



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

Making government work better

Official Audit Report – Issued November 30, 2016

Northern Essex Community College

For the period July 1, 2013 through June 30, 2015





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Lane A. Glenn, PhD, President
Northern Essex Community College
100 Elliott Street
Haverhill, MA 01830-2399

Dear Dr. Glenn:

I am pleased to provide this performance audit of Northern Essex Community College. This report details the audit objectives, scope, methodology, findings, and recommendations for the audit period, July 1, 2013 through June 30, 2015. My audit staff discussed the contents of this report with management of the college, whose comments are reflected in this report.

I would also like to express my appreciation to Northern Essex Community College for the cooperation and assistance provided to my staff during the audit.

Sincerely,

A handwritten signature in blue ink, appearing to read "SMBump".

Suzanne M. Bump
Auditor of the Commonwealth

TABLE OF CONTENTS

EXECUTIVE SUMMARY	1
OVERVIEW OF AUDITED ENTITY	2
AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY	3
DETAILED AUDIT FINDINGS WITH AUDITEE’S RESPONSE.....	6
1. Northern Essex Community College did not properly administer its fixed assets.	6

EXECUTIVE SUMMARY

In accordance with Section 12 of Chapter 11 of the Massachusetts General Laws, the Office of the State Auditor has conducted an audit of certain activities of Northern Essex Community College (NECC) for the period July 1, 2013 through June 30, 2015.

In this performance audit, we examined certain NECC activities related to the safeguarding of fixed assets, the reporting requirements of Chapter 647 of the Acts of 1989, certain administrative and trust-fund expenditures, and the federal Jeanne Clery Disclosure of Campus Security Policy and Campus Crime Statistics Act. We also examined whether the college provided academic counseling to serve the needs of students.

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

Finding 1 Page 6	NECC did not conduct a complete annual physical inventory or any inventory testing of its fixed assets during our audit period, and it did not properly record required information on its fixed-asset inventory list.
Recommendation Page 7	NECC should take the measures necessary to ensure that its inventory control requirements are adhered to, including annually conducting a complete physical inventory or inventory testing, designating a physical inventory coordinator to perform/oversee annual inventory audits, and making sure the required information regarding its fixed assets is properly recorded. These measures should include establishing and implementing proper monitoring controls to ensure that its current inventory practices are consistent with its established requirements.

OVERVIEW OF AUDITED ENTITY

Northern Essex Community College (NECC) is authorized by Section 5 of Chapter 15A of the Massachusetts General Laws and operates under the direction of a board of trustees, whose members are appointed by the Governor. NECC's board operates under regulations promulgated by the state's Board of Higher Education; its responsibilities under these regulations include setting policy, approving annual budgets, monitoring quarterly budget performance, and participating in the approval of internal audits. The president of NECC reports to the board of trustees and is the administrative head of the college. During our audit period, the president was supported by the vice presidents of Administration and Finance, Academic and Student Affairs, Human Resources, and Institutional Advancement; the executive directors of Campus and Community Relations and the Center for Corporate and Community Education; and the chief information officer.

NECC is a member of the Massachusetts public higher-education system, which consists of 15 community colleges, 9 state universities, and 5 University of Massachusetts campuses. NECC's main campus is located at 100 Elliott Street in Haverhill, and it has two additional campuses in Lawrence. As of spring 2015, NECC had a student population of 6,263.

AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY

In accordance with Section 12 of Chapter 11 of the Massachusetts General Laws, the Office of the State Auditor (OSA) has conducted a performance audit of certain activities of Northern Essex Community College (NECC) for the period July 1, 2013 through June 30, 2015.

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

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

Objective	Conclusion
1. Does NECC properly administer its inventory of fixed assets?	No; see Finding <u>1</u>
2. Does NECC comply with Chapter 647 of the Acts of 1989? ¹	Yes
3. Are administrative expenditures properly authorized and recorded, and are they in accordance with applicable regulations and policies?	Yes
4. Are trust-fund expenditures properly authorized and recorded, and are they in accordance with the fund's stated purpose and applicable regulations and policies?	Yes
5. Are NECC's internal policies and procedures sufficient to ensure compliance with the Jeanne Clery Disclosure of Campus Security Policy and Campus Crime Statistics Act (Clery Act)? ²	Yes
6. Is academic counseling available to serve the needs of students?	Yes

To achieve our objectives, we gained an understanding of the internal controls we deemed significant to our audit objectives. We evaluated the design and effectiveness of controls over inventory of property

1. This law requires agencies to file a report with OSA if they find any "unaccounted for variances, losses, shortages or thefts of funds or property."
2. The Clery Act requires colleges and universities to report crime and other emergencies on and near their campuses.

and equipment and over administrative and trust-fund expenditures. We conducted further audit procedures as follows:

- We reviewed NECC inventory policies and procedures and interviewed key employees in the Administration and Finance, Campus Operation and Procurement, and Information Technology Departments to gain an understanding of NECC's inventory practices. We also performed the following procedures:
 - We selected a statistical sample of 33 information-technology (IT) items valued above \$1,000, from a population of 3,288 items, and attempted to verify their existence. Since this population was limited to items valued above \$1,000, we did not project the results over the entire IT population.
 - We also judgmentally selected a sample of 63 non-IT items valued above \$1,000, from a population of 1,716 items on NECC's inventory list, and attempted to verify their existence. We applied a judgmental approach when sampling inventory items; consequently, the results of our tests cannot be projected to the entire population and only apply to the items selected.
 - We reviewed NECC's policies regarding obsolete/surplus property and examined two equipment disposal request lists to determine whether the disposal of these items was performed in accordance with NECC policy.
- We gained an understanding of NECC's reporting process under Chapter 647 by interviewing key personnel. We also reconciled Chapter 647 reports submitted by NECC to OSA records to determine whether NECC complied with reporting requirements.
- We reviewed and analyzed NECC's policies and procedures for trust-fund management and administrative expenditures and interviewed key personnel to gain an understanding of the process for trust-fund management and administrative expenditures.
 - We used a statistical sampling method to select a random sample of 48 out of 15,664 expenditures to verify that they were properly authorized and recorded and were in accordance with applicable regulations and policies.
- We interviewed NECC's director of Public Safety / Clery Act compliance officer regarding Clery Act policies and procedures. We also performed the following procedures:
 - We verified that all of the Clery Act policy requirements were met on NECC's submitted annual security reports for the past two years.
 - We reviewed the internal crime logs related to the annual incident reports submitted to the federal government under the Clery Act.
- We gained an understanding of the college's commitment to academic advisory and support services for students by interviewing the dean of Academic Support Services, Articulation, and Transfer and other college officials. We also reviewed academic-counseling information available to students by examining various brochures, pamphlets, and websites.

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

DETAILED AUDIT FINDINGS WITH AUDITEE'S RESPONSE

1. Northern Essex Community College did not properly administer its fixed assets.

Northern Essex Community College (NECC) did not conduct a complete annual physical inventory or any inventory testing of its fixed assets during our audit period, and it did not properly record required information on its fixed-asset inventory list. As a result of these issues, the college's fixed assets were not adequately safeguarded against potential loss, theft, or misuse.

To test the information on NECC's inventory list, we physically inspected 96 inventory items. To do this, we first selected a sample of 32 items with values greater than \$1,000 from NECC's inventory list and attempted to verify their existence. We then selected 64 other items from various locations on the NECC campuses to determine whether each item was correctly recorded on the inventory list. Ten items were not in the locations recorded on the list, and 33 more were missing required information, including original purchase dates and costs. Upon further review of NECC's inventory list, the Office of the State Auditor (OSA) determined that 1,571 of the 5,004 items on the list were missing original purchase dates and costs. In addition, NECC did not designate a physical inventory coordinator to perform or oversee its annual inventory of fixed assets.

Authoritative Guidance

Section L of NECC's internal control plan states that the college's inventory system must include "designating an employee as the Physical Inventory Coordinator to perform/oversee annual inventory audits" and that inventory records are to include "I.D. tag number, item description, cost, location and date received." Finally, it states, "On an annual basis the College should coordinate an inventory or sufficient random inventory testing of the College's fixed assets."

In addition, the Fixed Asset Acquisition Policy issued jointly by the Office of the State Comptroller and the state's Operational Services Division states,

Non-[generally accepted accounting principles] Fixed Assets must be recorded in a Department's inventory and reconciled at least annually. This inventory can be either electronic or on paper, as long as it records the date of purchase, amount, description, location and disposition of an item.

Reasons for Problems in the Inventory Process

NECC officials could not explain why the college did not follow its established inventory control practices. However, OSA noted that NECC management did not properly monitor the administration of the college's inventory process to ensure that its current inventory practices were consistent with its internal control requirements.

Recommendation

NECC should take the measures necessary to ensure that its inventory control requirements are adhered to, including annually conducting a complete physical inventory or inventory testing, designating a physical inventory coordinator to perform/oversee annual inventory audits, and making sure the required information regarding its fixed assets is properly recorded. These measures should include establishing and implementing proper monitoring controls to ensure that its current inventory practices are consistent with its established requirements.

Auditee's Response

NECC's management is in agreement with the recommendation of the State Auditor to ensure complete compliance with all inventory control requirements. In fiscal 2017 the college will designate a physical inventory coordinator who will be responsible for updating the inventory information so that everything is correctly recorded with all required information. Inventory testing and updating the inventory records will be conducted during the current fiscal year. In subsequent years, a physical inventory or inventory testing will be performed.