

# *The Commonwealth of Massachusetts*

## AUDITOR OF THE COMMONWEALTH

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INDEPENDENT STATE AUDITOR'S REPORT ON  
CERTAIN ACTIVITIES OF  
QUINSIGAMOND COMMUNITY COLLEGE  
JULY 1, 2002 TO JUNE 30, 2003

OFFICIAL AUDIT  
REPORT  
JULY 14, 2004

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### INTRODUCTION

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Quinsigamond Community College (QCC), located in Worcester, Massachusetts, is a higher education institution organized under Chapter 15A, Section 5, of the Massachusetts General Laws. QCC is a two-year public community college with approximately 6,196 part-time and 3,760 full-time students. It offers 36 Associate Degree programs, 27 certificate programs, adult basic education/GED programs, education and training for business and industry, and non-credit courses. QCC is regulated by the Board of Higher Education, which is responsible for monitoring all such educational institutions to ensure that state funds support measurable performance, productivity, and results. A Board of Trustees, appointed by the Governor of the Commonwealth, establishes QCC's administrative policies and guidelines and controls its operations.

As authorized by Chapter 11, Section 12, of the General Laws, the Office of the State Auditor conducted an audit of QCC for the period July 1, 2002 to June 30, 2003. The purpose of the audit was to examine QCC's policies, procedures, and internal controls over receipts and disbursements, including payroll, administrative expenses, and accounts receivable; trust funds, including a review of whether trust funds are being expended for intended purposes; capital funds; vulnerable equipment and commodities; contract procurement, including consultants; the accounting methodology and procedures for tuition remission to the Commonwealth; compliance with Chapter 647 of the Acts of 1989, An Act Relative to Improving the Internal Controls within State Agencies; and compliance with Office of the State Comptroller (OSC) and Division of Fiscal Affairs rules and regulations.

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#### 1. IMPROVEMENTS NEEDED IN INTERNAL CONTROLS OVER PROPERTY AND EQUIPMENT

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Our review of QCC's internal controls over its property and equipment, with an estimated value of \$3,407,464 as of June 30, 2003, found that QCC was not in full compliance with OSC inventory control guidelines, its own control procedures for inventory, and Chapter 647 of the Acts of 1989. QCC segregates inventory items between a regular inventory list, consisting of 124 items with an estimated value of \$458,111, and an information technology (IT) inventory list, consisting of 2,651 items with an estimated value of \$2,949,353. As a result of QCC not conducting comprehensive annual inventory checks, its inventory listings do not accurately reflect the existing inventory and actual inventory items' location/movement. Further, because our review disclosed that several items of substantial value were missing, there is inadequate assurance that sufficient controls exist to protect QCC's assets from being lost or stolen. In response to our audit, college officials indicated that they will combine the regular and IT inventories on the same database, conduct regular, comprehensive inventories, and report any missing inventory in accordance with Chapter 647 of the Acts of 1989.

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Our review of QCC's trust funds disclosed that QCC was not in full compliance with its Trust Fund Management Guidelines and prudent business practices. We selected five of QCC's nine trust funds to review their fiscal year 2003 budgets. QCC could not demonstrate whether fiscal year 2003 trust fund budgets were submitted to, and approved by, the QCC Board of Trustees. According to QCC officials, the budgeting process was changed for fiscal year 2003 so that trust fund activity was not presented to the QCC Board of Trustees separately, as in prior years, but was instead combined with the college-wide Current Fund Revenues and Expenditures Report. The budget process should include sufficient detail to permit the identification of current fund balances and major expenditures and satisfy Board inquiries and audit requirements. Such a budgeting process would facilitate the achievement of trust fund goals and objectives. Without the monitoring of accurate and detailed budgets for trust fund activities, the potential exists for trust funds to operate with deficit balances or in a manner inconsistent with the purpose of the trust account. If QCC wishes to change its trust fund budgeting process, it should update its Trust Fund Management Guidelines and internal control procedures. In response to our audit, college officials responded that they will resume recording and reporting trust fund activity in detail to identify fund balances and major expenditures.

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**3. ATHLETIC CENTER TRUST FUND OPERATIONS RESULTED IN A \$76,738 DEFICIT 9**


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Our review of the activity for the Athletic Center Trust Fund (ACTF) disclosed that the fund started the fiscal year with a \$25,070 deficit balance and ended fiscal year 2003 with a \$76,738 deficit balance. QCC trust fund guidelines state that expenditures are contingent on the availability of funds within the approved budget line, consistent with the approved spending plan for the cost center requesting the purchase, and are limited to and dependent on the amount of funds raised. We determined that part of the ACTF deficit was due to payroll increases: from \$41,483 in fiscal year 2002 to \$62,648 in fiscal year 2003. We found that although total expenditures were \$47,250 for fiscal year 2002 and \$77,073 for fiscal year 2003, they exceeded the corresponding revenues of \$21,920 and \$25,405 for fiscal years 2002 and 2003, respectively. Therefore, other QCC funds were used to support ACTF operations. We were informed that the QCC Board of Trustees agreed to maintain the deficit fund balance on the ACTF accounting records so that fiscal year 2004 increases in Athletic Center membership fees could repay the deficit over time. In response to our audit, college officials indicated that due to a reexamination of past board actions, \$51,000 of revenue has been located and transferred from the Facilities Use Trust Fund.

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## INTRODUCTION

### *Background*

Quinsigamond Community College (QCC) is a Massachusetts higher education institution organized under Chapter 15A, Section 5, of the Massachusetts General Laws. The 47-acre main campus is located in Worcester, Massachusetts; a satellite site is located in the College at the Mall, in downtown Worcester. QCC is a two-year public community college with approximately 6,196 part-time and 3,760 full-time students. QCC offers 36 Associate Degree programs, 27 certificate programs, adult basic education/GED programs, education and training for business and industry, and non-credit courses. QCC is regulated by the Board of Higher Education, which is responsible for monitoring all such educational institutions to ensure that state funds support measurable performance, productivity, and results. QCC's Board of Trustees is its governing body and establishes administrative policies. QCC's President is responsible for implementing those policies.

Revenues for QCC totaled \$37,352,856 for the fiscal year ended June 30, 2003 and \$36,076,475 for fiscal year ended June 30, 2002; expenses for the same periods totaled \$34,335,058 and \$35,460,188, respectively. The following is a summary of revenues and expenditures for those two fiscal years:

Description	2003	2002	Increase (Decrease)
Revenues:			
Tuition and Fees	\$ 8,305,142	\$ 5,849,267	\$ 2,455,875
State Appropriations	16,343,379	17,338,167	(994,788)
Capital Appropriations	1,273,551	1,214,033	59,518
Auxiliary Enterprises	3,043,774	2,937,198	106,576
State/Federal Grants and Contracts	7,350,199	6,183,940	1,166,259
Private Grants and Contracts	302,198	316,407	(14,209)
Other Revenues	<u>734,613</u>	<u>2,237,463</u>	<u>(1,502,850)</u>
Total Revenues	<u>\$ 37,352,856</u>	<u>\$ 36,076,475</u>	<u>\$ 1,276,381</u>
Expenditures:			
Instruction	\$ 15,017,885	\$ 14,853,414	\$ 164,471
Academic Support	3,900,012	3,897,031	2,981
Student Services	4,092,306	4,035,310	56,996
Institutional Support	3,838,715	4,479,534	(640,819)
Operation and Maintenance of Plant	3,334,944	3,035,941	299,003

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Auxiliary Enterprises	2,458,941	2,673,296	(214,355)
Scholarship and Fellowships	1,616,276	2,325,639	(709,363)
Endowment Expense	59,735	6,937	52,798
Public Service	16,244	77,869	(61,625)
Loan Repayments Remitted to Grantor	<u>0</u>	<u>75,217</u>	<u>(75,217)</u>
Total Expenditures	<u>\$ 34,335,058</u>	<u>\$ 35,460,188</u>	<u>\$ (1,125,130)</u>

### ***Audit Scope, Objectives, and Methodology***

As authorized by Chapter 11, Section 12, of the General Laws, the Office of the State Auditor conducted an audit of QCC for the period July 1, 2002 to June 30, 2003. Our audit was conducted in accordance with applicable generally accepted government auditing standards. The purpose of the review was to examine QCC's policies, procedures, and internal controls, particularly those over receipts and disbursements, including payroll, administrative expenses, and accounts receivable; trust funds, including a review of whether trust funds are being expended for intended purposes; capital funds; vulnerable equipment and commodities; contract procurement, including consultants; the accounting methodology and procedures for tuition remission to the Commonwealth; compliance with Chapter 647 of the Acts of 1989, An Act Relative to Improving the Internal Controls within State Agencies; and compliance with Office of the State Comptroller and Division of Fiscal Affairs rules and regulations.

To accomplish our objectives, we conducted the following test and procedures:

- Reviewed QCC's administrative and accounting policies and procedures manuals
- Reviewed reports of private accounting firms to determine whether they contained any significant audit results or identified any weaknesses in internal controls
- Assessed management and administrative controls
- Interviewed various QCC officials
- Reviewed selected state, federal, and trust fund revenue and disbursement transactions to determine whether QCC procedures were being adhered to and funds were being expended for their intended purposes
- Tested procurement transactions and physically examined the inventory system
- Reviewed the accounting methodology and procedures for tuition remission to the Commonwealth

- Reviewed applicable General Laws, the Board of Higher Education’s Standards for the Expenditures of Trust Funds, and various publications issued by the Internal Revenue Service

At the conclusion of our audit, we met with QCC’s President, Vice-President of Administrative Services, and Comptroller to discuss the results of our review.

Based on our audit, for the areas tested—except as noted in the Audit Results section of this report—we have determined that QCC had adequate policies, procedures, and internal controls over its revenues, disbursements, contracts, procurements, trust fund financial activity, and accounts receivables, and was in compliance with applicable laws, rules, and regulations.

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## AUDIT RESULTS

### 1. IMPROVEMENTS NEEDED IN INTERNAL CONTROLS OVER PROPERTY AND EQUIPMENT

Our review of Quinsigamond Community College's (QCC) internal controls over its property and equipment, with an estimated value of \$3,407,464 as of June 30, 2003, found that QCC was not in full compliance with Office of the State Comptroller (OSC) inventory control guidelines, its own control procedures for inventory, and Chapter 647 of the Acts of 1989, An Act Relative to Improving Internal Controls within State Agencies (see Appendix I).

The QCC Internal Control Manual, which is in compliance with OSC guidelines, states that the objective for equipment control is to ensure that the supplies, fixed assets, surplus property, and obsolete equipment of QCC are properly safeguarded, accounted for, and (when appropriate) disposed of. This policy document requires that an inventory system be maintained, including the following:

- The proper college inventory tag and ID number must be affixed to any item valued \$1,000 or more.
- An employee is to be designated Physical Inventory Control Coordinator to perform/oversee the inventory process.
- An employee is to be designated Surplus Property Officer to facilitate the identification and disposal of surplus or obsolete property.
- Physical Inventory counts are to be taken at least on an annual basis.
- All departments that have obsolete or surplus property must file a "Report of Surplus Property" form with the college's Surplus Property Office.
- Every June 30, the Physical Inventory Control Coordinator must conduct a physical inventory of all equipment and reconcile the physical count to the college's Inventory System Database. Any corrections, changes, etc. should be entered into the system and documented. All unaccounted-for variances should be reported to the State Auditor's Office.
- Any moved items are to be noted and the Inventory System Database updated.

In addition, Chapter 647 states, in part:

*All unaccounted for variances, losses, shortages or thefts of funds or property shall be immediately reported to the state auditor's office who shall review the matter to determine the amount involved which shall be reported to appropriate management and law enforcement officials.*



QCC divides inventory items between a regular inventory list, consisting of 124 items with an estimated value of \$458,111, and an information technology (IT) inventory list, consisting of 2,651 items with an estimated value of \$2,949,353. QCC policy for regular inventory items is to include those with a value of \$1,000 or more, but all IT inventory items, regardless of value/cost, are included on the IT inventory list. Our review included tests of both inventory lists.

Our test of 28 regular inventory items found that 15 items (54%) were not in compliance with established criteria:

- The following seven items could not be located, even though we were accompanied by the QCC employee who performed the annual physical inventory count: A pitching machine valued at \$1,329; a Panasonic camcorder valued at \$1,225; a Life-Pac defibrillator valued at \$5,434; a two-way radio valued at \$1,072; a refrigerator valued at \$1,875; a two-way radio valued at \$1,392; and an electric slicer valued at \$1,100. QCC officials were unable to locate these items during our audit fieldwork. QCC has not filed the required Chapter 647 reports related to these missing items.
- One item, a paint machine valued at \$1,170, was disposed without the Surplus Property Officer's knowledge, without a "Report of Surplus Property" form being completed, and without the inventory list reflecting the event.
- Five items had not been affixed with QCC tags. Four of the items were verified through their serial numbers, but one could not be verified. The five items were a treadmill valued at \$3,895; an X-ray machine valued at \$54,000; a Detex patrol manager valued at \$1,772; a dosimeter valued at \$2,189; and a CPR mannequin valued at \$4,195 that was not tagged and could not be verified (because other, untested, mannequins were also found that did not have inventory tags).
- A Chapter 647 report was not filed with the Office of the State Auditor (OSA) for two items disclosed as missing by QCC's annual regular inventory count, conducted on June 30, 2003. The items were an overhead projector valued at \$2,600 and a balance scale valued at \$1,045. An interview with the QCC official responsible for inventory revealed that, previously, unexplained inventory variances were also not reported to the OSA. On October 2, 2003, after our audit interview, the Chapter 647 report was prepared. The employee in charge of inventory informed us that she had been unaware of the reporting requirement.

Our test of the IT inventory included 81 items. We determined that 20 items tested were not in compliance with established criteria:

- Six items could not be located: an electric white board valued at \$1,400; a 17-inch monitor valued at \$329; a super microcomputer valued at \$12,320; an Infocus projector valued at \$3,473; an Apple LaserWriter printer valued at \$1,676; and a CPU valued at \$1,050. By the end of our audit fieldwork, QCC still had not filed the required Chapter 647 reports regarding these missing items.

- Five items were not at their designated location on the inventory list but were found at other locations within the department: a TV/VCR valued at \$330; a network switch valued at \$3,899; a Dell laptop valued at \$2,567; a PlusTech CPU valued at \$1,380; and a 17-inch monitor valued at \$989.
- One item, a Lexmark printer, could not be verified because it had not been assigned a tag number or value. Although this item is listed on the IT inventory list, the IT department questioned whether the item was its responsibility. At the end of our audit fieldwork, QCC had not determined where this item was located and had not filed the required Chapter 647 report.
- Four CPUs, one monitor, one printer, and one TV/VCR, all of which had affixed inventory tags, could not be verified from their location to the IT inventory listing because they were not on the inventory list.
- One CPU valued at \$2,439 was verified to the list but was designated as “off-campus” on the inventory list, although it was on the first floor of the administration building.

QCC’s inventory listings do not accurately reflect the existing inventory and actual inventory items’ locations/movements, nor do they provide a valid basis to determine whether items are missing or stolen or have been properly disposed of. QCC took a complete inventory on June 30, 2003 for its regular inventory and a sample inventory on September 30, 2003 for its IT inventory. The IT inventory check was conducted on a spot-check basis because of the large size of the listing. However, the sampling was very limited, consisting only of tests for two floors of the administration building, which had also been tested for the June 30, 2002 IT inventory.

### ***Recommendation***

QCC should conduct a full inventory review to (1) determine inventory items’ existence, location, and value; (2) affix tags where necessary; and (3) report all variances, losses, shortages, or thefts to the OSA, as required under Chapter 647 of the Acts of 1989. QCC’s policy manual requires a complete physical inventory of all equipment annually; accordingly, a complete IT inventory should be taken and updated. If QCC believes that doing so is not possible because of the large size of the inventory, it should revise its policies to allow for the inventory to be conducted throughout the year, one building at a time. QCC should also update and improve the methods for interim adjustments to the inventory lists (e.g., movement or disposal of equipment).

### ***Auditee’s Response***

*Although QCC has policies and procedures in place for the management and disposal of inventoried items, we will improve our policies and procedures as follows:*

- Information technology (IT) and central receiving (CR) inventory will be maintained on the same database.
- IT & CR will be decentralized as follows:
  - Designated personnel will be assigned biannual (November/April) inventory responsibilities.
  - Designated personnel will conduct biannual individual room inventories with immediate notification to the Receiver of discrepancies and will return signed inventory control forms to the Assistant Dean of Auxiliary Operations.
  - If an inventory item is missing, proper forms will be filed with the State Auditor's Office.
  - Biannual room inventories will be collected, updated and replaced during the annual inventory conducted by the Receiver & IT Clerk.
- Inventory management education:

We will continue with our efforts to keep the college community educated on the procedures and policies regarding inventory management through regularly scheduled e-mails and new hire orientations.

## 2. IMPROVEMENTS NEEDED OVER THE TRUST FUND BUDGET APPROVAL PROCESS

Our review of QCC's trust funds for the period ending June 30, 2003 disclosed that QCC was not in full compliance with its Trust Fund Management Guidelines and prudent business practices. We selected five of the QCC's nine Trust Funds to review their budgets. QCC records did not identify each trust fund's activity and current balance, because the trust fund budgets had been combined with the college-wide budget. QCC could not demonstrate whether detailed fiscal year 2003 trust fund budgets were submitted to, and approved by, the QCC Board of Trustees.

QCC's Trust Fund Management Guidelines, last revised on March 28, 2001, state, in part:

- *Each year prior to the end of the fiscal year, the President shall present to the Board of Trustees a line item budget for each of the College's Trust Funds for the coming fiscal year. The budget, in addition to showing the proposed expenditures by subsidiary account, shall contain an analysis of the current cash balance of the Trust Fund and the projected receipts for the coming fiscal year. Once approved by the Board of Trustees, all subsequent changes to the budget must be approved by the Board of Trustees. Such budgets shall include sufficient detail to permit the identification of major expenditures....*
- *The President shall provide an accounting of Trust Fund expenditures to the Board of Trustees at each of its regularly scheduled meetings....*

- *All purchases are contingent upon the availability of funds within the approved budget line and consistency with the approved spending plan for the Cost Center requesting the purchase.*

According to QCC officials, the budgeting process was changed for fiscal year 2003 so that trust fund activity was not presented to the QCC Board of Trustees separately, as in the prior year, but was combined with the college-wide Current Fund Revenues and Expenditures Report. After multiple requests to review the accounting of trust fund expenditures required to be presented to the QCC Board of Trustees at each regularly scheduled meeting, we received only copies of college-wide current fund revenues and expenditures reports generated during the fiscal year. QCC officials explained that these reports include trust fund activity. However, each trust fund's activity is not detailed separately.

The budget process should include sufficient detail to permit the identification of current fund balances and major expenditures and satisfy Board inquiries and audit requirements. Such a budgeting process would facilitate the achievement of trust fund goals and objectives. Without the monitoring of accurate and detailed budgets for trust fund activities, the potential exists for trust funds to operate with deficit balances or in a manner inconsistent with the purposes of the trust accounts.

### ***Recommendation***

QCC should comply with its Trust Fund Management Guidelines and ensure that:

1. Budgets with sufficient detail to permit the identification of major expenditures, including an analysis of the current cash balance of the trust funds and the projected receipts for the coming fiscal year, are presented to the QCC Board of Trustees for approval.
2. A detailed accounting of trust fund expenditures is presented to the QCC Board of Trustees at each of its regularly scheduled meetings.
3. All purchases are made contingent upon the availability of funds within the approved budget line and are consistent with the approved spending plan for the cost center requesting the purchase.

If QCC wishes to change its trust fund budgeting process, it should update its Trust Fund Management Guidelines and its internal control procedures.

**Auditee's Response**

*The college will resume its former practice (prior to fiscal year 2003) of recording and reporting trust fund activity by including sufficient detail to permit the identification of current fund balances and major expenditures. Our new detailed reports will:*

- *Satisfy board inquiries;*
- *Comply with audit requirements;*
- *Facilitate trust fund awareness of goals and objectives; and*
- *Fulfill the college's trust fund guidelines.*

**3. ATHLETIC CENTER TRUST FUND OPERATIONS RESULTED IN A \$76,738 DEFICIT**

Our review of the activity for the Athletic Center Trust Fund (ACTF) for the fiscal year ended June 30, 2003 disclosed that the fund started the fiscal year with a \$25,070 deficit balance and ended the fiscal year with a \$76,738 deficit balance.

QCC's Trust Fund Management Guidelines state, in part:

*All purchases are contingent upon the availability of funds within the approved budget line and consistency with the approved spending plan for the Cost Center requesting the purchase.*

The QCC List of Trust Funds FY 2003 details ACTF expenditure requirements as follows:

*Expenditures are limited to and dependent on the amount of funds raised.*

The fiscal year 2002 ACTF budget, approved by the QCC Board of Trustees, states, in part:

*This is a Revolving Fund and all expenses are related to the operation of the Plan. All unexpended money remains in the Fund at the end of the Fiscal Year. Expenditures are limited to and dependent on the amount of funds raised.*

We completed a comparison of the fiscal year ended June 30, 2002 and fiscal year ended June 30, 2003 cost center report activity for the ACTF and noted that the fund began fiscal year 2002 operations with a positive fund balance of \$259. We determined that part of the ACTF deficit was due to payroll increases: from \$41,483 in fiscal year 2002 to \$62,648 in fiscal year 2003. The ACTF was not in compliance with the established criteria, because for fiscal year 2002 expenditures were \$47,250 and for fiscal year 2003 they were \$77,073, whereas the corresponding amounts of revenue for fiscal years 2002 and 2003 were only \$21,290 and \$25,405, respectively.

The ACTF funds are held in a bank account titled Trust Funds Account, which also holds funds related to QCC's other trust funds. Therefore, other QCC funds were expended to support ACTF operations. We were informed that the QCC Board of Trustees agreed to maintain the deficit fund balance on the ACTF accounting records so that fiscal year 2004 increases in Athletic Center membership fees could repay the deficit over time.

***Recommendation***

QCC should comply with its Trust Fund Management Guidelines and ensure that all trust fund purchases are contingent upon the availability of funds within the approved budget line. Additionally, the ACTF should comply with the expenditure requirements that limit expenditures to the amount of funds raised. The practice of allowing the ACTF to operate with a deficit balance should immediately cease.

***Auditee's Response***

*Due to a reexamination of past board actions, \$51,000 worth of revenue has been located and transferred to the Athletic Center Trust fund from the Facilities Use Trust fund. These transfers reduced the \$76,738 deficit to \$25,738. We are in the process of doing additional research to determine the amount of athletic center facilities use fees available in the Facilities Use Trust fund which can be transferred to the Athletic Center Trust Fund to cover the remaining deficit.*

## APPENDIX I

## Chapter 647, Acts of 1989, An Act Relative to Improving the Internal Controls within State Agencies

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Chapter 647

THE COMMONWEALTH OF MASSACHUSETTS

*In the Year One Thousand Nine Hundred and Eighty-nine*

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

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

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

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

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

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

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

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

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

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

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



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

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

House of Representatives, December 21, 1989.

Passed to be enacted, *George Luvaan*, Speaker.

In Senate, December 22, 1989.

Passed to be enacted, *William W. Budge*, President.

January 3, 1990.

Approved, *Richard K. Hahn* Governor.

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**APPENDIX II**

## The Commonwealth of Massachusetts

Office of the State Auditor  
State House  
Boston, MA 02133

Office of the Comptroller  
One Ashburton Place  
Boston, MA 02108

September 19, 2000

Legislative Leadership  
Judicial Branch Administrators  
Elected Officials  
Secretariats  
Department Heads

The State Auditor and the Comptroller are both committed to departmental improvements in the Internal Control structure of the Commonwealth. A good system of controls, as you know, assists management in meeting objectives while avoiding serious problems. Chapter 647 of the Acts of 1989, *An Act Relative To Improving Internal Controls Within State Agencies*, establishes acceptable Internal Control systems for state government operations and constitutes the criteria against which we will evaluate internal controls. With the passage of this law, we began a campaign to educate all department staff on the significant role of internal controls in department operations.

In the past few years, departments have made significant progress in the area of internal controls. Every department has certified that they have documented internal controls in the form of an Internal Control Plan. In Fiscal Year 2001, we are focusing our Internal Control Campaign on the review of department risk assessments, as documented within the departments' internal control plans. Internal control plans must, of course, include all aspects of a department's business, programmatic operations as well as financial.

A major requirement of Chapter 647 is that "an official, equivalent in title or rank to an assistant or deputy to the department head, shall be responsible for the evaluation of the effectiveness of the department's internal controls and establish and implement changes necessary to ensure the continued integrity of the system". This official, whom we refer to as the Internal Control Officer, is responsible for ensuring that the plan is evaluated annually or more often as conditions warrant.

During this annual Statewide Single Audit, we continue with our review of the Commonwealth's internal controls. We analyze and evaluate information obtained during the audit process in our continuing effort to educate agencies regarding both the need for internal controls and the risks of not having adequate internal controls in place.

To assist departments with this effort, we provide the following support activities:

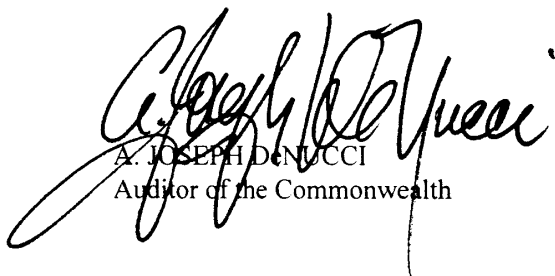
- ◆ The Office of the Comptroller offers departments free monthly training on internal controls. These classes are listed in the *OSC Training Bulletin*.
- ◆ The Office of the Comptroller provided a new document entitled the *Internal Control Guide for Managers* on the Office of the Comptroller's Web page:  
<http://www.osc.state.ma.us/>. Part II of the guide will be available shortly and will replace the current *Internal Control Guide for Departments*, currently available on the Web.
- ◆ Upon request, the Office of the Comptroller provides assistance to departments in the process of redefining or reviewing their internal control plans.
- ◆ As part of the Statewide Single Audit, auditors will review and comment upon departments' internal control plans, risk assessments, and the reporting level of the Internal Control Officers.
- ◆ We have updated and automated the Internal Control Questionnaire (ICQ) for easier submission. These changes to the ICQ will enable OSA and OSC to evaluate department internal controls and monitor their progress.

Chapter 647 also requires that "all unaccounted for variances, losses, shortages, or thefts of funds or property be immediately reported to the Office of the State Auditor" (OSA). The OSA is required to determine the amount involved and the internal control weaknesses that contributed to or caused the condition, make recommendations for corrective action, and make referrals to appropriate law enforcement officials. In order to comply with this law instances must be reported on the *Report on Unaccounted for Variances, Losses, Shortages, or Thefts of Funds or Property* and be submitted to the OSA. Reporting forms can be obtained by contacting the Auditor's office, Room 1819, McCormack State Office Building, or Web Site:

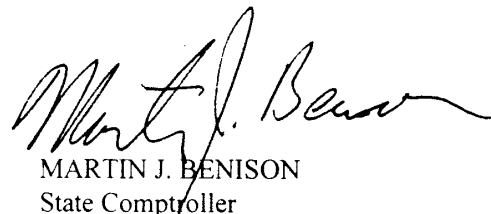
<http://www.magnet.state.ma.us/sao/>.

In conjunction with the above requirement, please note that management is responsible for financial records and systems and must inform, disclose and make representations to the auditors with regards to their management of funds, account activities, programs and systems.

The Offices of the State Comptroller and the State Auditor are committed to the goal of improving the Internal Control structure of the Commonwealth. Thank you for your cooperation and attention on this worthwhile task. Please do not hesitate to call upon the staff of either office for assistance.



A. JOSEPH DENUCCI  
Auditor of the Commonwealth



MARTIN J. BENISON  
State Comptroller