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**INDEPENDENT STATE AUDITOR'S
REPORT ON CERTAIN ACTIVITIES
OF THE BERKSHIRE COMMUNITY COLLEGE**

**OFFICIAL AUDIT
REPORT**

JULY 11, 2002

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Berkshire Community College (BCC) is one of 25 higher educational institutions in Massachusetts that are organized under Chapter 15A, Section 5, of the Massachusetts General Laws. BCC is a two-year public community college with approximately 1,683 students in day programs and 1,163 in continuing education evening courses. The college offers 29 associates degree programs, 12 certificate programs and a wide range of noncredit courses and workshops. BCC is regulated by the Board of Higher Education, which is responsible for monitoring each educational institution to ensure that state funds support measurable performance, productivity, and results. A Board of Trustees, which establishes BCC's administrative policies, governs the college, and BCC's president is responsible for implementing the policies set by the Board of Trustees.

In accordance with Chapter 11, Section 12, of the General Laws, the Office of the State Auditor conducted an audit of BCC for the period from July 1, 2000 to September 30, 2001, in accordance with applicable generally accepted government auditing standards for performance audits. The purpose of the review was to examine college policies, procedures, and internal controls over college disbursements, including administrative expenses and contracts; trust funds, including a review of whether trust funds are being expended for intended purposes; contract procurement, including consultants; vulnerable equipment and commodities; and compliance with Chapter 647 of the Acts of 1989, An Act Relative to Improving the Internal Controls within State Agencies.

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On September 26, 2000, in a unanimous vote by its board of trustees, BCC inappropriately delegated authority to the Berkshire Community College Foundation, Inc., to facilitate the sale of real estate originally bequeathed to the school in 1965, subject to a life tenancy arrangement for the housekeeper. This action was contrary to Chapter 7 of the General Laws, which requires the Commonwealth's Division of Capital Asset Management and Maintenance (DCAM) to handle real estate matters affecting state departments and organizations. In addition, the failure of the College to sell the property in a timely manner has deprived the school of funds which could have been used to provide student scholarships, as intended by the grantor. We estimated that \$5,000/year in potential scholarships were not available to BCC students because the property was not sold in a timely manner.

Also, BCC may incur approximately \$13,000 in property-related costs and back taxes on the property which is in disrepair, even though they believe they have no liability in this regard.

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Our review of BCC's compliance with the Board of Higher Education's (BHE) Endowment Incentive Program (EIP) guidelines indicated that the Berkshire Community College Foundation, Inc., received excess matching funds of at least \$35,723 from the EIP. The foundation may have received additional excess funds as a result of BCC's submission of reports to the BHE that requested matching funds for grants ineligible under EIP guidelines. In response to our audit, BCC indicated that it notified BHE immediately regarding the error and paid back the \$35,723.

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Under the terms of the employment contract with its president, BCC has supplemented the president's salary with a housing allowance and an automobile. The automobile fringe benefit includes the costs of the vehicle and all associated expenses, such as insurance, gasoline, and maintenance costs. Under both federal and state laws, the value of a portion of these benefits is taxable, and BCC is required to withhold adequate amounts of taxes to satisfy the recipient's income tax liability. However, our audit disclosed that the amount of taxes withheld and the amount of benefits reflected on income information statements submitted to the Internal Revenue Service and the Department of Revenue were understated for the president during calendar year 2000. In response to our audit, BCC indicated that the president has submitted corrected documentation and that the college will prepare an amended W2 for calendar year 2000.

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Our review of BCC's use of college credit cards and the hiring of contractors and consultants disclosed that control improvements are needed. Even though the college's internal control plan and purchasing manual establish policies and procedures for the procurement of goods and services, they are not always followed. Our audit disclosed unauthorized credit card use and usage that was not always supported by adequate documentation. We also found several instances where BCC did not provide evidence that it competitively bid for contracted services. As a result, BCC may not have received the best value for its purchases and may have acquired unnecessary goods and services. In its response to our audit, BCC indicated that it has implemented new controls and policies regarding the use of credit cards. Also, BCC indicated that it will establish procurement procedures and maintain complete files of all proposals, contracts, and related documentation.

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Our audit disclosed that BCC needs to improve its controls over and monitoring of its furniture and equipment inventory, which as of May 1, 2001 was valued at over \$3.2 million. Specifically, we noted that equipment was not safeguarded, the inventory listing was inaccurate, and Chapter 647 reports (which notify the OSA of a theft or loss of property) were not always filed. By not following established guidelines, BCC's inventory is susceptible to theft, loss, or misuse that could go undetected. In its response, BCC indicated that it (1) has modified its automated inventory tracking system; (2) will comply with the requirements of Chapter 647 and immediately report losses, variances, shortages and thefts of funds or property to the OSA; and (3) will issue a policy memorandum to make college personnel more aware of the importance of adhering to the policies and procedures detailed within its internal control plan.

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INTRODUCTION

Background

Berkshire Community College (BCC) is one of 25 higher educational institutions in Massachusetts organized under Chapter 15A, Section 5, of the Massachusetts General Laws. BCC is a two-year public community college with approximately 1,683 students in day programs and 1,163 in continuing education evening courses. BCC offers 29 associates degree programs, 12 certificate programs, and a wide range of noncredit courses and workshops. BCC is regulated by the Board of Higher Education, which is responsible for monitoring each educational institution to ensure that state funds support measurable performance, productivity, and results. The Board of Trustees is the governing body and establishes BCC's administrative policies; BCC's president is responsible for implementing the policies set by the Board of Trustees.

According to BCC financial reports, revenues totaled \$22,015,043 for the fiscal year ended June 30, 2001, consisting of \$4,655,401 from tuition and fees, \$11,676,276 from state appropriations, \$1,122,479 from auxiliary enterprises, \$1,567,476 from state grants and contracts, \$1,990,503 from federal grants and contracts, and \$1,002,908 from other sources. Expenditures for the same period totaled \$22,402,744, which included \$9,934,982 for instruction, \$1,605,437 for academic support, \$2,484,881 for student services, \$3,025,039 for institutional support, \$1,669,334 for operation/maintenance, \$2,446,882 for scholarships and fellowships and \$1,236,189 for auxiliary enterprises.

Audit Scope, Objectives, and Methodology

In accordance with Chapter 11, Section 12, of the General Laws, the Office of the State Auditor has conducted an audit of BCC for the period July 1, 2000 to September 30, 2001 in accordance with applicable generally accepted government auditing standards. The purpose of the review was to examine college policies, procedures, and internal controls, particularly controls over college disbursements, including administrative expenses and contracts; trust funds, including a review of whether trust funds are being expended for intended purposes; vulnerable equipment and commodities; contract procurement, including consultants; and compliance with Chapter

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

To accomplish our objectives, we:

- Reviewed BCC'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 BCC officials.
- Reviewed selected state, federal, and trust fund disbursement transactions in order to determine whether BCC procedures were being adhered to and funds were expended for intended purposes.
- Tested procurement transactions and physically examined the inventory system.
- Reviewed and followed-up on all items reported in compliance with Chapter 647 of the Acts of 1989.
- 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 the Chairman of the College Board of Trustees, the College's President, Dean of Administration, Dean of Research, Planning and Development and Executive Director of the BCC Foundation, and the Chairman of the BCC Foundation.

Based on our audit, except as noted in the Audit Results section of the report, we have determined that BCC maintained its financial information in accordance with established criteria, adhered to specific financial and programmatic compliance requirements, and utilized an internal control structure that is suitably designed and implemented to achieve the desired control objectives.

AUDIT RESULTS

1. POTENTIAL SALE OF REAL ESTATE BEQUEATHED TO COLLEGE

On September 26, 2000, in a unanimous vote by its board of trustees, Berkshire Community College (BCC) gave the Berkshire Community College Foundation, Inc., authority to facilitate the sale of real estate previously bequeathed under a will. This action was contrary to Chapter 7 of the Massachusetts General Laws, which requires the Commonwealth's Division of Capital Asset Management and Maintenance (DCAM) to handle all real estate matters affecting any state department or organization. Specifically, Chapter 7, Section 39B, of the General Laws, states, in part:

The commissioner of capital asset management and maintenance shall be responsible for . . . acquisition, allocation and disposition of real property . . .

In addition, Chapter 7, Section 40E, of the General Laws states, in part:

Real property, record title to which is held in the name of a state agency or the board of trustees of a state agency or similar board of a state agency, shall be deemed to be real property of the commonwealth.

Moreover, Chapter 7, Section 40F, of the General Laws states, in part:

The commissioner shall acquire interest in real property on behalf of the commonwealth for the use of state agencies by gift, purchase, devise, grant, eminent domain, rental, lease, rental-purchase or otherwise.

BCC may incur approximately \$13,000 in property-related costs and back taxes and is now determining whether it is worthwhile to accept the property, which is in disrepair. The college hired a real estate appraiser who valued the property at \$100,000. Also, BCC lost the opportunity to earn interest of approximately \$5,000/year, which could have been used for scholarships to BCC students as intended.

Real estate was bequeathed to BCC in 1965 so that the school could sell the property and place the proceeds in a fund to be used for annual student scholarships. The grantor's will required that the property be converted into cash and held in a fund in his name to be used for scholarships for worthy students as determined by BCC's faculty. The bequeath was first subject to a life tenancy arrangement for his housekeeper, who had the right to live on the

property until her death or until she stopped paying the real estate taxes thereon. When the housekeeper died in 1996, back taxes of \$9,093 were owed dating back to 1994. As a result of the taxes not being paid in accordance with the terms of the life tenancy agreement, BCC was legally entitled to the property in 1994.

BCC officials were made aware of the real estate bequeath on at least four separate occasions; (1) in 1965 when the testator's will was filed in probate court; (2) in 1969 when the probate court proceeding was finalized; (3) in 1993/1994, when college officials were telephoned by an attorney representing the housekeeper to say that the property was theirs (upon advice of legal counsel, BCC opted to verbally decline the legacy because of the property's deteriorating state); and (4) in 1996, when college officials were provided a copy of the housekeeper's death certificate.

The September 26, 2000 vote to have the foundation facilitate the sale came after a presentation by BCC's Dean of Research, Planning, and Development, who also serves as the Executive Director of the foundation. Although BCC previously declined the bequeath and decided not to proceed any further, the dean stated that BCC was given a "second chance" on the property when she received notification in August 2001 from a person interested in buying the property. The dean's plan was to market the property as land to circumvent Title V inspections and other issues relating to the property's state of disrepair. The foundation also intended to be the holder of the scholarship fund once the property was sold, rather than BCC. The dean originally attempted to have the property sold by June, 2001, but indicated that this date was extended to the fall of 2001 because a foundation board member, who is also an attorney, was doing the legal work pro bono, and the dean "did not want to push the issue". She also stated that it was in the foundation's best interests to carry over the sale to fiscal year 2002, because the sale proceeds would then be eligible for state matching funds under the Endowment Incentive Program (see Audit Result No. 6).

However, while the dean was attempting to sell this property, BCC did not have legal title to it. According to Registry of Deeds records, the title to the property remains in the name of

the testator, and the tax collector of the town of Washington identified that the real estate tax bills are also in the name of the testator. The foundation has applied for a tax abatement on the property even though it is not the legal owner. According to a September 24, 2001, memorandum we received from the dean regarding the property, she intends to notify potential buyers and property abutters that they may bid on the property.

We noted that the foundation has incurred \$13,000 in expenses that will ultimately be passed on to BCC, including \$3,300 for surveying the property, \$150 for a real estate appraisal, a \$457 lien on the property by the town for work done boarding up the windows and doors of the house, and \$9,093 in back taxes. According to the dean, proceeds from the sale will be used to reimburse the foundation for the survey and appraisal costs, and also cover the back taxes and lien.

The potential for hazardous materials on the property, and the legal ramifications of selling the property “as is” should be evaluated. We discussed these issues with a DCAM official, who indicated that DCAM has the staff equipped to deal with these and any other issues affecting the acquisition, disposition, or maintenance of Commonwealth-owned real estate. DCAM also has qualified appraisers and land surveyors on staff that are able to provide the necessary services over property transactions. Moreover, DCAM would ensure that the property would be sold under a publicly bid process to achieve the maximum proceeds from the sale. The notification process for the sale would be done through a public offering in accordance with applicable laws, rules, and regulations.

While our audit was in progress, the Board of Higher Education’s General Counsel contacted DCAM on behalf of the college and indicated that they are reviewing the will and other documents in order to determine the best way to facilitate the sale.

Recommendation

BCC should continue to work with DCAM regarding the sale of the property. The proceeds of the sale should be paid into a fund held by BCC as required by the will, and the resulting scholarships should be distributed in accordance with the will.

Auditee's Response

The college notified DCAM immediately upon learning from the auditors in October that it was DCAM's role to sell the land. The Dean of Administration and Finance and the college's legal counsel will continue to work with DCAM to facilitate the sale of this and all such real estate matters in accordance with Chapter 7 of the General Laws of the Commonwealth. . . .

At this time there is no liability for the taxes since the college does not have title to the land. . . .

There is no basis for the . . . "estimated . . . potential scholarship (figure)." . . . There is no way to determine how long it would have taken DCAM to finalize the sale. . . . There is no way to determine the proceeds of the sale or the earnings on the proceeds.

Auditor's Reply

BCC's statement that it is not responsible for the back taxes owed to the Town of Washington is incorrect. Our review of written correspondence (one from the dean to the tax collector for the Town of Washington and another from a BCC Foundation board member to legal counsel for the Town of Washington) indicated that BCC would pay back taxes owed on the property, and it was these letters that convinced town officials to not place the property into tax title. Specifically, these letters state, in part:

December 6, 2000 from the dean to the tax collector:

We have received a copy of the tax bill associated with the property but cannot cover this bill until the property is sold, at which time we will pay the back taxes.

February 19, 2001 from the foundation board member to the town's legal counsel:

[Name of tax collector] and Town counsel [name of counsel] were in the process of placing a lien of the property. [Name of tax collector] seemed willing to agree not to place a lien on the property since she had a letter from [name of dean] stating that the taxes would be paid when the property is sold. This will be within the next six months I am sure. I just wanted to connect with you to make sure that you were in agreement with this. Certainly, the Town would not have a problem collecting from the College if they did not pay, and what lawyer is going to let a Buyer accept title without the taxes being paid?

The \$5,000/year estimate for potential student scholarships is a fair and conservative figure. If BCC acted on the property in 1994 (when it was legally entitled to the property) and properly notified DCAM, the property would likely have been sold within a two-year period

and the \$100,000 sales proceeds (based on the appraisal and both written and verbal statements from the Dean as to the land value) could have been conservatively invested in bank CD's that were then yielding a 5% annual return. This would have provided approximately \$5,000 annually for student scholarships.

2. NONCOMPLIANCE WITH BOARD OF HIGHER EDUCATION'S ENDOWMENT INCENTIVE PROGRAM

Our review of BCC's compliance with the Board of Higher Education's (BHE) Endowment Incentive Program (EIP) guidelines indicated that the Berkshire Community College Foundation, Inc., received excess matching funds of at least \$35,723. The foundation also may have received additional excess funds as a result of BCC's submission of reports to BHE that requested matching funds for grants that were ineligible under EIP guidelines.

The EIP was enacted in June 1996 to encourage private fundraising by the Commonwealth's public higher education institutions by providing state matching support. Subject to appropriation, the Commonwealth would match private donations up to \$1 for each \$2 raised. Maximum state matching contribution over the life of the program was capped at \$25 million for the university system, \$22.5 million for state colleges (\$2.5 million each), and \$15 million for community colleges (\$1 million each). The total state matching contribution support was capped at \$62.5 million. Through fiscal year 2001, the Commonwealth has provided \$50,318,365 in matching funds under the EIP.

Chapter 15A, Section 15E, of the General Laws states, in part:

Private contributions to the endowment for purposes of this program shall be limited to donations to an endowment for academic purposes including, but not limited to, scholarships and endowed chairs.

In addition, BHE's fiscal year 2000 and 2001 guidelines for this program contain the following provisions:

- Cash donations from private sources to an institution's annual fund or a foundation's endowment for academic and scholarship purposes are eligible for matching funds.

- Gifts-in-kind are ineligible for matching.
- Programs shall be administered by institutions' foundations in accordance with procedures established by local boards of trustees in accordance with the statute.
- Institutions should submit quarterly reports and requests for matching funds to the House and Senate Committees on Ways and Means (copies to the BHE) in accordance with the above-mentioned procedures certifying the amount and source of private funds raised.
- The BHE disburses matching funds to the institutions' recognized foundation.

For fiscal year 2001, BCC reported \$344,192 in qualifying donations to its foundation and received \$169,341 in state matching funds. BCC has received a total of \$818,898 in matching funds from the Commonwealth since EIP's inception in fiscal year 1997.

Our review of supporting documentation for reports submitted to the BHE revealed that BCC reported the same \$71,445 amount on two separate reports certifying the value of donations made to the foundation. The first report, dated July 10, 2000, covered the period January 1, 2000 to June 30, 2000, whereas the second report dated February 14, 2001, covered the period July 1, 2000 to December 31, 2000. As a result of this duplication, the foundation received \$35,723 in excess funds from the BHE. Furthermore, our review of supporting documentation indicted that BCC was including in its submissions to the BHE various grant funds that it received. The grant funds to BCC were ineligible for matching purposes, as confirmed by a BHE official who reiterated that EIP guidelines only provide matching of "cash donations from private sources to an institution's annual fund or a foundation's endowment for academic and scholarship purposes." We also noted that BCC had included \$29,000 received from a local soccer organization to construct a scoreboard and lighting at BCC's soccer fields, which are used by the organization to host a soccer tournament. Funds of this nature are not eligible for matching purposes and, therefore, should not have been reported to the BHE. BCC indicated that these funds would be returned to BHE.

As a result of our audit, in a letter dated December 21, 2001, the BHE requested that the foundation return funds totaling \$35,723. The BHE received the funds on January 8, 2002

for deposit in the Commonwealth's General Fund. Also, BCC indicated it would review reports submitted for the period July 1, 1996 to the present and make appropriate adjustments for any grants funds it previously reported as being eligible for state matching funds since BHE has informed us that grants to the college are ineligible for matching under program guidelines.

Recommendation

BCC should ensure that future as well as previously submitted reports to the BHE reflect only those funds raised that are eligible for Commonwealth matching contributions under the General Laws and EIP guidelines. The Commonwealth should be reimbursed for any matching funds provided on the college's reporting of \$29,000 received from a local soccer organization to construct lights and a scoreboard at the college's soccer field.

Auditee's Response

The college notified the BHE immediately upon learning of its reporting error in October. When the BHE determined the appropriate method of repayment, the Foundation mailed a check on January 4, 2002 for \$35,723. The endowment incentive program is no longer in existence. Should future programs be initiated the college will ensure eligibility of all submissions.

3. INSUFFICIENT INCOME TAXES WITHHELD FOR FRINGE BENEFITS PROVIDED TO BCC'S PRESIDENT

Our audit disclosed that the amount of taxes withheld and the amount of benefits reflected on income information statements submitted to the Internal Revenue Service (IRS) and the Department of Revenue (DOR) were understated for fringe benefits paid to BCC's president during calendar year 2000. Under the terms of the president's employment contract, BCC has supplemented the president's salary with a housing allowance and a leased automobile. The automobile fringe benefit includes the cost of the vehicle and all related expenses, such as insurance, gasoline, and maintenance costs. Under both federal and state law, the value of a portion of these benefits is taxable, and BCC is required to withhold adequate amounts of taxes to satisfy the recipient's income tax liability.

Our review of the benefits paid to the president for calendar year 2000 disclosed that the value of benefits paid and reported and the amounts of taxes withheld were as follows:

	<u>Benefits Paid</u>	<u>Benefits Reported</u>	<u>Withholding Taxes</u>	
			<u>Federal</u>	<u>State</u>
Housing Allowance	\$15,000	\$15,000	\$1,679	\$731
Auto Lease Payment, Vehicle Maintenance, and Insurance	7,155	1,650	-	-
Gasoline	<u>1,494</u>	<u>212</u>	_____	_____
Total	<u>\$23,649</u>	<u>\$16,862</u>	<u>\$1,679</u>	<u>\$731</u>

IRS regulations determine how the value of fringe benefits and the withholding of taxes are to be reported. These regulations establish the assessment of penalties for organizations that do not withhold the proper amount of taxes and do not correctly report the value of benefits paid to its employees, and DOR has adopted these IRS regulations.

IRS Publication No. 15, Employer's Tax Guide, states that wages subject to federal employment taxes include fringe benefits, no 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, an employee must have paid or incurred deductible expenses while performing services as an employee of the employer.
- Expenses must be adequately accounted for by the employee 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 the 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. 463 describes the records that must be maintained to be considered “adequately accounted for” by an employer, including the maintenance of a record of all business use and miles driven as well as the maintenance of a diary, log, or similar record. Publication No. 15 also states that all fringe benefits provided to an employee are considered taxable wages when an adequate accounting of such benefits is not made.

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 not doing so may result in a penalty against the employer.

Our review of the fringe benefits paid to the president disclosed the following:

a. Automobile Lease Payment, Vehicle Insurance, and Maintenance

Calendar year 2000 payments by BCC totaling \$7,155 were reported to the IRS and DOR at a rate of 20% of the amount from the annual automobile lease value table per IRS regulations. The president reported that 3,860 of the miles driven were for personal use and that 15,438 miles were driven for business use.

The president did not maintain any record or log of personal versus business use of the vehicle during the calendar year. Therefore, we reviewed monthly day planners, turnpike usage statements, payroll records, vehicle service records, and gas charge slips to verify the accuracy of the 20% rate reported. Based on our review, and in the absence of a vehicle log maintained by the president, we estimated that the vehicle was used 51% of the time for personal reasons, including commuting from home to work; traveling to medical and other personal appointments; and weekend, holiday, and vacation travel.

We reviewed this matter with the president, who subsequently redetermined the extent of her personal use of the leased vehicle and stated that she “clearly underestimated personal use,” determining it to be 41% rather than 20% for calendar year 2000.

b. Gasoline Expenses

We noted that only \$212 (14%) of the \$1,494 in gasoline expenses received by the president was reported as a taxable benefit. The president could be liable for the payment of additional taxes on these underreported fringe benefits. Moreover, BCC may be liable for the assessment of penalties by the IRS and DOR for not making the appropriate withholding payments.

Recommendation

BCC should:

- Prepare an amended Form W-2 reflecting the correct value of fringe benefits for its president for calendar year 2000.
- Review the president’s personal usage reports for all prior periods and make the necessary amendments to tax reporting forms as directed by the IRS and DOR.
- Require the president to maintain a vehicle log or similar record of all business use and miles driven pertaining to her automobile in accordance with IRS and DOR requirements.

Auditee’s Response

The president has submitted corrected documentation and the college will prepare an amended W2 for 2000.

The president will continue to use the method of reporting personal use based on a percentage of the total mileage. This percentage will be based on her appointment calendar and will accurately reflect personal use.

Auditor’s Reply

BCC should review previous years’ benefits paid to the president and prepare and submit amended W2’s to the IRS and DOR if necessary.

We again recommend that the president maintain a vehicle log or similar record of business and personal use rather than estimating this figure.

4. PROCUREMENT PRACTICES REGARDING THE USE OF CREDIT CARDS, CONTRACTORS, AND CONSULTANTS NEED IMPROVEMENT

Our review of BCC's use of college credit cards and the hiring of contractors and consultants disclosed that control improvements are needed. Specifically, we found that, although BCC's internal control plan and purchasing manual establish policies and procedures for the procurement of goods and services, they are not always followed. As a result, BCC has little assurance that it received the best value for its purchases and that the goods and services acquired were necessary.

According to BCC's internal control plan, the purchasing objective is to ensure that the acquisition of goods and services are best suited to the college's requirements at competitive prices. It also proposes "to make reasonable efforts to solicit competitive quotations from vendors as appropriate within the market for particular goods and services."

BCC has also compiled a comprehensive purchasing manual that sets detailed policies and procedures covering a variety of purchasing matters. The manual sets forth clear lines of responsibility as well as the consequences of not adhering to the established policies and procedures. Excerpts from this manual follow:

- *Whenever practical or when required by law, the purchasing department is to obtain public bids to realize maximum value for the expenditure of college funds in purchasing materials and services.*
- *Individuals who initiate requisitions for their departments must assume responsibility for various procedural requirements: (1) anticipate the needs within the department in order that **a reasonable amount of lead-time** is allowed. When planning purchases it is the requisitioner's responsibility to allow sufficient lead-time for public bidding when applicable and for the processing of the purchase order by the Purchasing Department.*
- *No cost center, department, or individual is authorized to commit the college for materials or services without the prior approval of the Purchasing Department. Purchases, agreements to purchases, or changes to existing purchase agreements made without prior approval from the Purchasing Department **will not be***

honored by the college and it will become the financial responsibility of the individual who incurred the commitment.

- *It is against **Commonwealth regulations and BCC policy to prepay goods or services**, with the exceptions of memberships, conference fee, plane fares, and books or subscriptions.*

Specific issues regarding credit cards and contractors and consultants are discussed below.

a. Controls over Credit Cards

Although BCC has a comprehensive purchasing manual, there are no written policies or procedures governing college credit cards, which leaves the process exposed to potential misuse as well as uneconomical purchasing.

During fiscal year 2001, BCC made \$16,984 in credit card payments to two credit card companies: American Express and MBNA. We determined that improvements are needed in the distribution process of BCC credit cards. Although the Dean of Administration and Finance obtained the American Express card for the president at her request, the president then authorized an American Express card for the Dean of Research, Planning, and Development/Executive Director of the Foundation. Subsequently, the Dean of Research, Planning, and Development/Executive Director of the Foundation applied for and received seven MBNA credit cards, which were then given to the president, deans, and an assistant dean. However, when the cards were distributed, no instructions, policies, and procedures governing their usage were provided, and the dean made no written record of who received what card or what the credit limits were. We received a listing of the MBNA cards, which detailed to whom the cards had been issued, what their account numbers were, and what the credit limits were. However, we found that this list was inaccurate; for example, the list indicated that each cardholder had a \$10,000 credit limit, when in fact the limit was \$2,000 (except for BCC's president, whose limit was \$3,000). The list also contained erroneous account numbers along with misinformation on when the former Dean of Academic Affairs' account was closed.

Regarding the use of credit cards, since there are no written policies, usage is subject to the holder's interpretation. For example, we found five instances, amounting to \$1,691, in which individuals who were not the authorized cardholders made the following purchases:

<u>ITEM</u>	<u>AMOUNT</u>
Key Chain Flashlights	\$1,166
Books	77
Frames and Booklets	348
Novell Training Test	<u>100</u>
Total	<u>\$1,691</u>

We spoke with the authorized cardholders about these purchases, and they provided sufficient documentation to indicate that the purchases were necessary expenses. However, our tests of 34 credit card payments identified 13 payments that were insufficiently documented, which was mostly due to a lack of conference registration forms that indicate the extent to which meals were provided and the dates of the conferences. Without credit cards to prepay for conference fees, conference attendees would have to follow college policy and submit a check request form with the conference registration form. We also noted three instances in which finance and late payment charges were made, totaling \$108. Lastly, we identified that 20 of the 34 credit card payments were not properly classified in the accounting records. For example, out-of-state travel was often charged for in-state trips due to credit card users not submitting accurate requisition forms so that valid encumbrances could be set up. As a result, expenses were charged to open encumbrances.

Securing credit is a function of BCC's finance department and not of the planning, research, and development department. The Office of the Dean of Administration and Finance has staff qualified to handle such matters.

As a result of our review, BCC has implemented new policies. Specifically, all credit cards, including gasoline, telephone, purchasing, and Master Card, Visa, American Express, and Discover credit cards, are to be authorized by the president and/or the Dean of Administration and Finance/Chief Fiscal Officer, who is responsible for maintaining a current list of credit cards, their account numbers and expiration dates, and the names of

persons to whom cards have been issued. Each individual must verify that he or she has received the card. Credit card purchases shall be made in accordance with policies and procedures established by the Office of the State Comptroller, state bidding and purchasing laws, BCC's purchasing department, and trust fund guidelines.

b. Contractor and Consultant Hiring

BCC did not always follow its purchasing policies and procedures when hiring contractors and consultants, as detailed below.

- Professional Search Consultant: During fiscal years 2001 and 2002, BCC paid \$47,000 to a consultant hired to provide professional search services for identifying, recruiting, screening, interviewing, and hiring two deans. However, BCC did not provide any evidence of bidding for the service, or even receiving informal quotes or proposals from competing businesses. Moreover, the contracts signed by the consultant and BCC required full payment within 30 days of the contract's being signed, regardless of the search process stages, contrary to Commonwealth regulations and BCC's purchasing policy, which preclude the practice of prepaying for goods or services. As of October 31, 2001, BCC had not filled either of these positions, yet the search consultant had been fully compensated. BCC indicated that it selected this particular service because of its success with previous searches at BCC and elsewhere in the Commonwealth and because it specializes only in searches for executive positions at community colleges.
- Design Contractor: BCC hired a design firm to redesign its enrollment and student life offices. The contractor was paid \$8,160 for his work, which also included schematic layout for furniture placement. However, BCC did not provide any proposals, quotes, or bids for the project. During the approximate two-year period from when the design was completed to when BCC hired additional designers and builders to complete the renovations, \$22,584 worth of office furniture that had been stockpiled two years earlier did not fit the floor plan design and remained in storage as of September 30, 2001. BCC had made some changes to the enrollment offices after the furniture was ordered. BCC agrees that the furniture was purchased prior to construction; however, after the purchase the college received approval for new construction to move the business office to another location. Therefore, some of the pieces purchased were not used for the first floor. Subsequent to our audit fieldwork, the president stated, all the furniture has been entered into the college inventory and used in other locations.
- Information Technology Contractors: We reviewed payments made to contractors working in BCC's Information Technology (IT) Department, whose projects involved Web site development, systems testing, infrastructure wiring, and consultation services. Each of the areas are discussed below.

- a) Web Site Development: Questionable contracts included a vendor who was paid \$10,000 to consult and develop technological capability to provide student-faculty interaction on the college Web site, and an individual who was paid \$15,400 for Web site development. Both were hired without BCC's putting out to bid or soliciting proposals for the work. According to the Dean of Research, Planning, and Development/Executive Director of the foundation, both contractors had already donated much time to the college's Web site development, so she felt it necessary to continue their contract. It should be noted that the president of the firm with the \$10,000 contract also serves as a director on the foundation.
- b) Systems Testing: BCC paid \$3,920 to a vendor for the "testing and implementation of Border Manager and related systems." However, there was no evidence that the work was put out to bid or how BCC decided on this vendor. According to paperwork on file, the requisition for the work was completed after the contract was signed, which is not in compliance with the procedures outlined in BCC's purchasing manual.
- c) Infrastructure Wiring: BCC paid \$94,139 to a firm for infrastructure improvements. According to the purchase requisition, the work was described as "Infrastructure hardware including Cabeletron Smartswitch Router, 24 port 10/100 base TX smart stack Ethernet switches, accompanying accessories, lancare support contract, and installation (per quote H10014)." BCC indicated that the person who solicited the proposal and managed the project is no longer with the college and did not leave any documentation, such as requests for proposals, quotes, bids, or other documents that would indicate that the college received the best value.
- d) Consultation Services: BCC paid a vendor \$13,000 for information technology service and support. However, BCC was unable to provide any documentation to indicate that the project was bid or that it received what was required in the contract. We requested either the bids for these projects or the applicable consortium contract used to procure the services from the Dean of Research Planning and Development, who was responsible for this work. We were informed that the projects were not put out to bid and that, according to its legal counsel, BCC is not obligated to comply with competitive bid regulations when procuring services. However, the counsel's office encourages the college to comply with the state's procurement regulations.

The Office of the State Comptroller's Internal Guide for Commonwealth Departments, Volume II, Chapter III, Procurement and Contracting, outlines the advantages of competitive bids, as follows:

The Commonwealth's procurement system empowers departments to procure commodities and services at the "best value" for the department and the Commonwealth. Procurements will be considered in the best interest or the best

value to a department or the Commonwealth when procurement supports and balances the following Procurement Principles:

- *Achievement of required outcomes, generates the best quality economic value*
- *Performed timely*
- *Minimized the burden on administrative resources*
- *Expedites simple or routine purchases*
- *Allows flexibility in developing alternative procurement and business relationships*
- *Encourages competition*
- *Encourages the continuing participation of quality contractors and supports the Commonwealth and department procurement planning and implementation*

Timely and periodic procurement results in positive benefits that are achieved in prices, quality, customer services, and public benefits. Moreover, competition among contractors promotes the best commodities and services at the lowest possible cost.

Recommendation

BCC needs to strengthen its controls over the use of credit cards and the procurement of contractors and consultants. BCC should establish specific control objectives over the use of credit cards. BCC should also reaffirm its commitment to securing the best value for its purchases, and it should reiterate the college's procurement policy and procedures to all personnel involved in procuring goods and services. In addition, BCC should refrain from contracting with any businesses that are directly or indirectly related to the college without making sure all procedural requirements are followed. Furthermore, BCC should establish procedures and maintain complete files of all proposals, contracts, and related supporting documentation.

Auditee's Response

As noted in the results, BCC has already implemented new controls and policies regarding the use of credit cards.

In addition, the Dean of Administration and Finance has formed a procurement team consisting of the Business Manager, the College Buyer, and the Assistant Facilities Director. While the Commonwealth's uniform rules and standards governing

procurement do not apply to Level II Non-Executive Departments (Community Colleges), BCC has elected to comply with Section 801 CMR and will henceforth adhere to the purpose, application, and authority of the rules and standards. BCC will reaffirm its commitment to securing the best value for its purchases, and reiterate by internal memorandum the college's procurement policy and procedures to all personnel involved in procuring goods and/or services. Training will be offered. BCC will refrain from contracting with any business that are directly or indirectly related to the college without making sure all procedural requirements are followed. BCC will establish procedures and maintain complete files of all proposals, contracts and related supporting documentation.

5. IMPROVEMENTS NEEDED IN INVENTORY CONTROLS

Our audit disclosed that BCC needed to improve its controls and monitoring over its furniture and equipment inventory. Specifically, we noted that equipment was not safeguarded; the college inventory listing was inaccurate; and Chapter 647 reports, which notify the Office of the State Auditor of thefts or losses of property, were not always filed. By not following established policies and procedures, BCC's inventory, which as of May 18, 2001 was valued at \$3,244,429, was vulnerable to theft, loss, or misuse.

Chapter 647 of the Acts of 1989 (See Appendix I), the Internal Control Act, requires that all state agencies have in place adequate internal control systems. The Internal Control Act established minimum levels of quality acceptable for internal control systems and further required state agencies to have in place a documented internal control plan.

In response to the requirements of the Internal Control Act, BCC officials established an internal control plan and implemented specific policies and procedures to control and monitor its property and equipment. It also made BCC's storekeeper responsible for the control of all inventory on the college campus. Specific inventory policies and procedures adopted by BCC include:

- Notifying the storekeeper of any moves of equipment, furniture or fixtures, from one office to another.
- Requiring that equipment request forms be completed for all items that are taken off campus.
- Conducting periodic campus-wide physical inventories.
- Maintaining a computerized tracking system for its furniture and equipment.

- Establishing minimum dollar thresholds for inventory items by requiring the inventory of items valued at \$1,000 and over, except electronic equipment whose inventory value is set at \$250 or more.
- Reporting any unaccounted-for items to appropriate authorities in a timely manner.
- Identifying inventory items with proper inventory tags.

The Internal Control Act also requires state agencies and the Office of the State Auditor to take specific actions upon the discovery of any unaccounted-for variances, losses, shortages, or thefts of funds or property, as follows:

All unaccounted for variances, losses, shortages or thefts of funds or property shall be immediately reported [Chapter 647 report] 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.

We sampled for testing 44 items valued at \$54,970 from BCC's inventory list. Additionally, we selected 25 items valued at \$36,985 that we physically observed on campus to trace them back to the inventory list. The results of our audit tests identified the following inventory control issues:

- Equipment Was Not Adequately Safeguarded: In accordance with Chapter 647, we were notified by BCC that a \$3,499 digital camera was reported missing. In its report, college officials indicated that the camera was stored in an unlocked cabinet that was accessible by at least 25 individuals. Our review noted that, although significant improvements were made to safeguard media department equipment by limiting unauthorized access, additional improvements were needed to safeguard vulnerable equipment located in other campus departments. During our review, we physically observed improvements made in the media department. We found that locks were installed on cabinets, door locks were changed, and an alarm system was installed. The media department also developed a form to account for equipment given out for daily classroom use.

Although these control improvements were made in the media department, our audit tests of inventory disclosed that other digital cameras and laptop computers, valued at \$59,428, were not adequately safeguarded. For example, we found a digital camera and laptop computer stored in a file cabinet in an employee's office. The file cabinet

did not have a lock, and the office was often unlocked, unattended, and therefore easily accessible by others. Moreover, the employee stated that, although the digital camera is lent out to members of the college community, no record is kept of these transfers. Another example we identified involved eight laptop computers assigned to the Dean of Academic Affairs Office, which are used by faculty on an “as-needed” basis. Although a record is kept of laptop assignment, the inventory identification number or serial number is not listed. As a result, it took at least a week to locate two of these computers because the sign-out sheet did not contain the necessary information. Subsequent to our tests, the Dean of Academic Affairs Office provided us with a revised sign out sheet. The sheet now contains the BCC tag number and serial number and is computerized for easy tracking.

- College Inventory Listing Was Not Accurate: Our audit tests disclosed that 15% (10 of 69) of the items tested were in locations different than the inventory list. These items, valued at \$15,271, included five computers, two televisions, and a digital-camera. Additionally, some items could not be located. We identified that 11% (five of 44) items tested from the inventory list to the reported location could not be found. These items, valued at \$4,079, included three computers, a color monitor, and a keyboard. We discussed this issue with the storekeeper, who indicated that departments do not always notify him when items are moved between offices, and he becomes aware of the changes only when doing a physical inventory, at which time he adjusts the perpetual inventory record. He also indicated that equipment is constantly in circulation, particularly computer equipment, because campus offices are undergoing renovations and being temporarily set up in other areas on campus. As a result, he has been inundated with upwards of 200 changes a day that he inputs into the automated tracking system.
- Chapter 647 Reports Were Not Filed: With the exception of one Chapter 647 report, we found that college officials did report unaccounted-for property to the Office of the State Auditor. As part of our inventory test, we looked at items deleted from the active inventory record and found that 11 items valued at \$10,920 were removed from the active inventory file and placed in an inactive file known as the "dead file." Of the 11 items listed, 10 were not reported as required by Chapter 647. The list of missing items appears below:

<u>Description</u>	<u>Last Time Physically Identified</u>	<u>Date Placed in Dead File</u>	<u>Value</u>
CPU	April 23, 1996	November 8, 2000	\$1,200
Keyboard	April 23, 1996	November 8, 2000	149
CPU	April 23, 1996	November 8, 2000	1,200
Laser Writer Printer	April 23, 1996	November 8, 2000	971
Laser Writer Printer	April 23, 1996	November 8, 2000	971
Closed Caption Monitor	March 13, 1997	November 8, 2000	196
Camcorder	June 20, 1991	December 12, 2000	995
Digital Camera*	July 20, 2000	December 12, 2000	3,499
Portable CD/Cassette Player	January 18, 2001	May 24, 2001	259
17-inch Monitor	September 8, 2000	May 24, 2001	280
CPU	April 14, 2000	May 24, 2001	1,200
Total			<u>\$10,920</u>

*Chapter 647 Report filed

According to the storekeeper, the six items placed in the dead file on November 8, 2000 and last inventoried on April 23, 1996 were part of a computer lab at a local high school. He believes that at some point after April 23, 1996, the high school disposed of the equipment because it was obsolete. Of the remaining five items, incident reports were filed with campus security for four items. The storekeeper was unaware that Chapter 647 reports were required to be filed.

Although BCC has detailed written procedures on inventory control, the conditions cited above indicate that it needs to improve its control and monitoring of its fixed-asset inventory and enforce its own internal control procedures for inventory. As a result, there is limited assurance that the BCC's fixed assets are being properly recorded, reported, safeguarded, and used for intended business purposes.

Recommendation

In order to adequately control and monitor its property and equipment inventory, BCC needs to make college personnel more aware of the importance of adhering to the policies and procedures detailed within its internal control plan. BCC should also consider modifying its automated inventory tracking system so that changes can be made in a more timely manner, which could be accomplished by having location changes made at the department level in a "pending status" until the storekeeper can verify and accept the

transfer. The college should comply with the requirements of Chapter 647 and immediately file Chapter 647 reports for losses, variances, and thefts of funds or property.

Auditee's Response

The new Dean of Administration and Finance will issue a policy memorandum to make college personnel more aware of the importance of adhering to the policies and procedures detailed within its internal control plan.

BCC has already modified its automated inventory tracking system so that changes can be made in a timelier manner.

The college will comply with the requirement of Chapter 647 and immediately file Chapter 647 reports for losses, variances, and theft of funds or property.

6. INADEQUATE DOCUMENTATION OF PAYROLL AND ATTENDANCE RECORDS

We reviewed supporting documentation for the compensation paid to the Dean of Research, Planning, and Development/Executive Director of the Berkshire Community College Foundation, Inc., and found that this person's attendance records did not adequately denote the time spent on college matters versus the time devoted to foundation matters. Therefore, BCC cannot be assured that this person did not exceed the 25% time commitment limitation to the foundation required by Chapter 15A of the General Laws, which restricts the amount of time that can be spent by college employees on foundation matters.

Chapter 15A, Section 37(d), of the General Laws states, in part:

The board of trustees of a institution which a foundation supports is authorized to permit the use without compensation of facilities and personnel services of the institution by the foundation; provided, however, that in no event shall an employee of the institution spend more than twenty-five percent of his work hours engaged in services for a foundation.

Within the dean's job description, the general statement of duties indicates that the employee "also serves as Executive Director of the Foundation, reporting to the president of the Board of the Foundation." The job description also contains the following examples of responsibilities and duties relating to the foundation:

- Prepares all materials for the foundation's board of directors and serves ex officio on the investment committee.

- Responsible for all records of gifts and disbursements and works with accounting services and independent auditors.
- Coordinates an annual fundraising event for the foundation.
- Oversees all property of the foundation, negotiates leases with tenants, hires and monitors maintenance and security, and develops plans for upgrading and construction.

Although BCC did not indicate why separate records were not maintained, BCC's President stated that as of January 2002 the dean would account for the percentage of her time spent on foundation-related activities. BCC also indicated that time spent by BCC employees on the foundation would be properly accounted for.

Recommendation

BCC should enhance its attendance recordkeeping procedures to ensure that employees performing foundation work do not exceed the maximum limits allowed by statute.

Auditee's Response

As noted in the results, effective January 2002 the amount of time spent on Foundation work is recorded by the Dean.

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

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

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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

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

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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 H. Kiah* Governor.

APPENDIX II

Chapter 647 Awareness Letter from the State Auditor and the State Comptroller



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.

Chapter 647 Awareness Letter from the State Auditor and the State Comptroller

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:

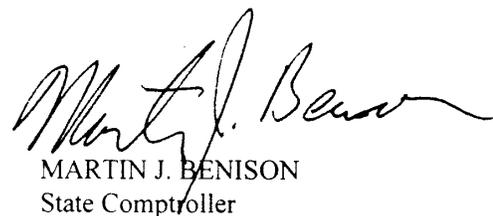
<http://www.magnet.state.ma.us/sao/>.

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 D. NUCCI
Auditor of the Commonwealth



MARTIN J. BENISON
State Comptroller