



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

Making government work better

Official Audit Report – Issued December 14, 2016

Holyoke Community College

For the period July 1, 2014 through February 29, 2016





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Mr. William Fogarty, Interim President
Holyoke Community College
303 Homestead Avenue
Holyoke, MA 01040

Dear Mr. Fogarty:

I am pleased to provide this performance audit of Holyoke Community College. This report details the audit objectives, scope, methodology, findings, and recommendations for the audit period, July 1, 2014 through February 29, 2016. My audit staff discussed the contents of this report with management of the college, whose comments are reflected in this report.

I would also like to express my appreciation to Holyoke Community College 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 horizontal line.

Suzanne M. Bump
Auditor of the Commonwealth

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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 Holyoke Community College (HCC) for the period July 1, 2014 through February 29, 2016. In our review of HCC's process for inventory of property and equipment, it was necessary to examine information from outside our established audit period to accomplish our audit objectives.

In this performance audit, we followed up on three issues we identified during our prior audit of HCC (No. 2012-0195-3S), which had included examining HCC's compliance with the reporting requirements of Chapter 647 of the Acts of 1989, its inventory process for fixed assets, and its safeguarding of its gasoline inventory. During the current audit, we also examined HCC's administrative expenditures.

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

Finding 1 Page 6	HCC did not tag all information-technology (IT) items and record them on its inventory list in a timely manner.
Recommendation Page 7	HCC should amend its existing inventory policy to ensure that all fixed assets, including IT fixed assets, are properly assigned inventory identification numbers, tagged, and recorded on its inventory list when they are received.
Finding 2 Page 7	HCC awarded two consultant contracts, totaling \$26,000, without obtaining competitive quotes.
Recommendation Page 8	HCC should obtain at least three competitive quotes from vendors when procuring goods or services that cost between \$10,000 and \$25,000 and are not obtained as part of one of the collective purchasing agreements available to the college.

OVERVIEW OF AUDITED ENTITY

Holyoke Community College (HCC) is authorized by Section 5 of Chapter 15A of the Massachusetts General Laws and operates under the direction of a board of trustees. The board operates under regulations promulgated by the state's Board of Higher Education; its responsibilities include setting policy, approving annual budgets, and monitoring quarterly budget performance. The president of HCC reports to the board of trustees and is the administrative head of the college. During our audit period, the president was supported by the vice presidents of Administration and Finance, Academic Affairs, Student Affairs, Institutional Development, and Business and Community Services; the assistant vice president for Diversity; and the chief information officer.

HCC 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. As of spring 2016, HCC had a student population of 5,152. Its main campus is on a 135-acre site at 303 Homestead Avenue in Holyoke. HCC has two satellite locations: the Ludlow Area Adult Learning Center in Ludlow and the Picknelly Adult and Family Education Center in downtown Holyoke.

AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY

In accordance with Section 12 of Chapter 11 of the Massachusetts General Laws, the Office of the State Auditor (OSA) has conducted a performance audit of certain activities of Holyoke Community College (HCC) for the period July 1, 2014 through February 29, 2016. In our review of HCC's process for inventory of property and equipment, it was necessary to examine information from outside our established audit period to accomplish our audit objectives.

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. Does HCC purchase, record, and safeguard property and equipment in accordance with its inventory policies and procedures, including implementing the recommendations of our prior audit?	No; see Finding <u>1</u>
2. Has HCC successfully implemented the recommendations of our prior audit regarding improvements to its internal controls over gasoline inventory?	Yes
3. Has HCC successfully implemented the recommendations of our prior audit regarding compliance with the reporting requirements of Chapter 647 of the Acts of 1989? ¹	Yes
4. Does HCC comply with its own policies and procedures for administrative expenses* (e.g., consultants, honoraria, subscriptions, and travel) by ensuring that goods and services are properly procured and that all expenses are allowable and properly documented?	No; see Finding <u>2</u>

* We did not consider consultant and honoraria expenses under \$1,000, or subscriptions and travel expenses under \$500, when testing HCC's compliance with its policies and procedures for these administrative-expense categories.

1. This law requires agencies to file a report with OSA if they find any "unaccounted for variances, losses, shortages or thefts of funds or property."

To achieve our objectives, we gained an understanding of the internal controls we deemed significant to our audit objectives and evaluated the design and effectiveness of controls over administrative expenses, Chapter 647 compliance, and inventory of property and equipment.

We conducted further audit procedures as follows.

- We reviewed HCC's inventory policies and procedures, reviewed internal control plans and policies, and interviewed key employees in HCC's Comptroller's Office and Information Technology Division. We also performed the following tests:
 - We requested and obtained HCC's then-current inventory list, which was from March 3, 2016, and sampled and examined 70 inventory records using both statistical and nonstatistical sampling strategies to verify the accuracy of the inventory record. To do this, we sampled 30 of the 4,468 inventory items on HCC's inventory list with certain acquisition values (\$300 to \$49,999 for electronic equipment and \$1,000 to \$49,999 for other items), using a statistical random sampling method, to trace the items to their locations on the main campus and at satellite locations. We used a nonstatistical judgmental sampling method to trace 40 inventory items from their locations on the main campus and satellite locations back to the inventory list to determine whether each item was appropriately recorded on the list.
 - We reviewed general-ledger activity specific to categories that might involve property and equipment and selected a random nonstatistical sample of 25 of the 220 eligible expenditures from the audit period that exceeded \$1,000. For the selected expenditures, we requested the invoice, procurement documentation, and any available inventory-related documentation. We reviewed the documents to verify that procurement policies had been followed, determined whether the items purchased should have been inventoried according to HCC policy, and verified the existence of the items on the inventory list if they were required to be inventoried.
- To determine whether prior audit recommendations had been implemented in relation to HCC's gasoline inventory, we interviewed key employees from the Administration and Finance Department and reviewed HCC's policies and procedures regarding gasoline use. We also obtained the 87 weekly hardcopy gasoline logs for the audit period from HCC. We tested a random nonstatistical sample of 15 weeks to verify that the gasoline logs had been completed properly in accordance with HCC's policies and procedures.
- We reviewed HCC's Chapter 647 reporting policies and procedures and interviewed key employees in the Administration and Finance Department and Campus Police Office to gain an understanding of HCC's practices in reporting unaccounted-for variances, losses, shortages, or thefts. We also reviewed HCC's internal control plan and Administrative Policies and Procedures Manual to determine whether HCC had followed up on our prior audit recommendation. Additionally, we performed the following tests:
 - We used a nonstatistical, random sampling method to review 8 of 20 monthly bank reconciliations completed during the audit period to determine whether there were any

unreconciled variances and, if any were discovered, to determine whether a Chapter 647 report had been filed with OSA.

- We reviewed all Chapter 647 filings made during the audit period to determine whether they were made in a timely manner.
- We reviewed HCC's policies and procedures for administrative expenditures and interviewed key employees in the Administration and Finance Department to gain an understanding of HCC's procurement, encumbrance, and payment procedures. We also performed the following tests:
 - We reviewed documentation (invoices, purchase orders, and contracts) of a nonstatistical, judgmental sample of 12 of 51 different vendors who were consultants, or were paid honoraria, and were paid more than \$1,000 during the audit period. Our testing determined whether the expenditures were made in compliance with HCC procurement and expenditure policies and procedures and were expensed to appropriate funds.
 - We used a nonstatistical sampling method to randomly select a sample of travel- and subscription-related expenditures made by HCC during our audit period. We obtained a random sample of 27 expenditures from a population of 345 expenditures that were greater than \$500. We reviewed the expenditures to determine whether they complied with HCC travel, expenditure, and procurement-card policies; were supported by proper documentation; and were expensed to appropriate funds.

When our sampling was nonstatistical, we could not project the results of our audit tests to the total populations in the areas we reviewed. When our sampling was statistical, we determined that it was not necessary to extrapolate the results of our testing to the entire population.

We determined the reliability of the data obtained from HCC's Banner system, the accounting system containing financial records used at the college, by comparing Banner reports to other sources for agreement; performing electronic tests of report data; and testing certain information-technology controls using questionnaires and interviews. We determined that the data were sufficiently reliable for the purposes of this report.

DETAILED AUDIT FINDINGS WITH AUDITEE'S RESPONSE

1. Holyoke Community College did not tag all information-technology items and record them on its inventory list in a timely manner.

During the current audit, we found that Holyoke Community College (HCC) had implemented our prior audit recommendations on completing an annual physical inventory of fixed assets, reconciling any differences found, and implementing a process to account for fixed assets taken off campus. However, improvements in its inventory process for information-technology (IT) equipment are still needed. Specifically, IT items purchased during the audit period, such as laptop and desktop computers and iPads, were not assigned inventory identification numbers, did not have inventory tags affixed, and were not recorded on the college's inventory list when they were received.

We tested 25 expenditures made by HCC for property and equipment. The expenditures included the purchase of 66 IT items. It took between 8 and 251 days for HCC to assign inventory identification numbers to these items, tag them, and record them on its inventory list.

As a result, HCC's inventory of IT fixed assets, which includes 5,464 items that cost approximately \$3.8 million, are unnecessarily at risk of loss and misuse that could go undetected during the time the college owns the asset but has not included it in its inventory records.

Authoritative Guidance

Section 6.1000(A)(8)(a) of HCC's Administrative Policies and Procedures Manual states,

When the Cost Center Director receives the items ordered, he/she must contact the Storekeeper and request that the item be tagged. The Storekeeper will then tag the item and enter it into the fixed asset inventory system.

Additionally, HCC's internal control plan includes the following objective: "The general ledger and detailed fixed asset records are updated for fixed asset transactions on a timely basis."

Reasons for Noncompliance

HCC officials told us that for IT equipment, the steps of assigning an inventory identification number to an item, tagging it, and recording it on the inventory list do not occur until the Information Technology Division verifies that the equipment is in working order, installs the software, and runs diagnostic checks (all tasks that can only be performed by that division) and then places it into service. They also stated that

during the audit period, the college received IT equipment while some of the buildings on campus were undergoing renovations, which caused extended delays in placing the IT equipment into service.

Also, the HCC inventory policy is not specific enough to effect proper control over inventory because it does not establish a detailed time frame for tagging assets and adding them to the inventory list.

Recommendation

HCC should amend its existing inventory policy to ensure that all fixed assets, including IT fixed assets, are properly assigned inventory identification numbers, tagged, and recorded on its inventory list when they are received.

Auditee's Response

HCC's inventory policy and procedure has been updated to include the following:

For high-value electronics that are handled through [HCC's Information Technology Division, or ITD], the following procedures apply:

ITD has 14 days to verify that the equipment is operational and notify the storekeeper that the equipment is ready for tagging and addition to the inventory record. The storekeeper will tag the equipment and add the item to inventory record at the time of this notification. Alternatively, ITD staff may tag the inventory and report the tag number and item information to the storekeeper for addition to the inventory record. Additionally, ITD will notify the storekeeper of the final location of the equipment at the time the equipment is deployed to allow accurate updating of the inventory record.

For all other equipment valued at \$1,000 or greater:

The responsible Cost Center Manager will, within 7 days of receipt of equipment, notify the storekeeper of the location of the equipment. The storekeeper will tag the equipment and add the item to the inventory record at the time of this notification.

2. HCC awarded two consultant contracts, totaling \$26,000, without obtaining competitive quotes.

During our audit period, HCC purchased services from two consultants (a marketing consultant to whom it awarded a \$10,000 contract and a database administrator to whom it awarded a \$16,000 contract) who were not part of one of the collective purchasing agreements used by the college² without obtaining three

2. The college can use collective purchasing agreements prearranged by the Higher Education Consortium, the Partnership to Advance Collaboration and Efficiency, or the state purchasing agent that allow colleges to select from a list of vendors, any of which will provide agreed-upon discounted rates for specific services.

competitive quotes for each consultant's services. Without a competitive procurement process, HCC may not have received the best rates for these services.

Authoritative Guidance

Section 4.100 of HCC's Administrative Policies and Procedures Manual states,

Purchases of goods or services greater than \$10,000, and less than \$25,000, which are not obtained from one of the collective purchasing agreements, must have three quotes attached to the requisition or contract for service.

Reasons for Noncompliance

HCC officials told the Office of the State Auditor that both consultants had longstanding working relationships with HCC and the college felt it was in its best interests to continue using them. The officials stated that the marketing consultant had always been under the \$10,000 threshold in previous years and just exceeded that amount during the current audit period. They added that the database administrator's original contract was executed in fiscal year 2011 and that HCC had been extending the contract with the same terms and conditions since then. However, we found that the terms and conditions of the current contract were different from those of the consultant's 2011 contract, and HCC did not provide any documentation to substantiate that the 2011 contract allowed for annual renewals.

Recommendation

HCC should obtain at least three competitive quotes from vendors when procuring goods or services that cost between \$10,000 and \$25,000 and are not obtained as part of one of the collective purchasing agreements available to the college.

Auditee's Response

For the Marketing Consultant Contract. . . . For the new fiscal year, the planned expenses have been divided between two consultants, keeping the contracted amount for each well under the \$10,000 threshold.

For the database administrator's contract: three competitive quotes will be obtained during FY17 per internal policy/procedure that will either support the ongoing use of the vendor or identify a lower-cost, equally qualified option.