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INDEPENDENT STATE AUDITOR'S REPORT ON
CERTAIN ACTIVITIES OF THE
MASSACHUSETTS BAY COMMUNITY COLLEGE
DECEMBER 1, 2003 THROUGH OCTOBER 31, 2007

OFFICIAL AUDIT
REPORT
OCTOBER 28, 2008

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Massachusetts Bay Community College (MassBay) is part of the system of public institutions of higher education as promulgated by Chapter 15A, Section 5, of the Massachusetts General Laws. It was founded in 1961, and is one of 15 community colleges in Massachusetts. MassBay is a two-year public community college and has approximately 5,200 full-time and part-time students. It offers 38 associate's degree programs, 27 certificate programs, and an array of non-credit courses. The College's main campus is located on Oakland Street in Wellesley Hills. An additional campus is located on Flagg Drive in Framingham. MassBay also offers automotive courses at a satellite facility on Eliot Street in Ashland.

Our audit was initiated as a result of a Chapter 647 report filed by MassBay with the Office of the State Auditor (OSA). The report indicated that an unauthorized connection by an adjacent tenant to the electrical meter at MassBay's satellite facility in Ashland caused MassBay to incur excessive electrical costs (approximately \$300,000) during the 40-month period December 2003 through March 2007. MassBay has referred this matter to the Office of the Attorney General (OAG).

In accordance with Chapter 647 of the Acts of 1989, *An Act Relative to Improving the Internal Controls within State Agencies*, agencies are required to report unaccounted-for variances, losses, shortages, or thefts of funds or property to the OSA. Chapter 647 requires the OSA to determine the internal control weaknesses that contributed to or caused an unaccounted-for variance, loss, shortage, or theft of funds or property; make recommendations that address the correction of the condition found; determine the amount of funds involved; identify the internal control policies and procedures that need modification; and report the matter to appropriate management and law enforcement officials.

The purpose of our review was to identify the internal control weaknesses that contributed to the unauthorized connection to the electrical meter, as well as the ongoing payments of excessive electrical costs; determine the amount of excess electrical charges; and determine what corrective action has been or needs to be implemented to prevent further abuses of the system.

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INADEQUATE MANAGEMENT AND INTERNAL CONTROLS OVER UTILITY BILL EXPENDITURES

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Inadequate internal controls over the process for payment of utility bills for MassBay's satellite facility in Ashland caused the College to expend approximately \$300,000 for electricity charges accrued by an adjacent tenant. Specifically, our audit disclosed that inadequate management, internal controls, and lack of supervision led to the inappropriate and unauthorized connection to the College's electrical meter by an adjacent tenant at the 270 Eliot Street location. For several months after the initial discovery was made, we also noted a lack of documented communication between College officials and the Board of Trustees in informing the Board of this condition. In

response to our audit report, MassBay concurred with the audit recommendation whereby it has either taken corrective action, or is in the process of taking corrective action, regarding the management, supervision and internal controls over its facilities' electrical charges and billings.

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INTRODUCTION

Background

Massachusetts Bay Community College (MassBay) is part of the system of public institutions of higher education as promulgated by Chapter 15A, Section 5, of the Massachusetts General Laws. It was founded in 1961, and is one of 15 community colleges in Massachusetts. MassBay operates under the oversight of the Board of Higher Education, which is responsible for monitoring each educational institution to ensure that state funds support measurable performance, productivity, and results. A Board of Trustees appointed by the Governor establishes College's administrative policies and governs MassBay. The President of MassBay is responsible for implementing the policies set by the Board of Trustees in accordance with the policies and guidelines established by the Board of Higher Education. MassBay is a two-year public community college and has approximately 5,200 full-time and part-time students. It offers 38 associate's degree programs, 27 certificate programs, and an array of non-credit courses. The College's main campus is located on Oakland Street in Wellesley Hills. An additional campus is located on Flagg Drive in Framingham. MassBay also offers automotive courses at a satellite facility on Eliot Street in Ashland.

Our audit was initiated as a result of a Chapter 647 report filed by MassBay with the Office of the State Auditor (OSA). The report indicated that an unauthorized connection by an adjacent tenant to the electrical meter at MassBay's satellite facility in Ashland caused MassBay to incur excessive electrical costs (approximately \$300,000) during the 40-month period December 2003 through March 2007.

In accordance with Chapter 647 of the Acts of 1989, *An Act Relative to Improving the Internal Controls within State Agencies*, agencies are required to report unaccounted-for variances, losses, shortages, or thefts of property to the OSA. Chapter 647 requires the OSA to determine the internal control weaknesses that contributed to or caused an unaccounted-for variance, loss, shortage, or theft of funds or property; make recommendations that address the correction of the condition found; determine the amount of funds involved; identify the internal control policies and procedures that need modification; and report the matter to appropriate management and law enforcement officials.

Audit Scope, Objectives, and Methodology

In accordance with Chapter 11, Section 12, of the General Laws and Chapter 647 of the Acts of 1989, we conducted an examination of MassBay's payments for electrical costs associated with its Ashland satellite facility for the period December 1, 2003 to October 31, 2007. Our audit was conducted in accordance with applicable generally accepted government auditing standards.

The purpose of our review was to identify the internal control weaknesses that contributed to the unauthorized connection to the electrical meter, as well as the ongoing payments of excessive electrical costs; determine the amount of excess electrical charges; and determine what corrective action has been or needs to be implemented to prevent further abuses of the system.

To accomplish our objectives, we examined the conditions surrounding the unauthorized connection to the electrical meter, including the accuracy of the amounts involved, and reviewed the adequacy of controls over the processing of utility disbursements, including newly implemented preventive internal controls established by MassBay. We met with the College's Vice President of Administration and Finance, the Controller, the Director of Administrative Services, the Director of Facilities, and the Director of Automotive Technology to discuss the circumstances surrounding the unauthorized meter connection. We also obtained and reviewed documents relating to the incident, including utility invoices, inter-office memos, property leases, and policy and procedure manuals. MassBay has referred this matter to the Office of the Attorney General (OAG).

As detailed in the Audit Results section of the report, our audit determined that MassBay did not have adequate internal controls over the monitoring of utility consumption and the disbursement of utility costs during the period December 1, 2003 through October 31, 2007.

AUDIT RESULTS

INADEQUATE MANAGEMENT AND INTERNAL CONTROLS OVER UTILITY BILL EXPENDITURES

Inadequate internal controls over the process for payment of utility bills for MassBay's satellite facility in Ashland caused the College to expend approximately \$300,000 for electricity charges accrued by an adjacent tenant. Specifically, our audit disclosed that inadequate management, internal controls, and lack of supervision led to the inappropriate and unauthorized connection to the College's electrical meter by an adjacent tenant at the 270 Eliot Street location. Also, for several months after the initial discovery, we noted a lack of documented communication between College officials and the Board of Trustees informing the Board of this condition. The inadequate management and internal controls that we noted were the lack of a documented approval process for utility bills and the monitoring of utility usage and costs by location to verify that electrical billings were valid, properly authorized, and recorded on a timely basis.

In 2001, MassBay opened the Automotive Technology Center at 250 Eliot Street in Ashland, leasing 27,000 square feet at this location and moving all automotive programs to this site. The Automotive Technology Center, one of several automotive training centers in the New England region, offers training on the most advanced diagnostic equipment and new vehicles. In 2003 the Technology Center was expanded to 38,250 square feet by leasing an additional 11,250 square feet at 270 Eliot Street. In 2006, another 1,100 square feet was leased at the 270 Eliot Street location. The adjacent tenant leases space at 260 Eliot Street.

In February 2007, MassBay officials, during a review of utility costs, discovered that the College was paying an excessive amount for electricity at 270 Eliot Street. As a result, the College started an investigation and learned from on-site employees that an adjacent tenant had been allowed to connect to the meter assigned to the College sometime in March 2004. The adjacent tenant had offered to pay the electrical charges for the College's electric meter at 270 Eliot Street, if they were allowed to connect into it. They stated that they lacked the capacity in their own electrical panel to meet their expanding needs. After an electrician completed the connection, the tenant was supposed to take over the account and provide the college with free electricity. The connection was completed without knowledge or authorization of appropriate College officials and the billing remained in MassBay's name. This led to the College paying electrical charges of approximately \$300,000 above their normal and customary costs for electricity for the 36-month

period (April 2004 through March 2007). In April 2007, the billing responsibility for the account was changed to the name of the adjacent tenant and MassBay did not pay electrical charges for April through November 2007. Discussions with the adjacent tenant to address the repayment of the excess electrical charges for the prior three years have been unsuccessful.

MassBay's management controls were either absent or deficient in providing supervision over employee activities at their Ashland satellite facility. The act of connecting into the College's electrical service at 270 Eliot Street by the adjacent tenant was known and condoned by employees who had no authority to enter into agreements or contracts. Authorization is the power that management grants employees to carry out certain duties. It is an internal control activity designed to ensure that activities are authorized and executed only by persons acting within the scope of their authority. It is management that authorizes employees to perform certain activities and/or to execute certain transactions within limited parameters. Management needs to design internal controls to provide reasonable assurance that unauthorized acquisition, use, or disposition of assets will be prevented or detected and corrected promptly. Chapter 647 of the Acts of 1989 requires that:

Transactions and other significant events are to be authorized and executed only by persons acting within the scope of their authority. Authorizations should be clearly communicated to managers and employees and should include the specific conditions and terms under which authorizations are to be made.

Our review of the monthly electrical invoices paid by MassBay for 270 Eliot Street disclosed a lack of documented management approvals. For the period December 2003 through October 2007, we reviewed 44 months of electrical billings and noted that only 11 contained documentation of approval by the Director of Facilities or the Director of Administrative Services. All of these approvals occurred after the current Director of Administrative Services started his employment. MassBay officials stated that for several months during 2005 into 2006, applicable department director positions were vacant. Further, MassBay officials stated that although it was not a written procedure for Department Heads to initial and date approval of invoices, in early 2007 a request was made by the Procurement Coordinator to have all invoices reflect initialized approval by the Director of each Department. Providing an audit trail of approvals for paid invoices in writing is a sound business practice and should be implemented throughout MassBay. Chapter 647 of the Acts of 1989 requires that:

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

Our review of the invoices for 270 Eliot Street further disclosed that late charge assessments totaling \$2,371 were paid in 21 instances without notations recorded on the invoices as to the reason for the delay. According to MassBay's Internal Control Manual, a procedure exists to review the accountability for late charge assessments; however, this procedure was not followed. Specifically, the Manual states; "Accounts Payable staff review the department holding folders twice a week to make sure invoices are processed in a timely manner and refer problems to the Assistant Controller. Requisitioners must document, in writing, explanation for late payment (e.g. initial vendor goods or service not meeting specification, mail delay, College system failure)."

We also reviewed the electrical invoices for 250 Eliot Street for the period beginning June 2005 through September 2007 and found that MassBay paid late charges in nine instances totaling \$369. MassBay should improve compliance with its expenditure procedures to ensure invoices are paid on a timely basis to avoid and/or limit late charge assessments.

We also noted that during this period the College's utility expenditure process disclosed a lack of supervisory monitoring of utility usage by location to verify electrical billings were valid, properly authorized, and recorded on a timely basis. We noted that during calendar years 2005, 2006, and the first quarter of 2007, the monthly electrical bills for 270 Eliot Street, with 11,250 square feet of leased space, were significantly higher than those for 250 Eliot Street, with 27,000 square feet of leased space. This condition was undetected by administrative personnel and the separate monthly invoices by location were paid without supervisor cost or usage monitoring, which would have led to an earlier detection of the excessive electrical charges.

MassBay's Director of Facilities indicated that a tracking format for utility usage and cost by location had begun in late 2006. However, our review of utility bills for 250 Eliot Street noted that from February to September 2007 MassBay neither received nor paid monthly utility invoices for 250 Eliot Street. MassBay's Director of Facilities stated this was due to an unauthorized conversion to paperless billing in early 2007, which went unnoticed until the utility

company informed the College of this change in September 2007. At this time the invoices for February to September 2007 were paid and the paperless billing ended and monthly paper invoices were reinstated.

Our review of the minutes of the Board of Trustee meetings held from January to September 2007 indicates that MassBay officials had not formally notified the Board of the discovery of the unauthorized connection to the electrical meter at MassBay's satellite facility by an adjacent tenant, causing MassBay to incur an excessive amount of electrical costs. Subsequently, MassBay filed a Chapter 647 report with the OSA and referred this matter to the Office of the Attorney General (OAG) to investigate whether there had been a theft of electrical service. On September 26, 2007, seven months after the initial discovery, the Board was notified that the OSA would be conducting a review of the Chapter 647 report filed. MassBay officials stated that there had been previous informal communication with Board members about this matter.

Recommendation

MassBay should review its management and internal controls procedures over financial and administrative operations to prevent similar future occurrences by:

- Ensuring that conditions and terms for authorizations are clearly documented and communicated.
- Ensuring that departmental management provides supervision of activities at all facilities.
- Establishing communication channels that provide for the timely exchange of information.
- Ensuring all expenditures are valid, properly authorized, recorded, and paid on a timely basis.
- Continuing the development and expansion of its written internal controls and procedures by examining current operations and identifying areas that need improvement.

Auditee's Response

In response to this audit result, MassBay provided comments, which are excerpted below:

The college concurs with the above recommendations and in fact all of the stated recommendations either have been re-implemented or are in the process of being implemented.

Appropriate internal controls and specific accounting tracking procedures had previously existed at the College, however during fiscal 2004 there was a management reorganization and the controls and procedures were abandoned. Administrative

Services, Purchasing and Facilities were organizationally separated reporting directly to the President under an AVP [Assistant Vice President]. Administration & Finance was previously a combined division and the AVP was at the time a Director. Administrative Services, Purchasing and Facilities were organizationally moved back into the division of Administration & Finance at the beginning of fiscal 2006 by the College's new President. The Director of Administrative Services (formally the AVP in 2004) and the Director of Facilities vacancies were filled in November 2005 and March 2006 respectively.

Checklists have recently been developed for both the Facilities and Information Technology Departments to assist them with vendors like utilities that are paid on a monthly or reoccurring basis. We will conduct a full review of all departments to ensure that checklists are created for them if warranted. All checklists will be reviewed by the Fiscal Office annually to ensure that all invoices have been paid. Live signatures are now required for all payments made on blanket purchase orders.

In December 2007 the metering and connection issues were corrected by the landlord and NSTAR.

APPENDIX

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Internal Controls within State Agencies

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Chapter 647

THE COMMONWEALTH OF MASSACHUSETTS

In the Year One Thousand Nine Hundred and Eighty-nine

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

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

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

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

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

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

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

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

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

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

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

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

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

House of Representatives, December 21, 1989.

Passed to be enacted,

George Turman, Speaker.

In Senate, December 22, 1989.

Passed to be enacted,

William W. Bulger, President.

January 3, 1990.

Approved,

Richard Riordan, Governor.