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

OFFICIAL AUDIT REPORT
AUGUST 28, 2000

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INTRODUCTION

Background

In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, we conducted an audit of certain financial activities at Massasoit Community College (MCC), including a review of internal controls, its compliance with applicable laws, rules, regulations, and Board of Higher Education guidelines governing administrative and employee-related expenditures made from nonappropriated trust funds.

MCC is one of 25 higher educational institutions in Massachusetts that are organized under Chapter 15A, Section 5, of the General Laws. MCC is a two-year public community college with approximately 4,100 students in day programs and 2,400 in continuing education evening courses. MCC is 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. MCC is governed by a Board of Trustees, which establishes MCC's administrative policies, and MCC's President is responsible for implementing the policies set by the Board of Trustees.

MCC's fiscal year 1999 expenditures from appropriated funds totaled approximately $19,607,000, which was expended on employee salaries and benefits, various supplies, furniture and equipment, and the operational expenses needed to operate MCC on a daily basis. In addition, expenditures from nonappropriated trust funds generated by the college totaled over $9,622,000 for fiscal year 1999. The source of these trust funds included tuitions, fees, fines, grants, and interest income. Expenditures of appropriated funds are controlled by various Massachusetts General Laws, as well as policy and procedure documents issued by the Secretary of the Executive Office for Administration and Finance or any office under its jurisdiction, such as the Office of the State Comptroller and the Human Resources Division. However, nonappropriated trust funds may not be subject to all of the controls, rules, and regulations applicable to appropriated funds.

Trust funds are used to complement state appropriations in order to ensure sufficient funding for an institution's total needs. Typically, trust funds are used in connection with a variety of campus activities, such as auxiliary enterprises (e.g., bookstores, food services), student activities, financial aid, medical services, capital improvements, contract employees, consultants, travel and other general expenses. Funds are received from many sources, including some that are subject to controls established by the funding entities. For example, funds received from the federal government are subject to regulations issued by the grantor agency. However, when external regulations are not imposed, MCC's Board of Trustees is responsible for establishing policies and procedures and monitoring the internal controls over the trust fund expenditures.

The Board of Higher Education's "Standards for the Expenditures of Trust Funds," sets forth minimum standards for the management of trust funds. One provision of the standard states "Local boards of trustees must develop institutional guidelines and standards which may be more but not less restrictive."

In fiscal year 1996, the Legislature appropriated over $2.8 million to fund an Educational Needs and Professional Development Program to benefit certain union and nonunion employees. MCC received $261,867 of these funds to be expended to reimburse its employees for expenditures under this program that were incurred by them during the period July 1, 1995 to June 30, 1998. This program has not been funded since then.

During the audit, MCC's Vice-President of Administration and Finance and Comptroller both resigned after accepting positions at other organizations. We met on several occasions during the audit with the new officers, who recognized that internal control deficiencies at MCC resulted in many of the conditions noted in this report. On August 21, 2000 we met with the Vice-President of A&F and reviewed with him in complete detail the results of our audit. The Vice-President recognized that these administrative and financial issues need to be addressed by MCC.

<u>Audit Scope, Objectives, and Methodology</u>

Our audit was conducted in accordance with applicable generally accepted government auditing standards for performance audits. Our review included an examination of certain categories of expenses disbursed from nonappropriated funds for the three fiscal years ended June 30, 1999, including travel;

general and administrative expenses; and employee-related expenses such as food supplies, liquor, entertainment, meal expenditures, and fringe benefits. In addition, we reviewed MCC's control over miscellaneous operating revenues. We also reviewed the disbursement of funds that were provided under the Educational Needs and Professional Development Program.

The objectives of our audit were to review MCC's internal controls to ensure that miscellaneous revenues due were collected and properly accounted for and that expenditures were properly authorized and documented; correctly classified, reported, and recorded; and in conformance with established criteria.

To accomplish our objectives, we interviewed various MCC officials, including the present and former Vice-President for Administration and Finance, the present and former Comptroller, as well as Deans, Assistant Deans, Business Office employees, and support staff. We performed reviews of certain miscellaneous revenue and examined records maintained by persons responsible for the activity and reviewed selected transactions to determine the accuracy of records maintained. We also examined purchase requisitions, payment vouchers, and contracts for selected expenditures from the State Operating, Local Operating, and All College Purpose Trust funds to determine whether expenditures were appropriate and properly recorded. We performed a similar examination of expenditures from the Educational Needs and Professional Development Program. We also reviewed financial statements prepared by the Business Office for fiscal years 1997, 1998, and 1999.

We reviewed applicable Massachusetts General Laws, Trustee's Standards for Trust Fund expenditures, MCC's Finance Manual, MCC's President's Quarterly Trust Fund Reports to the Board of Trustees, and the Board of Trustees' meeting minutes. We also reviewed certain provisions of the Code of Federal Regulations and various related publications issued by the Internal Revenue Service.

AUDIT RESULTS

1. Inadequate Internal Controls over the Receipt and Accounting of Certain Trust Fund Revenues

Our audit disclosed that MCC did not develop comprehensive internal control policies and procedures to ensure that certain types of trust fund revenues had been collected, reported, recorded, and properly accounted for. These revenues were in excess of $1.7 million and represented approximately 19% of the $9.6 million of the total trust fund revenues received by MCC in fiscal year 1999. Although MCC had prepared and issued an internal control manual in July 1997, it did not address key concepts such as authorization, supervision, access to resources by authorized individuals, and segregation of duties. We found that, in the absence of any guidelines, several departments that generate revenue through various means such as fees, ticket sales, fundraisers, commissions, and other MCC-sponsored activities had developed their own systems for accounting for receipts. These systems were not documented, were not consistent with generally accepted accounting policies and procedures, and, with a few exceptions, the system data are not reconciled to Business Office records. As a result, there is inadequate assurance that MCC has properly collected, reported, recorded, and accounted for these types of operating revenues.

We found that approximately $7.9 million of the more than $9.6 million in trust fund revenues received in fiscal year 1999 was adequately controlled under present practices. These revenues include tuitions, fees, rents, insurance payments from students, and interest earned through investments. Controls over these types of revenues were documented largely in the form of written procedures established to input information into MCC's computerized system. These procedures are supplemented by verbally communicated instructions from supervisory employees. However, although these procedures provide adequate control, they are not contained in a single written procedural document that is approved by MCC's senior management and Board of Trustees.

Our review of the $1.7 million of other trust fund revenues disclosed that these revenues are initially accounted for at the time of receipt under control systems developed by each department. The control systems were inadequate, not documented, and not monitored by any person above the department head responsible for collecting the revenue. Therefore, MCC has limited assurance that all revenues have been collected, reported, recorded, and accounted for. We performed an in-depth review of 10 specific types of revenue. We found that departmental controls over Day Care Charges revenue were adequate but were not documented in writing. The nine other revenue sources had inadequate internal controls, as discussed below.

a. Contract Revenue: Contract revenue is earned when an agency or business contracts with MCC to provide training for its employees. MCC received $298,400 in contract revenue for fiscal year 1999, and all the training was conducted at the Brockton campus.

Contracts are initiated by the Workforce Development Department, which forwards a copy to the Business Office for invoice preparation and to the Registrar to reserve the class for the requested time period. When the Business Office receives the contract, it is assigned a contract number and the Registrar's Office is contacted to determine the number of attendees. At this point, an invoice is prepared and issued to the entity requesting training, and contract information is entered into a Business Office stand-alone computer system that is not part of MCC's accounting system. Upon payment of the invoice, receipt information is entered into MCC's accounting system. However, because contract information is not entered into MCC's accounting system as a receivable when the invoice is sent out, there is a potential that funds may not be collected in a timely manner and that revenue may be understated for the period it was due and overstated for the period it was collected.

For example, when reviewing the General Account Cashbook maintained by the Business Office, we found that $3,000 of contract revenues due for fiscal year 1997 had been recorded as revenues in fiscal year 1998. Additionally, we found that the Business Office does not attempt to reconcile the contract dates and the total amounts of the contracts recorded in the stand-alone computer system to the revenue receipt information recorded in the General Account Cashbook to ensure all revenue due has been received.

b. Business Institute Revenue: Business Institute revenue is received for training and the sales of books and other training materials at MCC's Canton campus, which generated $132,500 of such revenues during fiscal year 1999.

Our review found that the staff in Canton administers the Business Institute Program and prepares the contracts but does not maintain a record of contracts issued or other accounting of revenues due. All records of Business Institute revenues due and received are maintained in the Business Office on the Brockton campus under the same recordkeeping processes as employed to account for contract revenue. We compared the Business Institute revenues recorded in the stand-alone computer system to the revenues recorded in the general account cashbook and found that not all revenues were recorded in the stand-alone computer system and that some postings were incorrect. Specifically, $2,400 of fiscal year 1997 contract revenues had been recorded as fiscal year 1998 revenues in the general account cashbook. We also found that fiscal year 1998 revenues from book sales and other miscellaneous sales totaling $3,180 had been recorded in the cashbook but not in the computer system. In addition, deposits of $840 in the general account cashbook could not be identified by MCC to a specific contract or source. Moreover, as with contract revenue, we found that MCC did not record revenues or establish a receivable in its accounting system at the time invoices are issued.

c. <u>Athletics Fundraising</u>: The Athletics Department raised $23,000 in revenues during fiscal year 1999 through an annual awards dinner, batting clinics, sponsorships, and special events. These funds were used to pay for out-of-state spring trips for the baseball and softball teams and other miscellaneous purposes. Although we were able to trace receipt slips at the Athletics Department Office to the Business Office records, it could not be demonstrated that all funds received by the department had been accounted for.

Coaches and students collect athletic fundraising revenue in the form of cash and checks and remit them to the Athletics Department Office and are provided a receipt. The funds are then sent to the Business Office, a receipt is provided to the Athletics Department staff person, and these funds are deposited in the State Operating Trust Fund.

Our examination of fiscal years 1997 and 1998 records generated by the coach who raised the largest amount of Athletics Department revenue disclosed that records were missing or incomplete and lacking back-up documentation. Specifically, all of the fiscal year 1997 financial records for fundraisers had been discarded, and the fiscal year 1998 records were only in summary form and lacked any details for review. Moreover, the coach informed us that he does not remit all of the funds he collects to the Athletics Department. He stated that he withholds some funds for prizes awarded to raffle participants, citing as an example a total of $900 in prizes that was awarded at a 1998 awards dinner. No formal record is made of the cash retained or the awards made. As with other MCC departments, the coach was not provided with guidance or policies and procedures by MCC administrators specifying what records should be maintained and their retention period.

d. Bookstore Commission: The operator of the bookstore is an independent vendor that sells college textbooks and educational supplies to students. Under the terms of its contract, the vendor pays MCC a 9% commission on total sales for each quarter. Commissions for fiscal year 1999 were over $175,500.

Our examination of the contract revealed that the bookstore vendor was required to provide MCC with copies of its daily sales statements for review at the end of each week. In addition, MCC had a right to review bookstore records on a periodic basis. However, MCC's former Comptroller and MCC's Business Manager indicated that there was no record that MCC had ever performed any reviews of bookstore records and had no knowledge as to whether the bookstore was submitting the weekly sales information. We later interviewed bookstore personnel, who stated that they were not aware of this stipulation in the contract and had not been sending daily sales statements to MCC.

We reviewed the quarterly summary of sales statements prepared by the corporate headquarters of the bookstore vendor and sent to MCC for the quarters ended March 31, 1999 and December 31, 1999 and compared them to the daily sales statements maintained by the bookstore. We found that the bookstore records did not agree with the quarterly reports for either quarter. Specifically, for the quarter ended March 31, 1999 there was a variance of $27,859.91, and for the quarter ended December 31, 1999 there was a variance of $12,442.03. In both cases, the reported sales per the quarterly report received from the bookstore vendor were greater than the amounts reflected on sales records maintained at the bookstore. We informed the MCC Business Manager and the Regional Manager of these variances and requested that they provide us the necessary documentation to reconcile these records; however, this information was never provided to us. MCC was apparently unable to provide daily sales statements for prior quarters, since it could not locate some of these records while others had been placed in cartons in no apparent order.

e. Conference Center: The Conference Center was purchased by the Commonwealth in June 1997 on behalf of MCC and, after some rehabilitation, became operative in January 1998. The Center, which is used by local businesses, state and local government agencies, and MCC for training and social events, generated revenues of $10,600 in the last six months of fiscal year 1998, the period of our audit tests.

We found that the Center's staff had developed their own system for sales, billings, and recording of revenues. Under this system, contracts are prepared and issued by the Center and, when payment is received, the amounts received together with a receipt document are sent to the Business Office. However, copies of contracts are not sent to the Business Office. We examined the Center's records and verified the amounts of contracts issued and fees collected to the general account cashbook for fiscal year 1998. We were able to trace all collections with the exception of a receipt of $250, which had been recorded as collected by the Center in February 1998 but not reflected as a deposit on the general account cashbook. The variance could not be explained by the Center's staff or the Business Office. We also noted that, because the Business Office does not compare revenue collected to the expenses for such functions, it could not be readily determined whether revenues covered all expenditures incurred.

f. Functions: Function revenue is derived from food catering services provided for various MCC and Conference Center events by employees at the Conference Center and cafeteria kitchen. Function revenues totaled over $266,800 for fiscal year 1999.

The Director of Food Services is responsible for administering the program and for billing and recordkeeping. Catered functions are held at the Conference Center, various locations throughout the college, and the President's home. Once a menu is chosen and the number of people attending is determined, the Director prepares an invoice, issues it to the customer, and establishes a receivable on his records. When collections are received, the Director forwards the funds with a copy of the invoice to the Business Office. As a result of this process, the Business Office does not establish a receivable on

MCC's accounting system at the time of issuance of the invoice, thereby potentially understating MCC revenues for a given period.

We examined the function records maintained by the Director for July 1998 through November 1999 and found that he maintains monthly receivables records, and reconciles them with Business Office records even though he is not required to do so. We found that the only time MCC records that a receivable is due on its accounting records is at the end of the fiscal year. Our review also disclosed that the Business Office wrote off three invoices totaling $1,361 as uncollectible in fiscal year 2000 based on a verbal authorization from the former Comptroller. However, these revenues were never recorded in MCC's accounting system, and no written authorization could be found for the write-off. Further, we found revenues were understated by $2,541 as of June 30, 1999 and by $24,333 as of November 30, 1999 because the Business Office does not recognize revenues until collected. Consequently, it could not be demonstrated that all revenue due to MCC from functions are collected and recorded on its accounting system.

g. Student Activity Fundraising: Revenues for this program are raised with the direct participation of the students who are members of various student clubs under the jurisdiction of the Department of Student Services. Revenues are generated by raffles, ticket, candy, and candle sales, and other miscellaneous activities. During fiscal year 1999, over $87,300 was reported as received under the various student activity fundraising activities. These funds were recorded as revenues received by the various clubs and transferred to and deposited by the Business Office to one specific club account with a separate accounting by the Student Life Office, which is an office under the Department of Student Services.

We found that funds received and turned over to Student Life personnel were accounted for and promptly sent to the Business Office for deposit. However, there were no written procedures to ensure that all revenues collected are accounted for at the time of receipt. In addition, we found that in certain cases documentation of receipts was minimal and inadequate.

We also found that funds actually received by Student Life personnel were not reconciled to other documentation to ensure that the correct amounts of funds had been received. For example, no reconciliation is performed to determine that the cost of purchases of candy or candles are compared to revenues received from sales and that any residual amounts are accounted for. Similarly, the amounts expended for movie passes (purchased in quantities of 100 passes) are not reconciled to quantities sold and quantities remaining for a given period. We also found that for some raffles, no record is maintained of the names of the winners of the raffle. Although these revenues do not belong to the Commonwealth, they are held by MCC in a fiduciary capacity and it must therefore ensure that there is a full accounting of these activities.

h. Jubilee Program: This program is under the jurisdiction of the Buckley Performing Arts Center and involves the sponsorship of concert events. During fiscal year 1999, ticket sales for four concerts (largely in cash) resulted in MCC revenues of $18,700.

All revenue collected from the sale of tickets is transferred to the Business Office for deposit. In January 1998, the Arts Center Office initiated a practice of reconciling ticket sales to tickets sold and unsold for the events sponsored to ensure that all tickets and revenues were properly accounted for. However, the reconciliation functions were not adequately segregated in that the person who prepared the listing of tickets sold was the same person who collected the money and reconciled the money collected to the total number of tickets sold. We also found that cash collected was not always deposited in a timely manner. For example, collections of $2,806 made on October 6, 1997 were not transferred to the Business Office until 11 days after the date of collection. Further, at the end of fiscal year 1998, the Art Center's ticket sales records reflected the receipt of $728 more than the deposits made by the Business Office. Moreover, MCC could not provide evidence indicating that the management of the Jubilee Program or Business Office was aware of the variance.

i. Prime Time Program: This program is also under the jurisdiction of the Buckley Performing Arts Center and involves the sponsorship of theatre events. During fiscal year 1999, ticket sales (largely in cash) for nine theatrical events resulted in the receipt of $8,800 of revenues.

As with the Jubilee Program, all revenue collected from the sale of tickets is transferred for deposit to the Business Office. Our review of fiscal year 1998 transactions disclosed that receipts are accounted for by a “Ticket Sales Report,” which reflects the name of the show, the number of adult and children’s tickets sold, and the total amount of revenues received. However, the report does not indicate the number of tickets printed and the number unsold, and we found no evidence that any reconciliation was performed. In addition, we found that cash collected was not always deposited in a timely manner. For example, collections of $1,687 made on August 23, 1997 were not transferred to the Business Office until September 4, 1997. Moreover, delays of four or more days were noted on four other occasions.

MCC’s Internal Control Manual, which was last updated in July 1997, is not specific in regard to the process for handling individual departmental revenues received throughout MCC, lacked a description of procedures followed, and did not identify who has the responsibility for overseeing the internal control function for MCC. In reviewing the section of MCC’s Manual that addresses “Receipts and Revenue,” we noted that this topic was stated in general terms. For example, one of this sections three “Policy” statements reads as follows:

> Collection and Deposit of Funds
>
> All funds collected shall be promptly deposited in the designated bank accounts and credited to the appropriate College records.

Moreover, there is no recognition in the manual of the myriad types of collections, revenue accounts, or the persons responsible for them. We also noted the MCC Internal Control Manual is the sole resource developed by MCC management for documenting the procedures followed for daily business and for controlling MCC revenues.

Chapter 647 of the Acts of 1989, which sets forth the minimum level of quality acceptable for internal control systems in operation throughout the various state agencies, requires the following:

- Internal control systems of the agency are to be clearly documented and readily available for examination.
- All transactions and other significant events are to be promptly recorded, clearly documented and properly classified.

- Transactions and other significant events are to be authorized and executed only by persons acting within the scope of their authority.

- Key duties and responsibilities should be assigned systematically to a number of individuals to ensure that effective checks and balances exist.

- Qualified and continuous supervision is to be provided to ensure that internal control objectives are achieved.

- Access to resources and records is to be limited to authorized individuals.

In addition, Chapter 647 states, in part:

> Within each agency there shall be an official . . . .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.

Written documentation of internal controls provides continuity, consistency of actions, and a training document for new employees and a refresher or research document for other employees. However, we found that MCC management either did not recognize the need to establish adequate internal control systems or chose not to establish them. Because MCC did not develop a policy and procedure manual that delineates an effective control program that addresses every aspect of the operating cycle at MCC there is limited assurance that all revenues due MCC have been received, properly recorded, reported and deposited.

We discussed this issue with MCC's new Vice President of Administration and Finance and new Comptroller, who agreed that the lack of adequate internal controls was a major problem and indicated that MCC would take corrective action.

<u>Recommendation</u>: MCC should take immediate steps to comply with Chapter 647 of the Acts of 1989 and implement the guidelines established by the Office of the State Comptroller's Internal Control guide to create proper accountability and safeguard the Commonwealth's assets. MCC should review its plan and document controls. The critical elements that should be included in an internal control plan are as follows:

- Develop policies and procedures for all operating cycles, which would include an explanation of the cycle and flow of transactions through the critical internal control points. This should include the initiation or authorization of the transactions or event, all aspects of the transaction while in process, and the final classification in summary record.

- Identify the duties and responsibilities of staff and management positions at key internal control points.

- Identify management directives, administrative policies, and accounting policies and procedures.

- Establish terms and conditions under which authorizations are to be made and identify the individuals who have authorization to review and approve transactions and significant events.

- Identify key duties and responsibilities where segregation of duties are employed to ensure that effective checks and balances exist. This would include, at a minimum, authorizing, approving, and recording transactions.

- Develop a description of the continuous supervision that is provided to ensure that internal control objectives exist. The descriptions at a minimum should include the duties, responsibilities, and accountabilities assigned to each staff member, and the critical points at which work is approved and where the staff members work is reviewed systematically to ensure workflows as intended.

- Identify individuals who have access to resources and records. Restrictions on access to resources will depend upon the vulnerability of the resource and the perceived risk of loss, both of which should be periodically assessed.

Also, other key elements of Chapter 647 should be included in the internal control plan, as follows:

- Identification of an official equivalent in title or rank to an assistant or deputy to the department head whose responsibility is to ensure that the agency has written documentation of its internal accounting and administrative control system on file.

- Indication that annual, or more often as the condition warrants, evaluations of the internal control system are conducted and the necessary changes to the system are made to ensure the integrity of the system.

- Indication that the documentation of the system is readily available for review by the Office of the State Comptroller, the Executive Office for Administration and Finance, and the Office of the State Auditor.

- Indication that all unaccounted-for variances, losses, shortages or thefts of funds or property shall be immediately reported to the Office of the State Auditor, which shall review the matter to determine the amount involved and report to appropriate management and law enforcement officials.

2. Certain Trust Fund Expenditures Had No Apparent Business Purpose or Benefit to the College, Did Not Conform to State or Federal Regulations, or Were Otherwise Inappropriate

Our audit disclosed that MCC did not develop comprehensive internal control policies and procedures to ensure that certain types of expenditures from trust fund revenues (i.e., operating fund expenditures) were necessary, had a business purpose and benefit to MCC, were properly authorized, and were supported by appropriate documentation. As a result, we noted numerous examples of questionable MCC expenditures for such inappropriate items as liquor, gifts, meals, food supplies, and entertainment expenses.

As stated in the Background Section of this report, MCC collected over $9.6 million in fiscal year 1999 in nonappropriated revenues. MCC established nine trust funds to account for these non-appropriated revenues. Most of the trust funds were established for a specific purpose (e.g., Retirement Reserve, Payroll Reserve, Scholarships), and disbursement therefore can only be made for those purposes. However, three trust funds--the State Operating Trust Fund, the Local Operating Trust Fund, and the All College Purpose Trust Fund (ACPTF)--can be and are used for all types of administrative purposes, and therefore the major portion of our tests of expenditures involved disbursements from these funds.

Also as stated in the Background Section, expenditures from trust funds are required to be disbursed under the Board of Higher Education guidelines. MCC's Board of Trustees voted to adopt these guidelines in their entirety and in June 1997 reaffirmed their vote. These standards have since been incorporated into MCC's Finance Manual.

In May 1979, The Massachusetts Board of Regional Community Colleges (MBRCC) set forth guidelines to account for ACPTF receipts and expenditures. One of the provisions cited in these guidelines (Section III.C.2) was that a college could not expend in excess of $24,000 in any fiscal year without written authorization of the MBRCC (now the Board of Higher Education). MCC's Board of Trustees also adopted these guidelines in their entirety.

The ACPTF is established by transferring funds from the Local Operating Trust Fund each year. This fund is under the control of the President, and all expenditures are authorized by him. We noted that transfers to and expenditures from this fund have increased from $55,830 in fiscal year 1996 (prior to the arrival of the current President) to $96,395 for fiscal year 1999 (a 73% increase). MCC's ACPTF indenture, which outlines the source and use of funds has not been updated since issued in July of 1976.

The BHE guidelines for all trust funds set forth in general terms how trust funds are to be established and controlled. Some significant points of the guidelines for all trust funds (as approved in October 1992) that are germane to our findings are summarized as follows.

Underlying Principles

- Local Boards of Trustees have the responsibility to actively review the expenditure of trust funds.

- Expenditures should not give the appearance of lavishness or extravagance.

Responsibility and Reporting

- The President must provide a detailed accounting of trust expenditures to the Board of Trustees on a quarterly basis.

- The level of detail required in the quarterly reports must be sufficient to satisfy Board and audit requirements and to demonstrate the "relationship of the expenditure to the institutional mission" of the College.

- The President may have discretion over trust fund expenditures up to a ceiling specified by the Board of Trustees. Expenditures that require Board of Trustees approval regardless of the amount of expenditures include: "expenditures which personally benefit the President" which must be approved in advance; "expenditures for attendance at charitable dinners or events"; and "expenditures for entertainment of guests in the President's or Chancellor's home."

Miscellaneous

- The purchase of flowers, gifts, and cards in moderation may be made from trust funds. Examples of appropriate occasions include: "Death or illness of an employee, student, trustee or person of special importance to the institution, or immediate family of said persons" and "Visits of special guests."

According to the Internal Revenue Service (IRS) reimbursements to employees may be considered taxable income unless certain conditions are satisfied. These reimbursements may include meals, liquor, entertainment, and other items. In general, expenses must be incurred for a business purpose that benefits the organization, and the employee must provide evidence of this business purpose to the employer.

IRS Publication No. 15, Employer's Tax Guide, states that reimbursement to an employee for expenses incurred may be considered as compensation and subject to income taxes. However, expenses claimed under an accountable plan are not taxable. IRS Publication No. 463, Travel, Entertainment, Gift and Care Expenses, states that to be considered an accountable plan all of the following three rules must be adhered to:

- Expenses must have a business connection – that is, a person must have paid or incurred deductible expenses while performing services as an employee of the employer.
- Expenses must be adequately accounted for to the employer and within a reasonable period of time.
- Any reimbursement or allowance in excess of actual expenses must be returned within a reasonable period of time.

The business connection requirement is further defined by Title 26 Code of Federal Regulations, Computation of Taxable Income. Section 1.162-17 (b) (4) of this document states that "to account" to an employer means that an employee must "submit an expense account or other required written statement to the employer showing the business nature and the amount of all the employee's expenses. . . ."

Most of the questionable expenditures found during our audit tests were disbursed from three trust funds. Unless otherwise noted, payments were made from the ACPTF. The following examples illustrate MCC's lack of control over expenditures and its noncompliance with applicable laws, rules, regulations, and guidelines.

a. Meals: Our review of the ACPTF disclosed that the President charged $8,400 for 178 breakfasts, luncheons, or dinners during calendar year 1998. These meals were for the President, college administrators, and other guests at local restaurants, at the conference center, in the President's office, or at the President's home. Meals at the conference center or his office were provided by College Center or cafeteria personnel and were charged to the ACPTF as "cafeteria." With few exceptions other meals were described on restaurant invoices or the college's payment voucher as "business luncheons" or "discussing college matters," and in a number of cases no purpose was cited. None of the documents provided any indication as to the matters discussed and why these matters could not have been discussed in an office environment.

These charges did not include meal charges claimed during travel or charges for meals at various MCC sponsored functions. Examples of questionable meal purchases follows:

- On July 8, 1998, the President and a Trustee had lunch at a Country Club and dinner at a restaurant in Easton at a cost of $38 and $43, respectively. The business purpose cited was "business luncheon" and "business dinner."

- The President charged $60.33 for a dinner on July 24, 1998 at his residence. His guest was a trustee and the business purpose cited was "dinner." The amount expended was for the purchase of food at a supermarket in West Bridgewater.

- The President charged $112.98 for a luncheon on Saturday, August 16, 1997 at a restaurant in Middleborough. His spouse and a Trustee and her spouse were his guests. No business purpose was cited. The President reimbursed 25% of the cost of the meal for his spouse's expense.

- During fiscal year 1998, the college paid a total of $882.74 for meals consumed on 10 different occasions by the President and MCC administrators at a local restaurant. Payments were made direct to the restaurant and in each case there was either no description or only a vague description of the claimed business purpose. These payment were made from the State Operating Trust Fund.

These expenditures do not conform to the BHE trust fund guidelines under which meal expenditures are permitted to be reimbursed. Specifically, the standards state:

Business meals must be reasonable and appropriate and documentation should include the:

- "Date, city, restaurant and description of meal (lunch, dinner, etc.);

- Name(s) company, affiliation(s), business relationship(s) of person(s) in attendance;

- Business purpose for incurring the expenses;

- Amount spent."

Further, in accordance with IRS rulings, these undocumented expenditures as well as the other non-business purpose expenditures represent taxable income to the persons submitting meal or other claims. Since DOR's rulings conform to the federal rulings, these claims would appear to be subject to federal and state taxes and result in a tax liability to the claimant.

b. Liquor: Our review of the ACPTF for fiscal year 1998 disclosed 11 purchases of liquor for various functions held at the Conference Center and at the President's home. All of these purchases, which totaled $814, were made using the college credit cards issued to the President. Of the 11 purchases, three totaling $443 were for conference center functions, and eight totaling $371 were for holiday parties or dinners at the home of the President.

It could not be demonstrated if the alcohol purchased for consumption at the President's home was purchased for the purposes stated or whether any residual quantities were brought to the Conference Center, as was initially committed to by the President's office (see Exhibit A-1), since no records were maintained relative to the use of such purchases.

Moreover, although the President is the only person authorized to sign for credit card purchases, we found that, on three of the credit card purchases of liquor totaling $270, a person other than the President had signed the President's name (see Exhibit A-2). One of these persons had signed two credit slips, and a different person had signed the third. All three purchases were approved by the President and routinely processed for payment.

c. Gifts: On a number of occasions, the President and administrators used MCC funds to pay for gifts to present and former Trustees, employees, and other individuals. Examples of questionable purchases of gifts follow:

- In December 1998, MCC expended $439.55 for holiday gifts from the President to nine MCC employees. These gifts ranged in price from $36 to $59 each. No business purpose was cited on the payment voucher.

- In November 1998 and April 1999, MCC expended a total of $5,712 from the State Operating Fund to purchase embossed chairs, which were given to various MCC trustees and employees. The business benefit to the college was not identified.

- In May 1998, MCC expended $419.60 for various jewelry items, including six pairs of earrings, a bracelet, and a pin at a cost of $50 to $60 each. The purchase requisition cited the purpose of the expenditure as "appreciation gifts." The purchase was made from Student Club funds, which are commingled with other non-appropriated funds in MCC's accounting systems. There was no indication of who had received the gifts or why they had been made.

- In June 1997, the President and five trustees traveled to Baltimore to attend a conference. On the last day of the conference, one Trustees went from Baltimore to New Orleans for a vacation and later returned to Boston. The round-trip airfare paid by the other five attendees was $144. The other trustee claimed airfare of $288, which covered the New Orleans trip, but the request for reimbursement indicated that she would accept the amount of the airfare paid to the other travelers attending the Baltimore conference. The President, however, approved the payment of $288, thus resulting in an improper payment of $144 to the trustee.

- Two professors and six students attended an exposition in Chicago on new products and food preparation methods in the food service industry. One of the two professors who went on this trip had retired from MCC on May 15, 1998, two days before she traveled to

> the exposition. This raises question as to how any business purpose benefited MCC, since this person was no longer in its employ. Under the circumstances, it appears that payment of her airfare and hotel costs totaling $558 represented an improper payment.

These funds were spent with no apparent benefit accruing to MCC.

d. <u>Payment of Damages to the MCC's Leased Automobile Furnished to Its President:</u> On July 29, 1997, MCC paid $1,230 to an automobile body shop to repair rear-end damage to the MCC-leased automobile that is furnished to the President for his use in accordance with the terms of his contract. Moreover, the ACPTF had been reimbursed $486 (a net amount after applying a $500 deductible) from an insurance company for damages incurred on June 16, 1997 (see Exhibits B-1 and B-2). We were informed that the only MCC vehicle insured by this company was the leased automobile provided to MCC's President.

However, despite an extensive search of their files, MCC administrators could not find a copy of a claim to the insurance company, an accident report, or any other related documentation. Therefore, the identity of the driver could not be determined as well as the reason for the apparent insurance company claim being $986 when the cost of the repair was $1,230, or whether the accident and any related damages were reported to the lessor of the vehicle and the appropriate law enforcement authorities. We noted that, although this incident was not cited in the Board of Trustee's minutes, the report of expenditures provided to it did reflect a $1,230 disbursement to the automobile body shop.

With regard to reporting to law enforcement authorities, Chapter 90, Section 26, of the General Laws requires that a report be submitted in writing to the Registry of Motor Vehicles for any accident where the damage to the vehicle exceeds $1,000. A report must also be submitted to the police department having jurisdiction over the street or road where the accident occurred. Moreover, the law states that the Registrar may revoke or suspend the license of any person violating any provision of this section.

e. <u>Entertainment Expenditures</u>: We found several instances in which the President and other administrators expended MCC funds to participate in a golf tournament and to attend a concert without any apparent benefit accruing to MCC. For example, in July 1998, MCC expended $360 to participate in a golf tournament sponsored by a Rotary Club in a nearby town. Participants included the President and three MCC administrators. In addition, in April 1999, MCC expended $300 for eight MCC administrators and their wives to attend a musical performance held by the Brockton Symphony Orchestra. The $300 charge included dinner and beverages.

f. Office Food Supplies: On numerous occasions, MCC purchased from two trust funds, coffee, cupcakes, cookies, snacks, soft drinks, sandwiches, other food items and paper good supplies at a local supermarket using one of four market-issued credit cards. In fiscal year 1999 purchases of these items made from the State Operating Trust Fund totaled over $2,800 and purchases for the President's Office made from the ACPTF totaled over $564. In a number of cases, we found that a business purpose was not identified and/or the person signing the credit card was not an authorized signatory, as shown below.

- In August 1998, MCC paid the supermarket $243.16 from the ACPTF. The purpose as reflected on the payment voucher was "Food Supplies." Our analysis disclosed that the President's wife, a non-college employee and non-authorized signatory, had signed three of these credit slips in the amount of $118.64, $34.14, and $11.38 (a total of $164.16) (see Exhibits C).

- The President's wife also signed four other credit card purchases from the ACPTF in fiscal year 1999, totaling $247.93. Only one of the payment vouchers for these purchases reflected a business purpose. We noted that on this payment voucher the original purpose for the expenditure had been whited-out and the business purpose cited was for the President and his wife to entertain administrators at his home.

- Our review disclosed that nine fiscal year 1999 credit card purchases made from the State Operating Trust Fund and totaling over $517, did not reflect a business purpose. We noted that two of these credit card slips were signed by students who were not authorized signatories. We also found four credit slips, where a business purpose was reflected, that were also signed by students.

g. Other Inappropriate Expenditures: Our audit tests disclosed various other inappropriate expenditures, as follows:

- Duplicate Payments: We found that MCC had paid an invoice to the same entity twice. Payments were made from the State Operating Trust Fund and covered the payment of lunches for persons who had contracted with MCC for a training course that included lunch on each day of the training.

Date of Payment	Amount
June 1, 1999	$383.01
June 4, 1999	$383.01

Although these payments were made to a regional high school, the school had not acknowledged the duplicate payments and had not returned the funds. These duplicate payments occurred even through the department receiving the services was required to and did prepare a payment voucher that was approved by the department head.

- Payments in Wrong Fiscal Year: Our review of travel vouchers processed for payment in fiscal year 1999 disclosed that 18 vouchers for fiscal year 1998 travel had been paid in the wrong fiscal year. These 18 vouchers totaled $3,617.52 and were for local travel expenses incurred as far back as October 1997. These payments, which were made from the Local Operating and State Operating Trust funds and several smaller trust funds, distort the amounts of expenditures reported for each year.

- President's Use of Credit Card for Personal Purchases: We found that the President frequently used the MCC-issued credit card issued to him for personal purchases. During the period August 1997 through December 1998, the President reimbursed MCC over $5,800 for personal charges incurred using the credit card. For the most part, charges were incurred for airfare, hotel reservations, or meals for members of the President's family during periods in which they traveled with the President on his business trips. However, on at least two occasions, the purchases were for luggage and theater tickets, which were not business-related.

  The payment of personal expenses with a college-issued credit card is contrary to trust fund guidelines. The Board of Higher Education Trust Fund Guidelines, Section II (1) A and B indicates that expenditures of a personal nature for the president must have the prior approval of the board of trustees. Also, Section II (4)A of the guidelines states that personal loans should not be granted to institutional staff or board members. Further, the sole determination as to whether an expense is personal or business-related rests with the President, and no record is made of the accounts receivable due. When a reimbursement is received from the President, it is recorded as a revenue collection and deposited to the General Account and then transferred to the ACPTF. As a result, in order to perform a review of potential reimbursement due, each credit card charge must be thoroughly analyzed. In addition, our analysis disclosed the President often did not promptly reimburse MCC amounts owed. For example, the President charged $274.66 for personal expenses on July 18, 1998 but did not reimburse MCC until September 18, 1998. In effect, these expenditures represent a personal loan to the President.

h. Other Examples of Inadequate Controls and Documentation: The following are examples of other areas that were not adequately controlled or documented.

- In February 1998, MCC purchased 25 airfare tickets for its baseball team's trip to Florida using fundraising funds. Our review disclosed that, although three of the tickets were for members of the Athletic Director's family who accompanied him on the trip, the Athletic Director had not reimbursed MCC for the $558 expended for these tickets. When we brought this to the Athletic Director's attention (over a year later) he indicated that it was an oversight on his part and immediately reimbursed MCC the amount owed. The payment of personal expenses from college funds should not be authorized, however if such a payment should occur, MCC should establish an accounts receivable control for the amounts due to be reimbursed.

- In March 1999, MCC issued a check for $200 from the State Operating Trust Fund to a bakery in Scituate for various pastries. The invoice was handwritten with no indication of what or how much was purchased.

- In September 1998, an MCC professor was reimbursed $440.09 from the State Operating Trust Fund as payment for her travel expenses. Her travel voucher reflected a payment of $230 for her claimed round-trip airfare to Orlando, Florida during the period March 31 through April 5, 1998. In support of her claim, she submitted a $230.09 invoice from a travel agency dated in January 1998 for travel by her husband for travel from Boston to Jacksonville, Florida during the period March 14-23, 1998 (i.e., a week prior to the professor's trip). The actual amount of airfare paid by the Professor is unknown, however she did provide evidence, in the form of a car rental agreement document, that she had made the trip.

- In October 1997, an Associate Dean procured an airfare ticket for a MCC-authorized trip to San Antonio, Texas. However, because of certain circumstances, she was unable to attend the meeting. In April 1998, after terminating her employment with MCC, she requested reimbursement for the $313 she had paid for airfare and returned the tickets to MCC. She was then reimbursed the $313 from the Local Operating Trust Fund. In May 1998, the former Comptroller at MCC returned the tickets to the airline and obtained a $313 credit to be applied to future travel by an authorized MCC employee. We found that the original of the credit document was in a safe in the Business Office; however, this credit no longer has any value since it was not used prior to the expiration date.

- On October 6, 1997, MCC paid a travel agency $332 from the State Operating Trust Fund for a trip to Washington, D.C., by the President. On November 7, 1997, MCC paid the travel agency an additional $134 for the November 1997 trip. Neither the travel agency that made the reservation nor Business Office personnel could explain why the round-trip airfare for one person would cost $466, or approximately twice the normal airfare.

MCC department heads and senior administrators did not establish an adequate plan to account for, monitor, and control expenditures at the various levels within MCC, and the Board of Trustees did not issue more specific trust fund guidelines. As a result, the Trustees and the Board of Higher Education has limited assurance that all expenditures from the trust funds provide a legitimate benefit to MCC and conform to all applicable guidelines, laws, rules, and regulations. Further, there is limited assurance that all expenditures are being properly monitored and controlled and that all necessary documents are timely and properly received, recorded, reported, and correctly disbursed.

Recommendation: In order to improve controls over MCC trust funds, we recommend that:

- The Board of Trustees review and strengthen trust funds guidelines and require more detailed expenditure reports.
- MCC administrators develop written internal control policies and procedures that require department heads to more closely monitor expenditures.
- Business Office employees be given the authority to question requests for payment that do not appear to be appropriate or supported by adequate documentation.
- The Vice-President of Finance and Administration and/or the Comptroller review all documentation supporting miscellaneous expenditures and request additional information regarding any expenditure documentation that is questionable or inadequate.
- MCC formally notify the IRS and DOR of the non-business-related expenditures that have been reimbursed to employees and prepare amended IRS Form W-2s covering the amounts of such claims for any calendar year affected.
- MCC develop and implement an accountable plan that satisfies IRS and DOR requirements.
- MCC's President notify the Registry of Motor Vehicles and the other appropriate law enforcement authorities of the facts and circumstances of the incident resulting in the payment of $1,230 for repairs to the MCC-leased automobile.

3. Inadequate Policies and Procedures over Travel Expenditures Resulted in the Payment of Improper Expenses and the Nonpayment of Legitimate Travel Expenses

Our audit disclosed numerous examples of payments of travel-related expenditures that were excessive, unnecessary, of no apparent benefit to MCC, or lacked adequate documentation. Conversely, we also found that, as a general policy, students who attended meetings and conferences as representatives of MCC were not permitted to claim meal and local transportation expenses legitimately incurred by them.

MCC's general ledger reflected travel expenses totaling over $167,000 for fiscal year 1999. This total does not include those travel expenditures reimbursed to students, which are classified as miscellaneous expenditures. Generally, travel expenditures are made from one of the three trust funds established by MCC: the State Operating, Local Operating, or the All College Purpose Trust Fund.

We reviewed travel-related documents for overnight trips in fiscal years 1998 and 1999 to determine whether the information was complete, consistent, and supportive. These travel expenditures involved trips to conferences, seminars, or trade shows and persons traveling included trustees, senior administrators, professors, and students. The number of persons on each assignment ranged from one to nine persons. Our review of travel expenditures was made more difficult because of the following factors:

- Frequently one or more elements of a travel assignment were paid separately. On some assignments, conference registration fees were paid for on one payment voucher, hotel reservations were paid on a second, and airfare paid on a third. In such cases, there was no travel summary available, and it was necessary to search the files of travel-related documents to determine the actual cost of a travel assignment.

- On many occasions, one element of a travel assignment (e.g., a conference registration fee) was paid out of one of the three trust funds while other costs, (e.g., meals, hotel, airfare, local transportation) were paid out of one or more of the other trust funds.

- For certain assignments, travel vouchers were not submitted, and meals and local transportation expenses was paid through use of the MCC credit card or by direct reimbursement to an employee.

- MCC did not always properly classify its travel expenditures. For instance, we found two payments for travel expenditures for two students that had been classified by the Student Life office as non-travel-related expenses.

Our review of travel expenditures disclosed one or more deficiencies in 24 of the 25 travel assignments reviewed. Specifically, we found expenditures that were excessive, had no business purpose or benefit to MCC, lacked sufficient documentation, or were not properly accounted for, as follows:

a. Expenditures That Were Excessive or Had No Documented Business Purpose or Benefit to MCC:

(1) Excessive Expenditures

Travel Purpose and Destination	Dates	Comment
Training and Staff Development Conference		
Colorado Springs, CO	July 1998	Two travelers incurred airfare charges of $524.50 each because reservations were not made until 12 days before departure. In contrast, the President paid only $344 for an earlier July trip to Colorado. Had reservations been made in advance, MCC would not have been required to unnecessarily spend $361.
Financial Training Conference		
Washington, DC	October 1998	A traveler charged $9.50 for dinner on his last day of travel, although he arrived at the airport in Boston at 1:53 p.m.
Mathematicians Conference		
Portland, OR	November 1998	Two travelers each paid $178 more for airfare than was paid by the third traveler because reservations were made late.
Computer Technology Training		
Orlando, FL	March 1999	Two travelers charged $30 each for meals that were provided as part of the conference registration fee.
International Relationship Training		
Merida, MX	March 1999	Meals were included in conference fees, but the traveler claimed $75.25 for meals.
Phi Theta Kappa Conference		
Anaheim, CA	April – May 1999	Airfare for four students was $190.41 each, while airfare for a fifth student was $347 and airfare for one professor was $299 because reservations were made late.

Training and Leadership Excellence Conference		
Austin, TX	May 1999	Hotel charges for the President and his spouse were $182.85 per night, while four other travelers on this trip paid $154.10 per night--a difference of $143.75 for five nights for no apparent business benefit to MCC. The President claimed that he had paid for three meals on May 23, 25, and 26, totaling over $481 and that at each meal seven or eight other MCC employees were his guests. We found that at each of these meals all but one of the guests were also reimbursed for meals at the per diem rate of $6.50 for lunch and $9.50 for dinner.
Educational Media and Communication Conference		
Seattle, WA	June 1999	One traveler paid $56 more for his room than his co-traveler, because of an additional charge for his spouse who accompanied him on the trip.
Community College Conference		
San Francisco, CA	September 1998	Hotel charges for the President and one trustee were higher than the daily rates paid by four other trustees and two students. The President paid $285.13 per night, one trustee paid $307.94, and all others paid $199.59 or less.
Trustees Conference		
Dallas, TX	October 1997	The President rented an automobile at a cost of $433.39 for three days. Another traveler also rented an automobile for three days but only paid $123.73. In addition, the President and two other travelers paid $224.87 per night for a hotel room while three other co-travelers paid $168.37. Moreover, the President charged $673.45 for dinner for himself, four trustees, and a student for an average cost of $112.24 per person.
Community College Conference		
Miami, FL	April 1998	The President charged $195.75 per night for a hotel room, which included $27 per night for his spouse. This was the most expensive hotel identified by the conference sponsors. Three other hotel options were identified by the conference sponsors with the least expensive at a rate of $129.40 – a difference of $66.35 per night

		for five nights, or a total additional cost of \$331.75. In addition, MCC was late in paying the conference fees and, as a result, incurred a \$103 late payment assessment.
Leadership Training Conference		
Austin, TX	April 1998	The President charged \$151.42 per night for a hotel room for him and his spouse at the second most expensive hotel identified by conference sponsors. Five professors also attending this conference paid only \$116.39 per night a difference of \$175.15 for five nights.

(2) <u>No Business Purpose or Benefit to MCC</u>

College Presidents Conference		
Beckenridge, CO	July 1998	A white water rafting trip costing \$110 was paid for the President and a family member. MCC could not provide evidence of a reimbursement of this charge.
Training and Staff Development		
Colorado Springs, Co	July 1998	A white water rafting trip costing \$100 was paid for two professors. MCC could not provide evidence of a reimbursement of this charge.
Financial Training		
Washington, DC	October 1998	Additional meals and hotel costs of \$223 were incurred because a traveler arrived on Saturday, one day before the conference start at 3:00 p.m. on Sunday.
Computer Technology Training		
Charlotte, NC	November 1998	Additional meals and hotel costs of \$372 were incurred because two travelers arrived on Friday for a conference beginning on Sunday. Also, both travelers left the conference location on Wednesday prior to the start of the last day of the conference.

Computer Technology Training		
Orlando, FL	March 1999	Additional meals and hotel costs of $514 were incurred as two travelers did not depart until three days after the conference ended.
Segregation, Discrimination and Sexual Harassment Conference		
Orlando, FL	May 1999	Additional hotel costs of $104 were incurred as two travelers arrived on Saturday for a conference beginning on Monday.
Phi Theta Kappa Conference		
Anaheim, CA	April – May 1999	Additional hotel costs of $264 were incurred as five travelers arrived on Tuesday for a conference beginning on Thursday.
Training and Leadership Excellence Conference		
Austin, TX	May 1999	An automobile was rented by a professor at a cost of $376.30 and driven 735 miles (i.e., 184 miles per day) during the four-day conference period.
Community College Conference		
San Francisco, CA	Sept. 1998	The President made two purchases of liquor totaling $109.25 to provide alcoholic beverages to his co-travelers. In addition, one trustee claimed reimbursement of $303.26 for dinner for himself and three other trustees for an average of $75.81 per person. The total included $46.75 for alcoholic beverages. One trustee was also reimbursed $13.75 for lunch with the President on September 18, five days before the start of the conference. Finally, two trustees and two students arrived at San Francisco one day before the other travelers and left one day after the other co-travelers had left and as a result incurred additional hotel costs of $1,676.

Community College Conference		
Miami, FL	April 1998	The President arrived at Miami on April 22 for a conference starting on April 25. He reimbursed $191.75 for his hotel for the night of April 22, but MCC was charged for the night of April 23.
Food Exposition		
Chicago, IL	May 1998	Two Professors and six students attended a food exposition over a four-day period, and two of the students remained in Chicago for three additional days after the end of the exposition. Of the two students who remained, one submitted a request for reimbursement and was paid $150.23 for meals for three days. Moreover, we noted that eight of the 10 meal receipts were consecutively numbered (#010553 through #010560). (See Exhibits D). This expenditure was incorrectly charged by the Student. Life Office to an account under classification "FF" Facility Operational Supplies and Related Expenses.

b. Expenditures for Which Supporting Documentation Was Missing or Inadequate: At many conferences, one or more meals are provided by the conference sponsors and included in the registration fee. However, we found that for approximately 75% of the travel assignments reviewed, all of the conference registration information was not attached to the registration payment voucher or employee's travel voucher. As a result, MCC was not able to demonstrate and provide adequate supporting documentation on the extent to which meals were provided and therefore whether the employees' per diem claims for meals were justified. We also found that copies of invoices for airfare and hotel charges often had not been submitted. In lieu of such documents, travelers had submitted airline or hotel confirmation documents, which do not provide evidence as to the actual amounts paid. In addition, we noted that, although MCC's travel policies require that, the business purpose, dates of travel, and estimated amounts to be spent for the trip must be approved in writing by the President before the travel is undertaken, on several occasions this policy was not adhered to although expenditures were paid.

(1) Supporting Documentation Was Missing

Travel Purpose and Destination	Dates	Comment
College Presidents Conference		
Beckenridge, CO	July 1998	No travel voucher was found for the President.
National Prep. Tech. Training		
Kansas City, MO	October 1998	No travel voucher was found for one traveler.
Leadership Training		
Long Beach CA	March 1999	No travel voucher was found for one traveler.
Community College Conference		
Nashville, TN	April 1999	No travel voucher was found for the President and a Vice-President.
Educational Media and Communications Conference		
Seattle, WA	June 1999	No travel voucher was found for one traveler. In addition, copies of both travelers' airfare tickets or itineraries were not submitted and, as a result, the times and dates of departure and arrival were not available.
Leadership Training Conference		
Framingham, MA	October 1997	No travel vouchers were filed for three MCC employees and six students for a two-day conference.
Phi Theta Kappa Conference		
Nashville, TN	April 1998	No travel vouchers filed for two MCC employees and seven students for a three-day conference. Also, no hotel invoices could be found for one traveler.

Radiological Tech. Conference		
Springfield, MA	April 1998	No travel vouchers were filed for one MCC employee and six students.
Food Exposition		
Chicago, IL	May 1998	No travel vouchers were filed for one MCC employee, one former employee, and six students for a four-day exposition.
PTK Honors Conference		
Williamsburg, VA	June 1998	No travel voucher was filed by the student for an eight-day trip. However, we found a request for reimbursement form in the amount of $106.88 that we were told covered certain student expenses, including local transportation in Virginia, five meals, and the purchase of a camera and film processing charges. We also noted that the payee was not the student but the Director of the Student Life office, the charges were incurred in June 1998 but the request was not filed and paid until October 1998, the request did not indicate who the traveler was, and the charge was made to a non-travel-related account entitled Recreational, Religious, and Social Supplies and Materials.

(2) Supporting Documentation Was Inadequate

Training and Staff Development		
Colorado Springs, CO	July 1998	The conference was held from July 25 through July 29, and meals were claimed except for July 27 and July 28, 1998. However, the registration forms did not indicate the dates of the conference or whether meals were provided.

National Prep. Tech. Training		
Kansas City, MO	October 1998	Registration form did not indicate the conference dates or whether meals were provided. Meals were claimed by the employees and were reimbursed at MCC's per diem rate.
Mathematicians Conference		
Portland, OR	November 1998	Registration form did not indicate whether meals were provided. Meals were claimed by the employees and were reimbursed at MCC's per diem rate.
Computer Technology Training		
Charlotte, NC	November 1998	Registration form did not indicate whether meals were provided. Meals were claimed by the employees and were reimbursed at MCC's per diem rate.
Computer Technology Training		
Orlando, FL	March 1999	Registration form did not indicate whether meals were provided. Meals were claimed by the employees and were reimbursed at MCC's per diem rate.
Teaching and Leadership Excellence Conference		
Austin, TX	May 1999	Registration form did not indicate whether meals were provided. Meals were claimed by the employees and were reimbursed at MCC's per diem rate.

(3) Approval Documentation Was Incomplete or Inaccurate: In accordance with MCC's travel policies the President signs and approves each out of state trip. On five of the 25 travel trips we reviewed, we found that travelers traveled on dates other than the dates approved or expended more funds for travel than were approved.

Computer Technology Training		
Charlotte, NC	November 1998	Two travelers left on November 6, 1998 and returned on November 11, 1998. However, the out of state travel approval was for the period of November 8, 1998 through November 11, 1998.
Leadership Training Conference		
Long Beach, CA	February/March 1999	The out-of-state travel approval form, although signed by the President, did not indicate the total maximum amount to be spent on the trip. (See Exhibit E.) The two travelers left on Friday, February 26 for a conference held on March 3 through March 6. However, the out-of-state travel approval covered the period February 26 through March 5, 1999. Both travelers left California on March 5 at 7:45 AM, 1½ days before the end of the conference.
Segregation, Discrimination and Sexual Harassment Conference		
Orlando, FL	March, 1999	Two travelers left on Saturday March 6 for a conference held on March 8. The out-of-state travel approval document submitted with their travel vouchers reflected “3/8 to 3/9 - 2 days.” However, an out-of-state approval document attached to their airfare invoice reflected “3/6 to 3/9 - 2 days.” The date space had been whited out and the “3/6” dated entered on the form. Moreover, the out-of-state travel approval form, although signed by the President, did not indicate the total maximum amount to be spent on this trip. (See Exhibit F).
Student Services Conference		
Orlando, FL	April 1999	The out-of-state travel approval document reflected $620 as the amount approved to be spent. However, the trip, without any claims for food or local transportation charges, cost

		$2,457.
Phi Theta Kappa Conference Anaheim, CA	April-May 1999	The out-of-state travel approval document dated March 29, 1999 reflected $2,800 as amount approved to be spent. However, as of that date, $4,283 had already been spent.

c. Other-Travel Related Expenditure Issues:

(1) Students Are Not Reimbursed for All Travel Costs:

Our review of nine overnight trips by students in fiscal years 1998 and 1999 disclosed that none had ever filed a travel voucher. Moreover, we found that for seven of the 10 trips the students had not submitted any claim for their meals. In one case, we found meals were included in the conference registration fee, and in another, the student was later reimbursed by a cash payment and in the third case the student was paid for meals on three days of a seven-day trip. On eight travel assignments, we found that students had also not been paid for local transportation costs. However, other expenses, such as hotels, airfare, and conference registration fees, were paid by MCC. Also, a student who had attended an honors conference as a representative of MCC informed us that she had not been compensated for meals or her local transportation expenses but instead had paid them out of her own funds. Conversely, we noted that MCC paid $150.23 for meals to a student for during a trip to Chicago, (after the exposition had ended) and $106.88 to a student for meals for a trip to Williamsburg.

We noted that 26 students were involved in trips where no meals were claimed and that the periods of the trips ranged from two to seven days. Since students are serving as MCC representatives, they should be reimbursed for all travel-related expenses. The inequity of this policy is more pronounced in light of the excessive, unnecessary, or personal expenditures that have been repeatedly charged by MCC administrators and staff.

The Director of Student Life informed us the students are not always paid for their meal expenses and for transportation to and from airports because there are not sufficient funds raised through the various club activities. However, we found that, at the end of fiscal years 1998 and 1999, the club funds had surpluses of $26,252 and $30,111, respectively, at the end of each year. Therefore, funds for meals and other travel related costs could have been paid to the students.

(2) Lack of Accountability for Travel:

We found that the President did not submit travel vouchers in support of expenses incurred on his trips. In lieu of a travel voucher, the President generally uses MCC-issued credit card to pay for his meals, car rentals and other transportation costs, airfare, and hotel accommodations. As a result in order to determine the cost of his travel, it is necessary to locate and analyze multiple payment documents. We also noted that, although all other MCC employees adhere to MCC's per diem regulations regarding reimbursements for meals, the President does not. Invariably, the President claims actual expenses for meals at a cost well in excess of the MCC per diem rate with the justification that meals were consumed by MCC employees or other conferees as his guests.

Similarly, we found that the Director of Student Life also did not always submit travel vouchers but instead filed a "Request for Reimbursement" document for the meals and other miscellaneous amounts expended. However, to determine the cost of her travel it was necessary to analyze various payment documents. In addition, we found that on at least one trip, two trustees had not filed a travel voucher, and on another trip a Vice-President who traveled with the President had also not filed a voucher.

In addition, we found that, on a number of occasions, MCC employees did not claim what would appear to be legitimate business-purpose expenses. For example, on a November 1998 trip to Portland, Oregon, three professors did not claim local transportation costs to or from the airports in Boston and Portland. Similarly, on a March 1999 trip to Orlando, Florida, two professors also did not claim local transportation costs to or from the airports in Boston and Orlando. As a third example, a professor who traveled to Springfield, Massachusetts in April 1998 did not submit a claim for meals.

As a result of the above, the trustees and the BHE have limited assurance that all travel expenditures claimed are reasonable, necessary, result in a benefit to MCC, and supported by complete and accurate documentation and that the travel approval process is meaningful. In addition, MCC has allowed an inequity to occur by not permitting its students to claim legitimate travel and meal expenses although there are adequate funds available for this purpose.

The IRS and DOR require travelers to provide a full accounting to their employers that expenses claimed are business-related. If such documentation is not provided, it may result in a determination that the amounts paid to an employee for a claimed travel reimbursement represent taxable compensation.

In addition, MCC has issued a policy document entitled Travel Rules and Regulations, which is part of MCC's Finance Manual. Some of the pertinent provisions of this policy are cited below.

- No expenses for travel shall be allowed unless approved by the President, and approval requests must be submitted at least one week prior to the date of travel.
- The least expensive means of transportation should be used.
- Reimbursement shall not be made for personal expenses.
- Persons shall be compensated for meals at the established per diem rate of $19.75.
- Claims for reimbursement should be submitted on the standard state travel voucher form.
- Expenditures for hotel, train, bus, airfare, meals and registration fees must be supported by receipts attached to the travel vouchers.

MCC's improper expenditures and noncompliance with its travel reimbursement policies were a result of the department heads not monitoring and controlling expenditures at the departmental level. Senior administrators should recognize and disapprove expenditure claims that are excessive, of a personal nature, or are not adequately supported by original documentation and a complete travel voucher or other summary.

Recommendation:

- MCC's senior administrators should prepare a policy document to be reviewed and approved by the Board of Trustees that requires the submission of a travel summary which itemizes all expense items associated with the trip and how they were paid; specifically prohibits the payment of excessive, unnecessary expenses or items of a personal nature; requires the submission of original copies of invoices, receipts, and other travel-related documents; and requires that department heads review, control, and approve all travel performed by their employees.
- MCC's Vice-President of Finance or Comptroller should review on an ongoing basis all travel claims and reject for payment those that do not adhere to the policy guidelines.

- The trustees should require the President to file travel vouchers for his travel and limit his claims for meals to the MCC authorized per diem rate.

- MCC should require that reservations for conferences and airfare be made when a decision is made and approval for travel is obtained to avoid late registration fee assessments and to take advantage of lower airfares, which are generally available when reserving flights three or more weeks in advance.

- MCC should require that the costs of hotels not exceed the rates available for a hotel of average quality and that additional costs for spouses or other family members be paid by the MCC employee or traveling student.

- Conference registration and agenda documentation should be submitted with the travel approval request, and travelers should not be reimbursed for meals that are provided as part of the conference fee.

- All meals for which a claim is made to MCC should be compensated for at MCC's established per diem rate, including trustees, MCC employees, and MCC students.

- All travelers should be compensated for travel only for the period necessary to accomplish the purpose of the travel, and any time beyond that should be considered as a personal benefit to the traveler and no costs be reimbursed by MCC.

- MCC should reimburse its students for travel expenses they incur as authorized MCC representatives.

4. Insufficient Amounts of Federal and State Income Taxes Were Withheld for Fringe Benefit Compensation Paid to MCC's President

Under the terms of the employment contract with its President, MCC has supplemented the President's salary with a housing allowance and an automobile. The automobile fringe benefit includes the cost of the vehicle and all associated expenses such as insurance, gasoline, maintenance, and a car telephone. Under both federal and state law, the value of a portion of these benefits are taxable, and MCC is required to withhold adequate amounts of taxes to satisfy the recipient's income tax liability.

Our audit disclosed that the amounts of taxes withheld and the amounts of benefits reflected on income information statements to the IRS and the DOR have been understated for fringe benefits paid to the President. Our review of the benefits paid to the President for fiscal year 1999 disclosed that the value of benefits paid and reported and the amounts of taxes withheld were as follows:

	Benefit Received	Benefit Reported	Withholdings Federal	Withholdings State
Housing Allowance	$ 15,000	$ 15,000	-	$ 591
Automobile Lease Payment	5,897	299	-	15
Auto Insurance	1,511	76	-	3
Auto Registration	180	-	-	-
Gasoline	623	-	-	-
Car Telephone Charges	1,135	-	-	-
Total	$ 24,346	$ 15,375	$ -	$ 609

IRS regulations set forth definitive instructions with respect to the reporting of the value of fringe benefits and the withholding of taxes. These regulations provide for the assessment of penalties for those organizations which do not withhold the proper amount of taxes and do not correctly report the value of benefits paid to its employees, and the DOR has adopted the federal regulations regarding reporting the value of fringe benefits and the withholding of taxes.

IRS Publication No. 15, Employer's Tax Guide, states that wages subject to federal employment taxes include fringe benefits and it does not matter how the benefits are paid. However, this publication also states that fringe benefit allowances that are paid under an "accountable plan" may be excluded from wages. Moreover, IRS Publication No. 463, Travel, Entertainment, Gift and Car Expenses, states that to be considered an accountable plan all of the following three rules must be adhered to:

- Expenses must have a business connection – that is an employee must have paid or incurred deductible expenses while performing services as an employee of the employer.

- Expenses must be adequately accounted for to the employer and within a reasonable period of time.

- Any reimbursement or allowance in excess of actual expenses must be returned within a reasonable period of time.

The business connection requirement is further defined by Title 26 Code of Federal Regulations, Computation of Taxable Income. Section 1.162-17 (b) (4) of this document states that "to account" to an employer means that an employee must "submit an expense account or other required written statement to the employer showing the business nature and the amount of all of the employee's expenses." The

President's housing allowance benefit would not qualify as an exclusion under terms of the first item. The automobile related benefits might, however, qualify if the employer has established an accountable plan.

With respect to the value of an automobile as a fringe benefit, IRS Publication No. 15 describes the records that must be maintained to be considered as "adequately accounting" to an employer. This includes a record of all business use and miles driven and also recommends that a diary, log or similar record be maintained. Publication No. 15 also states that all fringe benefits provided to an employee are considered as taxable wages when an adequate accounting is not made to an employer.

IRS Publication No. 15A, Employer's Supplemental Tax Guide, states that federal taxes must be withheld on fringe benefits at the rate of 28% of the benefit and by not doing so may result in the assessment of a penalty against the employer.

Our review of each of these fringe benefits disclosed the following:

a. Housing Allowance: This fringe is paid to the President each month in the form of a check in the amount of $1,182. No amounts are withheld for federal income taxes at the specific direction of the President; however, state taxes are withheld. Payroll reports for three quarterly periods in calendar years 1997, 1998, and 1999 disclosed that this fringe benefit has been reported to the IRS and DOR.

b. Lease Payment for Automobile and Automobile Insurance: These fringe benefits totaling $7,408 were reported to the IRS and DOR at a rate of 5% of the total amount paid. The withholdings at this rate were at the specific direction of the President, who stated in writing that only 5% of the value of these fringe benefits were attributable to personal use. (See Exhibit G.)

We determined that the President uses this vehicle to commute from his residence to the office, a round trip of 26 miles. Based on 200 trips in a year (excluding holidays, leave, and overnight travel period) we estimate his personal use of this vehicle to be at least 5,200 miles per year. Based on gasoline usage, we also estimate this vehicle is driven approximately 12,000 miles per year and, therefore, at a minimum his personal usage would total 43% of the total miles driven. Thus at least 43% of the lease payment and insurance should be reported as taxable income.

The former Vice-President of Administration and Finance stated that the President had never provided a log or other records of his usage of this vehicle to include information to substantiate that the other 57% of the miles driven were for business purposes. Because of the lack of this record and any accountability report to the MCC trustees, under IRS regulations the entire value of this benefit may represent taxable income for the period of April 1997, when the President was hired by MCC, until the current date.

c. Gasoline Payments: We noted that none of the gasoline used is reported as a taxable benefit. However, at minimum 43% should have been reported as a taxable benefit. However, because there is no accountability for this benefit, the entire amount may be considered as taxable.

We noted that gasoline charges are paid based on a credit card statement. Therefore, without signed credit card receipts there can be no assurance that all charges were incurred by the President. Moreover, although we were informed that three credit cards were issued on this account, however the location or use of the other two cards could not be determined and therefore there is the possibility of unauthorized use.

d. Car Telephone Charges: Each month the Business Office requests that the President disclose any calls made by or received by him that are personal calls. Each month the President has indicated that no personal calls were made or received by him, and we found that on four of the six monthly invoices selected for our tests the President had signed a statement to that effect (see Exhibit H). However, our analysis of the telephone bills for these six months disclosed that at least 22% of the calls made by the President could be considered personal expenses and therefore, should have been reimbursable by him. MCC had not developed a method to determine whether the other calls were business-related.

We performed a limited review of telephone usage of the acting President for the two-month period prior to the current President's appointment and found that he had reimbursed MCC for his personal calls.

e. Automobile Usage: We noted that the insurance policy on the automobile provided to the President lists both the President and his wife as authorized operators of the vehicle and both reflect driver's licenses issued by the State of Texas. However, under the Massachusetts General Laws, Chapter

7, Section 9A, employees of the Commonwealth who are authorized to drive a state-owned or -leased vehicle may not use the vehicle for personal use. Our audit also disclosed that the President had in 1997 applied for and received a drivers license in the State of Massachusetts.

We examined the automobile usage records of the two acting Presidents prior to the appointment of the current President. Both were appointed in an acting capacity ranging from two to eight months. Neither received a housing allowance but both were allowed use of MCC's leased vehicle. In one case, the acting President used the leased vehicle for a 105-mile round trip commute from his residence to the college. This equates to total personal use travel of 21,000 miles per year. During the eight-month period in which he was acting President, this employee claimed that his personal use of the vehicle was 9% a year. The Form W-2 prepared for him reflected 9% of the annual costs of the lease and insurance; however, the cost of gasoline, maintenance and car telephone were not included in the amounts reported as fringe benefits per the Form W-2. The acting President's use of the automobile exceeded 12,000 miles per year as was estimated for the current President; therefore, his personal use was significantly greater than 9%.

In the second case, the acting President claimed 20% of lease and insurance costs as personal use. Our calculations showed that this employee had only a 20-mile round trip commute, which computes to a 33% personal use (20 x 200 days = 4,000 miles or 1/3 of the estimated 12,000 miles driven). None of the calculations for any of the three Presidents takes into consideration any incidental personal use or the cost of gasoline and automobile registration charges.

As a consequence of the above, the incumbent President and his two predecessors are liable for the payment of taxes on these non-reported or under-reported fringe benefits. MCC may also be liable for the assessment of a penalty by the IRS and DOR for not making the appropriate withholding payments.

Recommendation: MCC should:

- Notify the IRS and DOR of this situation.

- Prepare an amended Form W-2 reflecting the correct value of fringe benefits for its current President and its two acting Presidents for calendar years 1996 through 1999 and for prior periods as directed by the IRS and DOR.

- Develop and implement an accountable plan that satisfies the IRS and DOR requirements.
- Develop policies, procedures, and guidelines regarding the payment of fringe benefits for all MCC employees.
- On a periodic basis, review car telephone charges and ensure that all personal calls are reimbursed.
- Remove the President's wife, who is not authorized to drive the President's MCC-leased vehicle, from the automobile insurance policy and update the policy with the President's license number.

5. Inadequate Controls over the Disbursement of Educational Needs and Professional Development Funds Resulted in Questionable Payments to Employees Totaling over $162,000

Our audit disclosed that over $162,000 of the $261,867 allocated to MCC under a state appropriation for the payment to employees for educational needs and professional development was not supported by adequate documentation, was not disbursed for authorized purposes, and was disbursed to non-authorized persons. In fiscal year 1996 the state appropriated $2,828,222 to fund supplementary educational needs in accordance with the collective bargaining agreement entered into by the Higher Education Coordinating Council (HECC) (now the Board of Higher Education) and the Massachusetts Community College Council/Massachusetts Teachers Association (Association) for unit members and also to fund supplementary educational needs for managers at community colleges who are not represented under the agreement. Section 1 of the appropriation legislation states, " the sums set forth in section 2 are hereby appropriated for the several purposes and subject to the conditions specified in said appropriation acts, and subject to the provisions of law regulating the disbursement of public funds."

Of the $261,867 received by MCC, $187,404 was for unit members and $74,463 was for managers. In April 1996, the HECC and the Association agreed on the policies and procedures to process educational needs payments for unit members covering the three fiscal years ended June 30,1998. The agreement was formalized with the issuance of a contract dated April 25, 1996 that established general policies and procedures for the disbursement of funds, the eligibility of persons to receive funds based on the dates of their employment, and the need for receipts, and included an application form and two "specific policies" for allowable expenditures. The "specific policies" cited were:

- If a unit member purchases equipment, the unit member owns the equipment and is responsible for maintenance.
- No funds may be used for food and drink.

In addition, one of the conditions of the agreement stated that, in order to be considered as eligible to receive reimbursement for an expenditure, a unit member must be employed by MCC as of June 30, 1996.

In a November 7, 1996 memorandum, the State Comptroller advised HECC that payments to individuals could not be in the form of salaries or bonuses and that, if a member was reimbursed for the purchase of equipment, the member owns the equipment and the value of same must be reported on an IRS Form W-2.

Our review also disclosed that HECC did not prescribe any specific policies or procedures with respect to disbursements of educational funds to managers. However, MCC applied the policies agreed to for unit members to the reimbursement requests from their managers and such requests were honored under these minimal guidelines.

Disbursement of these funds was made to unit members and to managers at the time application requests for reimbursements were submitted to MCC. The majority of requests for reimbursements were for new computer equipment, software upgrades, camcorders, video equipment, television, and reimbursement for conferences or fact-finding trips that included destinations in Europe, Africa, Hawaii and various cities in the U.S.

Our review disclosed that, of the 167 requests submitted for reimbursement from the $187,404 allocated to the unit members, 105 requests totaling $117,671 did not have the original copy of the invoice or receipt attached. Moreover, the 54 requests submitted for reimbursement from the $74,463 allocated to non-unit managers, 33 requests totaling $45,268 did not have the original invoices or receipts attached. Further, in many cases no proof of payment in the form of a credit card receipt or copy of a check was submitted.

We performed a detailed review of 20 expenditures from the unit members pool and five expenditures from the managers pool and found the following examples of expenditures that are questionable because of a lack of documentation, ineligibility of recipients, or a lack of documentation that the expenditure benefited the MCC's educational programs or students.

- A former acting President received a reimbursement of $1,445.25 for a computer purchased by him on January 3, 1997 and taken home as his personal possession. This official retired four weeks after the date of this purchase.

- A unit member was reimbursed $926.58 in November 1997 for a trip to New Orleans in late April through early May 1996. This employee retired on May 24, 1996 and, as she was not a unit member as of June 30, 1996, was not eligible to receive any reimbursement in accordance with the HECC/Association agreement. The question of the eligibility for this person was raised with the then Vice-President of Finance prior to payment and agreed by him.

- We found three other persons who received payments totaling $2,815 from the unit members pool who also were not MCC employees as of June 30, 1996 and therefore were not eligible to receive any reimbursement. Two of these persons received reimbursement for the purchase of computer equipment, while the third claimed a reimbursement for travel.

- A manager received reimbursement of $1,300 for a computer even though the invoice in support of the reimbursement did not reflect his name or address as the purchaser, and the computer was shipped to another party by the vendor.

- Two managers each received reimbursement of $1,445.25 for the purchase of a computer and as evidence of their purchases submitted a handwritten invoice with no other evidence of payment.

- A unit member received reimbursement of $600 for the purchase of a computer from a private party and submitted a handwritten bill of sale and provided no other evidence to support the payment.

- A unit member received reimbursement of $1,165.68 for the purchase of a computer and submitted an invoice with a company letterhead. The company address is that of a private residence in Bridgewater, and a copy of the employee's check provided as proof of payment was made out to a person residing at that address rather than to a business.

- Two unit members (husband and wife) were reimbursed a total of $1,402 for a trip to Spain. The trip was to participate in an Art and Science Seminar conducted by two MCC professors and was held to "enhance the commitment of the College to the enrichment of Arts and Sciences." As both of the unit members were professors in the business field a question arises as to whether this expenditure resulted in an educational benefit to MCC or its students.

Our review disclosed that the Deans in the various divisions had the authority to approve or deny submitted requests; however we were informed that requests were processed with little, if any, oversight as to the legitimacy of purchases or the value to MCC or employees attending conferences or taking trips. Business office personnel indicated that no such requests had ever been denied by any division head.

As previously stated, the supplementary appropriation which established the educational needs funding required that the General Laws must be adhered to with respect to the disbursement of public funds. In broad terms, the various provisions of the law and basic business and accounting practices require that disbursement of public funds must be for a purpose related to the need and benefit of the Commonwealth (i.e., MCC and its students) and must be supported by adequate documentation. Further, the appropriation set up a separate pool of funds for unit members and non-unit persons (i.e., managers) and directed that disbursements be made to eligible persons within each pool. Sound business and accounting practices also advocate that policies and procedures be established to ensure that disbursements are made within certain parameters and are subject to an oversight review by the Vice-President of Finance and Administration or the Comptroller.

These questionable payments were processed because MCC did not supplement the BHE general guidelines with more definitive policies and procedures unique to MCC's needs. It was therefore left up to the discretion of the Deans to establish their own policies with respect to reimbursements paid to employees. In addition, Deans and other administrators did not require the submission of original invoices and receipts for purchases and travel, and MCC did not establish an oversight program to ensure that only eligible persons participated in each pool of appropriated funds. As a result, many disbursements made from the unit members and the manager's pool of funds were made without original documentation as proof of purchase or proof that travel expenses had actually been incurred. Further, MCC paid for claims submitted by four persons who were not MCC employees as of June 30, 1996, contrary to the terms of the HECC/Association agreement.

Additional funding for this program had not been appropriated by the Legislature for fiscal year 1999 and 2000; however, we understand that this program may be reconsidered in the coming years.

Recommendation: MCC should prepare written policies, procedures, and guidelines that define the types of permissible expenditures, states that the expenditure must benefit MCC and its students, and requires the submission of original invoices, receipts and cancelled checks, or other proof of payment. In addition, the BHE should prepare and issue more definitive guidelines for the disbursement of educational needs funds.