

BSU does not have a reporting system within its BISS to capture and substantiate the accounts-receivable balances reported in MMARS. In addition, BSU lacks specific written policies and procedures that detail the process to be used in completing and submitting the annual Midyear Report to OSC. Further, BSU's accountant stated that BSU had not received the annual memorandum from OSC requesting the fiscal year 2009 and fiscal year 2011 Midyear Reports and that this was why BSU had not submitted the reports to OSC.

Recommendation

BSU should take the following measures:

- Complete and file its Midyear Reports by the requested date.
- Develop detailed procedures for the preparation and filing of the annual Midyear Reports with OSC.
- Contact OSC for guidance as to whether BSU should prepare and submit an amended fiscal year 2012 Midyear Report, with the correct "current receivables" balances for the 10 revenue sources, and whether it should submit the reports for fiscal years 2009 and 2011.
- Develop a reporting system within its BISS to capture and substantiate the accounts-receivable balances reported in MMARS.

Auditee's Response

> *The University acknowledges a misreporting of the accounts receivable balances for the period reported. The misreporting was the result of not running the detailed aging reports after the*

close of business on December 31. When the OSC requested the mid-year report in late January, the University ran the detailed aging report in early February to respond. The data on this early February detailed aging report included the Spring semester billing as well as net payments collected since December 31, resulting in a $21,714,448 increase of accounts receivable.

The University can find no evidence of the 2009 and 2011 mid-year reports being issued or correspondence from OSC requesting these reports.

The University will complete and file the mid-year report by the requested date annually. The institution has developed the recommended procedure, trained relevant staff and submitted the correct detailed aging data for Fiscal Year 2014.

Auditor's Reply

Based on its response, BSU is taking measures to address our concerns in this area.

3. BSU does not properly account for and report certain expenditures.

BSU is not following guidelines established by OSC for the accounting and reporting of certain expenditures in MMARS. Specifically, during our audit period, the university was using object code H15 in MMARS (established by OSC to report expenditures for honoraria[8]) to report not only honoraria but also expenditures that should have been reported under 17 other separate object codes. BSU did use those 17 object codes in its own BISS, but it classified all the expenditures under the single object code for honoraria in MMARS. As a result, for the 2011 and 2012 fiscal years, BSU's honoraria expenses did not match the correct information in the BISS. Specifically, BSU's BISS shows that during our audit period, the university's actual honoraria expenses were $594,781 rather than the $6,257,470 reported in MMARS. Therefore, honoraria expenses in MMARS were misclassified and overstated by $5,662,689, and the expenses in MMARS for the 17 other object codes, representing consultant contract services (Appendix F), were understated by the same amount. Because MMARS is the Commonwealth's accounting system, inaccurate accounting in MMARS means that the Commonwealth's accounting records related to this account are inaccurate and cannot be relied on.

Authoritative Guidance

OSC's Expenditure Classification Handbook directs state agencies to use object code H15 for "services related to a speaking or lecturing engagement." This object code does not apply to the other types of consultant, legal, audit, and other services BSU classified as H15 in MMARS.

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8 A voluntary payment that is given to a person for services for which fees are not legally or traditionally required. Honoraria are typically used to help cover costs for volunteers or guest speakers

Reasons for Misclassification of Expenditures

BSU's comptroller told us that the university relies on a 1992 verbal authorization it received from OSC allowing the consolidation of the expenditures recorded under the object codes in question into the one MMARS object code for honoraria. However, when we brought this matter to BSU's attention, BSU officials contacted OSC, which confirmed that this is not an appropriate way to report these expenses. As a result, BSU officials told us that they are taking measures to ensure that the university uses the correct object codes when reporting expenses.

Recommendation

BSU should comply with all OSC requirements for the proper reporting of its expenses, including making sure that all expenses are properly reported and classified in MMARS using the correct OSC object codes.

Auditee's Response

> *Based on [clarification] provided by OSC, the University currently complies with OSC requirements for proper reporting of expenses in the Massachusetts Management Accounting and Reporting System (MMARS). The institution no longer summarizes expenses by pooling to one object code in MMARS; the University is now utilizing the correct OSC object code classification per the MMARS expenditure handbook.*

Auditor's Reply

Based on its response, BSU is taking measures to address our concerns in this area.

4. BSU's internal control plan was insufficient and was not described accurately to the Commonwealth in required questionnaires.

BSU has prepared an internal control plan (ICP), but the plan does not contain all of the components required by OSC guidelines. Updating the ICP to include those components is essential for ensuring the integrity and effectiveness of BSU's internal control system and its ability to respond to changes that could affect its operations. An updated ICP could also ensure that BSU is able to achieve its objectives efficiently, effectively, and in compliance with applicable state laws and regulations and that its assets are properly safeguarded against loss, theft, and misuse.

Our review of BSU's ICP disclosed the following issues:

- The ICP was not updated to include and identify all eight components of enterprise risk management (ERM) as described in the OSC Internal Control Guide. Specifically, it did not include objective setting, event identification, and risk response.

- The ICP had a high-level summarization of internal controls; however, it was not supported by lower-level detail, i.e., departmental policies and procedures.

- A risk assessment had not been sufficiently developed and fully integrated throughout all BSU's departments to determine how the greatest risks to the university's mission, goals, and objectives would be identified and mitigated. Specifically, the ICP did not contain an analysis of the risks within each department, summarized in a top-level risk assessment, and did not identify the likelihood and impact of each risk or a specific risk response.

- The ICP's control environment (internal environment[9]) component needs to more effectively address (1) direct statements from top management on the expectations of staff concerning integrity and high ethical standards and definitive statements that set the tone for the importance of internal controls and (2) how the mission of BSU is directed or is correlated to establishing its internal control environment and linking management's attitude, supervision, and organizational structure with the internal control environment.

- The ICP did not include adequate references to BSU's channels for disseminating information and communication to address BSU's overall mission, goals, and objectives, which is critical for communicating to BSU management and staff how the information is used to accomplish these goals and objectives. For example, the ICP did not adequately reflect the use of the BISS and how it is integrated with information useful to BSU departments. In addition, the ICP was not disseminated to various departments, as evidenced by our discussion with the director of the Central Receiving and Inventory Management department (CRIM) on his awareness of the physical-inventory requirements stated in the ICP.

- The ICP did not document BSU's monitoring procedures. BSU did not identify the specific objective and control areas as they relate to monitoring.

- The ICP did not identify an internal control officer.

In addition, despite the ICP's deficiencies, BSU certified in its Internal Control Questionnaires[10] (ICQs) submitted to OSC for fiscal years 2011 and 2012 that it has prepared its ICP based on the

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9 The internal environment, as defined by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is the tone of an organization, which, among other things, determines an organization's "risk culture" and provides the basis for its internal controls.

10 The ICQ is a document designed by OSC that is sent to departments each year requesting information on their internal controls over 12 areas: management oversight, accounting system controls, budget controls, revenue, procurement and contract management, invoices and payments, payroll and personnel, investments, inventory, capital assets, federal funds, and information-technology security and personal data. The department head, chief fiscal officer, and internal control officer of each department must certify the responses provided in the Representation section of the ICQ. The purpose of the ICQ is to provide an indication of the effectiveness of the Commonwealth's internal

guidelines issued by OSC and has updated the ICP within the past year. Incorrect information on these questionnaires prevents OSC from effectively assessing the adequacy of BSU's internal control system.

Authoritative Guidance

The OSC Internal Control Guide stresses the importance of internal controls and the need for departments to develop an ICP, defined as follows:

> *The Office of the Comptroller defines an internal control plan as a high level department-wide summarization of the department's risks and the controls used to mitigate those risks. This high level summary must be supported by lower level detail, i.e. departmental policies and procedures.*

The Internal Control Guide contains requirements regarding risk assessments and ICPs for state agencies and departments. It also requires that each agency or department designate a senior official in its ICP as the Internal Control Officer.

Reasons for Issues with ICP and Related Questionnaire

BSU officials told us that they were unaware of the requirements of the revised OSC's Internal Control Guide, dated September 13, 2007, which incorporated the principles of ERM. The individual who was responsible for submitting the ICQs during our audit period was no longer employed by BSU, so the Office of the State Auditor (OSA) was not able to speak to this person regarding the inaccurate information reported in these documents, and no other BSU officials were able to speak to this issue.

Recommendation

We recommend that BSU improve its ICP as follows:

- Prepare an updated ICP to include and identify all eight components of ERM in conformance to the latest OSC guidelines and ensure that the ICP is distributed to all departments so that departmental processes can be adjusted as changes to the ICP are made. To this end, in preparing an updated plan, BSU should refer to OSC's Internal Control Guide.
- Prepare an updated and improved high-level summarization of internal controls that contains cross-referencing to support lower-level department policies and procedures and the BSU mission statement.

controls. External auditors use department internal control plans and ICQ responses, along with other procedures, to render an opinion on the internal controls of the Commonwealth as a whole.

- Assess the risks at each department and then ensure that the ICP risk section captures all significant risks to BSU's goals and objectives. Assess the likelihood and impact of occurrence of each risk and include a risk response in the plan, along with a mitigation plan aimed at improving the likelihood of BSU's achieving its mission, goals, and objectives over all fiscal and programmatic areas.

- Update and enhance its description of the internal control environment by including statements by BSU's administration on the expectations of all staff concerning integrity, requirements of high ethical standards and accountability, and other definitive statements that set the tone for the importance of internal controls within BSU operations.

- Document its monitoring activities and responsibilities to ensure that effective internal controls are implemented to mitigate fiscal and programmatic risks. Cross-reference the ICP to these monitoring policies and procedures.

- Include reference to the BSU financial reporting system, BISS, and any other key information and communication system or process in place at BSU and cross-reference it within the ICP to departmental policies and procedures.

- Identify an internal control officer and include in the plan a description of the officer's role and responsibilities.

- Ensure that the ICQ submitted to OSC each year is accurate.

Auditee's Response

The University recognizes its Internal Control Plan (ICP) is a critical living document in need of continuous review and modification, while acknowledging the ICP did not include all eight components relevant to enterprise risk management. The institution will ensure that forthcoming plan modifications will include all components.

Auditor's Reply

Based on its response, BSU is taking measures to address our concerns in this area.

5. BSU has inappropriately established trust funds and has not clearly defined requirements for their revenue and disbursements.

Contrary to Chapter 73, Section 14, of the Massachusetts General Laws, BSU established 43 of its 59 trust funds itself, rather than having its board of trustees establish them. Therefore, the board has not had the opportunity to review and approve the purpose for which each fund is created and to establish the specific requirements it wants to implement for revenues and disbursements from each fund. In addition, contrary to the Board of Higher Education's Standards for Expenditures of Trust Funds, BSU has not established guidelines including policies and procedures concerning trust-fund revenue sources, appropriate and inappropriate expenditures, and required documentation for revenues and disbursements for 43 of its 59 trust funds. As a result, BSU cannot be certain that the revenues and expenses in these funds are being properly administered.

a. Trust funds have been established by BSU instead of by the board of trustees.

According to state law and BSU standards, BSU's board of trustees is the sole body authorized to establish trust funds for BSU. However, 43 of BSU's 59 trust funds were established not by the board of trustees but by BSU's administrative staff.

Chapter 73, Section 14, of the General Laws authorizes the board of trustees of a state college or university such as BSU to create trust funds for the purpose of generating and expending funds for specified purposes to supplement programs at the university that would not otherwise be possible with state appropriations. The law states,

> *The trustees may, from time to time, establish and manage trust funds for self-amortizing projects and self-supporting activities including, but not limited to, the operation of the boarding halls, student health service, research institutes and foundations, dormitories and student and faculty apartments. All income received from such projects or activities shall be held in trust by the trustees and expended for the purpose for which the trust fund was established.*

BSU's board of trustees has published its Standards for the Expenditure of Trust Funds, which states, in part,

> *The Board of Trustees of Bridgewater State University establish Trust Funds as authorized by Massachusetts General Laws Chapter 15A, Sections 5(1) and 10(e).These statutes authorize the University, through its Board of Trustees [emphasis added], to create trust funds to finance and account for certain campus projects, programs and activities.*

Reasons for Trust Funds Not Established by the Board

BSU's vice president of Administration and Finance informed us that the university operates on the assumption that it is authorized to initiate what he referred to as smaller trust funds, which are exempt from having to be approved by BSU's board of trustees. However, Chapter 73, Section 14, of the General Laws requires the board of trustees to establish all trust funds, and neither this statute nor any written policies or procedures established by BSU allow any trust funds to be established by other means. The Board of Higher Education's Standards for Expenditures of Trust Funds define a trust fund as follows:

> *The term "trust funds" as used in public higher education refers to non-appropriated funds held by the University.*

In OSA's opinion, since none of the funds in these accounts were from state appropriations, the funds meet BSU's own definition of trust funds and therefore should be administered as such.

b. BSU has not established requirements for trust-fund revenues and disbursements.

Only 16 of BSU's 59 trust funds contained defined requirements for the funds' administration as required by the Board of Higher Education's Standards for Expenditures of Trust Funds. We selected for review 2 of the 43 trust funds that were not formally established by the board of trustees and found that requirements for trust-fund revenue and disbursements within these funds were not clearly defined. Without established requirements and guidelines for authorized revenues and disbursements for these trust funds, BSU cannot be certain that the financial transactions being conducted in relation to these funds are consistent with the purposes for which the fund was established.

Authoritative Guidance

The Board of Higher Education's Standards for Expenditures of Trust Funds require the board of trustees of a state college or university to provide clear guidelines for the administration of trust funds by stating, in part, the following:

> *Responsibility for the specific trust fund guidelines and regulations rests with the institutional board of trustees. These guidelines should include policies and procedures concerning trust fund revenue sources, appropriate and inappropriate expenditures, bank accounts, spending approval levels and required documentation.*

Reasons for Lack of Requirements

BSU's policies and procedures on the establishment of trust funds do not address or define the process that should be used for establishing revenue and expense requirements for trust funds that are not formally established by the board. Further, as noted above, BSU officials told us that BSU considered the 43 trust funds general accounts, not trust funds, and therefore not subject to trust-fund standards.

Recommendation

BSU's board should ensure that it fully complies with Chapter 73, Section 14, of the General Laws and with the Board of Higher Education's Standards for Expenditures of Trust Funds for the creation and administration of all trust funds, including establishing guidelines for all trust funds.

Auditee's Response

The University is actively examining and revising all trust fund guidelines and related procedures for consideration, revision and approval by the Board of Trustees.

Auditor's Reply

Based on its response, BSU is taking measures to address our concerns in this area.

6. BSU's inventory is not accurate or adequately verified, and BSU has not always sent required reports of losses to OSA.

BSU was not maintaining an accurate record or conducting periodic physical inventories of its fixed assets as required by OSC policies and BSU's own internal control procedures, and it did not report to OSA 16 instances of missing or stolen property, totaling $9,020, as required by Chapter 647 of the Acts of 1989. As a result of these problems, BSU cannot be certain that the correct value of its non-GAAP and other fixed assets, which had an estimated value of $22,551,897 as of June 30, 2012, is being recorded and reported or that these assets are adequately safeguarded against loss, theft, and misuse.

a. BSU had no documentation that it had conducted an inventory of its fixed assets.

During our audit, BSU could not provide us with any documentation to substantiate that it had conducted an inventory of its fixed assets during our audit period. Without adequate, properly maintained inventory controls, such as regular physical fixed-asset inventories, BSU cannot be certain that its accounting records and financial reports are accurate; that its assets are being adequately safeguarded against abuse and/or misuse; or that it can effectively detect lost, missing, or stolen items. During our audit, we did find that two items were missing.

BSU's CRIM staff provided us with an inventory list of the university's property and equipment. From a statistical sample of 40 items on the BSU database list, 2 items could not be physically located. The missing items were a laptop computer valued at $1,486 and a laser-jet printer valued at $1,400. Using a generally accepted statistical analysis, we project with a 95% confidence level that the 2 missing items from our sample of 40 items could indicate that as many as 15.7%[11] of the items from the total population of 9,320 are unaccounted for. In addition, despite the above inventory and equipment control deficiencies, BSU certified in its ICQ submitted to OSC for fiscal years 2011 and 2012 that it had taken an annual inventory of tangible and intangible capital assets, which included additions, disposals, transfers, and assets no longer in service.

Authoritative Guidance

OSC's Accounting and Management Policy for Fixed Assets, last revised November 1, 2006, requires that all assets be accounted for, managed, and reported in accordance with applicable laws and regulations of the Commonwealth:

> *There shall be an **annual inventory** taken of fixed assets owned by every Department. This inventory shall include, at a minimum, a verification of the existence and location of fixed assets owned by a Department. This inventory shall be done on or about June 30th of each year for GAAP and non-GAAP assets. . . .*
>
> *There shall be a **reconciliation of the fixed asset inventory** against the books and records maintained by the Department, either on the Fixed Asset Subsystem or other documented methods. This reconciliation is to be done, at a minimum, on an annual basis. This reconciliation shall be available for audit either by the department's internal auditors, the State Auditor's Office or the Commonwealth's external auditors.*

Further, Chapter 647 of the Acts of 1989, Section F, states, in part,

> *Periodic comparison shall be made between [a department's] resources and the recorded accountability of the resources to reduce the risks of unauthorized use or loss and protect against waste and wrongful acts.*

In order to comply with these requirements, BSU has developed the following policy detailed in its ICP:

> *The University is required to properly account for all fixed asset transactions, including the proper recording and the reconciliation of a periodic inventory of all fixed assets. This physical reconciliation should be completed as of June 30th of each fiscal year.*

Reasons for Lack of Annual Inventory

During our audit, the director of CRIM stated that he was unaware of the requirements for conducting an annual inventory. He said that the person responsible for filling out the ICQ during the years in question no longer worked at BSU and therefore was not available to explain

[11] We used a Poisson statistical sampling approach to estimate the maximum number of missing items from the population. The sample of 40 items, with 2 that could not be located, resulted in an error rate as high as 15.7% using the number of missing items from the sample.

why the questionnaires were filled out incorrectly. He further stated that BSU is working on new inventory control policies and procedures that will include conducting physical inventories that will comply with applicable statutory and regulatory requirements.

b. BSU did not report unaccounted-for losses to OSA as required.

During our audit, we found at least 16 instances of missing or stolen property, totaling approximately $9,020 (Appendix E), that BSU did not report to OSA in accordance with Chapter 647 of the Acts of 1989. Because BSU did not report these missing assets, OSA did not have the opportunity to determine the internal control weakness that contributed to or caused the loss of these assets and make recommendations to BSU to address these problems and better ensure that the university's fixed assets are adequately safeguarded against abuse and misuse.

Authoritative Guidance

Chapter 647 of the Acts of 1989 states, in part,

> *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 weakness 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.*

Reasons for Not Reporting Lost or Stolen Property to OSA

Although BSU's ICP required CRIM to report losses to OSA, it was not formalized as a procedure within CRIM; therefore, CRIM did not see it as a requirement.

BSU told us that it would develop an internal process to ensure compliance with Chapter 647.

Recommendation

BSU should develop sufficient oversight and monitoring procedures to ensure that the prescribed policies and procedures are consistently followed. At a minimum, BSU should ensure the following:

- that physical annual inventories of all fixed assets are conducted in accordance with OSC's and BSU's established procedures and ICP to verify the existence, location, and value of inventory items;
- that its asset management database is reconciled with the results of the physical inventory; and
- that it fully complies with Chapter 647 of the Acts of 1989, which should include implementing written procedures within CRIM to delineate the reporting requirements of Chapter 647.

Auditee's Response

> *The University will develop new inventory control policies and procedures ensuring that physical inventories are conducted in a manner that complies with applicable statutory and regulatory requirements.*
>
> *. . .*
>
> *During the audit fieldwork, the University developed an internal procedure to ensure compliance with MGL Chapter 647.*

Auditor's Reply

Based on its response, BSU is taking measures to address our concerns in this area.

APPENDIX A

Comparison of BSU's Reported Current Accounts-Receivable Balances to Actual Current Accounts-Receivable Balances as of December 31, 2011

Revenue Source	Reported Current Receivable Balances	Correct Current Receivable Balances	Variance
Fees—Tuition	$ 5,801,233	$ 2,280,866	$ 3,520,367
Out-of-State Tuition	250,443	131,752	118,691
Functions	21,521	6,372	15,149
Continuing-Education Tuition	2,860,000	877,538	1,982,462
Student Fees	39,931,216	26,031,563	13,899,653
Daycare Fees	74,787	49,961	24,826
Insurance	457,776	48,078	409,698
Loan Principal Repaid	1,800	1,800	0
Student Agency Fees	23,893	0	23,893
Meal Charges	4,703,983	2,785,853	1,918,130
Total	$54,126,652	$32,213,783	$ 21,912,869

APPENDIX B

Fiscal Year 2012 Open and Aged Summary Receivable
Midyear Report by BSU as of January 22, 2012

Revenue Source	Total Open Receivables	Current Receivables (not past due)	1 – 30 Days Past Due	31 – 60 Days Past Due	61 – 90 Days Past Due	91 – 120 Days Past Due	Over 120 Days Past Due
Fees—Tuition	$ 6,540,831	$ 5,801,233	$ 262	$ 937	$ 30,557	$ 10,670	$ 697,172
Out-of-State Tuition	305,400	250,443	0	0	21,992	6,609	26,356
Functions	51,772	21,521	1,909	8,143	0	0	20,199
Continuing-Education Tuition	3,282,117	2,860,000	651	1,891	32,962	16,705	369,908
Student Fees	44,247,411	39,931,216	16,119	46,405	363,018	175,213	3,715,440
Daycare Fees	86,696	74,787	0	0	1,810	4,366	5,733
Insurance	766,289	457,776	0	255	32,313	9,144	266,801
Loan Principal Repaid	3,599	1,800	0	0	0	0	1,799
Student Agency Fees	37,836	23,893	0	0	0	0	13,943
Meal Charges	4,747,048	4,703,983	0	227	9,954	10,848	22,036
Total for Billing Type Summary	$ 60,068,999	$ 54,126,652	$ 18,941	$ 57,858	$ 492,606	$ 233,555	$ 5,139,387

APPENDIX C

Adjusted Fiscal Year 2012 Open and Aged Summary Receivable Midyear Report as of February 22, 2012[12]

Revenue Source	Total Open Receivables MMARS	Current Receivables (owed not past due)	1– 30 Days Past Due	31 – 60 Days Past Due	61 – 90 Days Past Due	91 – 120 Days Past Due	Over 120 Days Past Due	Total Open Receivables BANNER
Fees—Tuition	$ 6,540,831	$ 2,280,866	$ 262	$ 937	$ 30,557	$ 10,670	$ 697,172	$ 3,020,464
Out-of-State Tuition	305,400	131,752	0	0	21,992	6,609	26,356	186,709
Functions	51,772	6,372	2,581	8,143	0	0	20,199	37,295
Continuing Education Tuition	3,282,117	877,538	651	1,891	32,962	16,705	369,908	1,299,655
Student Fees	44,247,411	26,031,563	16,119	46,405	363,018	175,213	3,715,440	30,347,758
Daycare Fees	86,696	49,961	0	0	1,810	4,366	5,733	61,870
Insurance	766,289	48,078	(251)	255	32,313	9,144	266,801	356,340
Loan Principal Repaid	3,599	1,800	0	0	0	0	1,799	3,599
Student Agency Fees	37,836	0	0	0	0	0	13,943	13,943
Meal Charges	4,747,048	2,785,853	0	227	9,954	10,848	220,036	3,026,918
Total	$60,068,999	$ 32,213,783	$19,362	$57,858	$492,606	$233,555	$ 5,337,387	$38,354,551

12 Age computations are computed as December 31, 2011; however, these data reflect auditor adjustments based on BSU's BISS analyzed as of February 22, 2012.

APPENDIX D

Aging Analysis of BSU's Accounts-Receivable Balances for the Highest Five Revenue Sources January 22, 2012

Accounts Receivable Days Outstanding	State Tuition	Local Tuition	Out-of-State Tuition	Meal Charges	Student Fees	Total	Percentage
0 to 120 Days	$2,300,255	$ 904,380	$146,367	$ 2,795,020	$ 26,359,223	$32,505,245	85.8%
121 to 240 Days	139,796	145,427	40,342	44,589	1,190,319	1,560,473	4.1%
241 to 360 Days	25,178	12,423	–	10,495	182,905	231,001	0.6%
361 to 480 Days	41,843	21,354	–	18,352	234,716	316,265	0.8%
481 to 600 Days	56,209	26,086	–	17,142	314,489	413,926	1.1%
Over 600 Days	457,183	189,985	–	141,320	2,066,106	2,854,594	7.5%
Total Outstanding	$3,020,464	$1,299,655	$186,709	$ 3,026,918	$ 30,347,758	$37,881,504	100%

APPENDIX E

Missing Fixed Assets Not Reported by BSU in Compliance with Chapter 647 of the Acts of 1989, Fiscal Years 2008 to 2012

Description of Property	Cost	Date of Loss
Access Point Panel	$ 790	4/3/2012
Dell D620 Laptop Computer	200	8/25/2011
Denver Instrument Scale MXX-612	1,100	10/21/2011
Blackberry Bold Cell Phone	230	5/2/2012
Table	100	6/14/2010
Desktop Computer	300	6/17/2010
End Table	500	3/10/2010
Dell Laptop*	800	1/14/2012
Black & Decker Drill	50	1/5/2010
Desktop Computer	300	8/14/2009
Dell D610 Laptop Computer	1,000	8/2/2009
Dell Computer Power 9x270	200	7/2/2009
Table	500	5/28/2009
Dell CPU Tower	1,000	10/14/2008
NEC Projector	950	5/5/2008
Apple I-Book G4 Laptop	1,000	7/30/2008
Total Cost of Unreported Property	$ 9,020	

* The Dell laptop was eventually reported as recovered by BSU.

APPENDIX F

Analysis of Honoraria[13] for the Two Fiscal Years Ending June 30, 2012

Total BISS consultant contract services reported as honoraria	$6,406,009
Less: BISS year-end cut-off differences	(148,539)
BSU expenditures reported in MMARS as honoraria	6,257,470
Less: BISS recorded honoraria expenses	(594,781)
Total honoraria expenses misclassified and overstated in MMARS	$5,662,689

Summary of MMARS Object Codes and BSU Banner Account Numbers

MMARS Description		BANNER Description (BSU)		
Object Code	Object Code Title	Account	Account Description	Amount
H02	Actuaries/Statisticians	71702	Engineering, Research & Sci Studies	$ 1,945,252
U05	Information Technology Professionals	71703	Info Tech Profession	888,286
H04	Advertising Agency / Media Consultants	71704	Adv/Media Consultants	102,559
H05	Arbitrators / Mediators / Dispute Resolution Services	71705	Arbitrator/Mediator	12,912
H06	Architects / Landscape Designers / Space Planners	71706	Architect/Landscape	44,067
H08	Artists / Graphic Designers	71708	Artists	356,616
H09	Attorneys / Legal Services Consultant Services Contracts	71709	Attorneys	279,375
H10	Auditors / Audit Services	71710	Auditors	174,410
H12	Engineers	71712	Engineers	23,502
H14	Health and Safety Experts	71714	OSHA Consultants	36,651
H15	Honoraria for Visiting Speakers/Lecturers	71715	Honoraria	594,781
H16	Researchers	71716	Researchers	11,095
H19	Management Consultants	71719	Management Consultants	589,150
H20	Health / Medical Consultants	71720	Medical Consultants	87,736
H23	Program Coordinators	71723	Program Evaluators	722,062
H28	Writers	71728	Writers	15,068
H30	Performers/Actors	71730	Performers/Entertainment	412,219
H98	Reimbursement for Travel and Expenses for Consultant Services	71798	Consultant Travel	110,268
Total				$ 6,406,009

[13] Source: BSU's BISS.