



# *The Commonwealth of Massachusetts*

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**INDEPENDENT STATE AUDITOR'S REPORT  
ON CERTAIN ACTIVITIES OF  
BRIDGEWATER STATE COLLEGE  
JULY 1, 2005 TO JUNE 30, 2006**

**OFFICIAL AUDIT  
REPORT  
JANUARY 26, 2007**

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Bridgewater State College (BSC) is authorized by Chapter 15A, Section 5, of the Massachusetts General Laws, and operates under the oversight of the Board of Higher Education. A Board of Trustees appointed by the Governor controls its operations, and BSC's President is responsible for implementing the policies set by the Board of Trustees in accordance with the policies and guidelines established by the Board of Higher Education.

We have conducted a review of BSC's federal student financial assistance programs funded through the United States Department of Education (DOE) for the period July 1, 2005 through June 30, 2006. Our review was conducted in conjunction with the Single Audit of the Commonwealth of Massachusetts for the fiscal year ended June 30, 2006.

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During our follow-up review, we determined that BSC has taken corrective action with regards to (a) untimely student exit counseling sessions and coordinating departments to properly administer the Federal Perkins Loan Program, (b) management of the Perkins Loan Program, and (c) entering and reconciling monthly non-appropriated funds activity to the Massachusetts Management Accounting and Reporting System (MMARS).

##### **a. Implementation of Policies and Procedures to Prevent Untimely Student Exit Counseling Sessions and Inadequate Coordination between College Departments for the Administration of the Federal Perkins Loan Program**

BSC has implemented and executed its corrective action plan by instituting policies and procedures that addressed timely exit counseling for all students participating in the Federal Perkins Loan Program.

##### **b. Implementation of Improvements over Perkins Loan Program-Cash Management**

BSC's Fiscal Affairs and Financial Aid Offices performed monthly reconciliations and developed and implemented procedures to review its Perkins Loan awards for accuracy. In addition, BSC established a new Internal Auditor position to monitor its new procedures and the loan award process.

##### **c. Non-Appropriated Fund Activity and Balances Reconciled in a Timely Manner**

BSC has implemented procedures to ensure that monthly postings and reconciliations of non-appropriated fund activity to MMARS are being made.

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During our follow-up review, we determined that BSC had not satisfactorily taken appropriate corrective action to address issues identified during our prior report with regard to (a) monitoring federal work study timesheets, (b) maintaining an adequate

internal control plan, and (c) improving its internal controls in the area of transmitting and reconciling revenue from the Admissions Office to the Bursar's Office.

**a. Submission of Federal Work-Study Timesheets Needs Improvement**

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Our follow-up audit disclosed that BSC performed internal audits of its Federal Work Study program (FWS) timesheets and noted the same deficiencies as were disclosed in the prior audit report in the first semester; however, improvements were noted in the second semester. In addition, we found that BSC did not update the FWS policies and procedures to ensure that no one works over 20 hours per week.

Our follow-up review disclosed that although BSC staff were still not following the required policies and procedures, improvements were made during the second semester of the fiscal year. Our tests disclosed that during the audit period, timesheets were written in pencil, were altered with no indication of who altered them, were not submitted on the required pre-printed form, were signed by supervisors but not signed by students, and were not in compliance with Massachusetts Labor Laws for the student hours charged. In addition, students were allowed to work more than 20 hours per week, contrary to the FWS policy, were paid for hours not worked, and were paid without signing their timesheets.

Moreover, an authorized signature list for the FWS program was not maintained by BSC. Furthermore, the Payroll Department had not implemented a system to ensure that no one is paid for hours not worked, and that no one works more than 20 hours per week. In response to our audit report, BSC indicated that it has purchased and begun to implement the "Web for Employees" module in its financial aid system (Banner). This module utilizes electronic timesheets and signatures and contains parameters that will address many of the weaknesses identified in the Work Study program.

**b. Internal Control Plan in Need of Improvement**

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Our prior audit disclosed that BSC had not updated its Internal Control Plan (ICP) to include a high level summarization, on a department wide basis, of BSC's risks. Our follow-up audit disclosed that, although BSC has made some significant improvements in its ICP, improvements are still needed to ensure that controls are in place to mitigate BSC's identified risks. Specifically, many of BSC's lower-level detail, i.e. departmental policies and procedures manuals for fiscal affairs, student financial aid, and admissions departments were either outdated or had not been established in accordance with the Office of the State Comptroller's (OSC) internal control guidelines, policy memos, and other Commonwealth policies, procedures, and regulations. Also, BSC still needs to develop and implement improvements, modifications, and additions to its ICP to properly document BSC's administrative and accounting internal control system to include (a) references to departmental policies and procedures, (b) details of the staff performing the functions, and (c) documentation of the full cycle of all transactions performed for all departmental operations. As a result, BSC is not in compliance with Chapter 647 of the Acts of 1989, an Act Relative to Improving the Internal Controls within State Agencies, and the Internal Control Guidelines issued by the OSC. In response to our audit report, BSC indicated that it concurred with the audit result and will continue to revise and review all internal controls. In addition, BSC's Board of Trustees has established an audit committee and Internal Auditor position. The Internal

Auditor will be responsible for the annual audit plan and review of BSC's policies and procedures for cash and fiscal-related tasks.

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**C. Investigation and Audit of a Reported Possible Theft of Funds** **9**

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In July 2005, BSC filed a Chapter 647 Report with the Office of the State Auditor (OSA) notifying the OSA that BSC had missing and unaccounted-for deposits in its General Administrative Operating Checking Account. The OSA's and BSC's annual year-end financial closing and cash cut-off procedures, along with BSC's June 2005 reconciliation process, disclosed that certain receipts recorded on BSC's records were not deposited in the bank. The dollar value of unaccounted-for deposits amounts to \$355,441. BSC's initial internal investigation resulted in the dismissal of an employee from BSC's business office and a referral to the Office of the Attorney General (OAG). The OSA, in conjunction with the OAG, is conducting an audit/investigation with regard to this matter. The extent of the missing and unaccounted-for funds is unknown at this time. Our follow-up review disclosed that BSC has made progress in improving its internal controls in the area of revenue collection; however, BSC's internal controls are still in need of improvement. During the audit, BSC acknowledged this weakness and took immediate corrective action, including revisions to its revenue collection policy and procedures. The corrective actions were aimed at providing accountability over deposits and readily identifying and reviewing unaccounted-for deposits in a timely manner. However, BSC still needs to improve its internal controls in the area of transmitting and reconciling revenue from the Admissions Office to the Bursar's Office to ensure that all revenue collected is properly accounted for between Departments. In response to our audit report, BSC indicated that the Business Office immediately changed procedures relating to the verification of deposits and has updated its policies and procedures to reflect the changes. Also, the Admissions Office has begun to document all of their policies and procedures, has stopped collecting cash, and all cash payments for application and tuition deposits are now made at the Student Accounts Office.

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## INTRODUCTION

### ***Background***

Bridgewater State College (BSC) is authorized by Chapter 15A, Section 5, of the Massachusetts General Laws, and operates under the oversight of the Board of Higher Education. A Board of Trustees appointed by the Governor controls its operations, and BSC's President is responsible for implementing the policies set by the Board of Trustees in accordance with the policies and guidelines established by the Board of Higher Education.

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

In accordance with Chapter 11, Section 12, of the General Laws, we conducted a review of BSC's federal student financial assistance programs funded through the United States Department of Education (DOE) for the period July 1, 2005 through June 30, 2006. We conducted our review in conjunction with the Single Audit of the Commonwealth of Massachusetts for the fiscal year ended June 30, 2006. Our report is an abstract from the Commonwealth's Single Audit Report for the fiscal year ended June 30, 2006, and solely represents the Office of the State Auditor's audit results of the College. The Commonwealth's Fiscal Year 2006 Single Audit Report consists of the following volumes:

- Statutory Basis Financial Report
- Comprehensive Annual Financial Report
- Reports on Compliance and Internal Controls in Accordance with Governmental Auditing Standards and Requirements of the Office of Management and Budget (OMB) Circular A-133, and the Schedule of Expenditures of Federal Awards

Our review was conducted in accordance with applicable generally accepted government auditing standards and standards set forth in OMB Circular A-133, revised June 27, 2003, and the American Institute of Certified Public Accountants' (AICPA) Audit and Accounting Guide, Audits of State and Local Governments. Additionally, our review evaluated BSC's compliance with the Office of the State Comptroller (OSC) policies and procedures; Massachusetts General Laws; and other applicable laws, rules, and regulations.

In performing our review of BSC's activities, we referred to OMB Circular A-133, March 2006 Compliance Supplement, to determine the compliance requirements that must be considered in an

audit conducted under OMB Circular A-133. Based upon our review, we determined requirements applicable to the federal student financial assistance programs, and designed appropriate tests to determine BSC's compliance with those requirements. Specifically, our objectives were to:

- Assess the internal controls in place at BSC during our review period, and
- Assess and evaluate the programs for compliance with the requirements of the Compliance Supplement, DOE, and OSC.
- Follow-up on prior audit results to determine what corrective action has been taken (Audit No. 2006-0177-16S).

The criteria for our review were drawn from OMB Circular A-133, the Compliance Supplement, the Code of Federal Regulations, and the OSC's Internal Control Guide. Those criteria dealt with the College's responsibility for the administration and operation of the federal student financial assistance programs and for compliance with the laws and regulations governing:

Activities Allowed or Unallowed  
Cash Management  
Eligibility  
Matching, Level of Effort, and Earmarking  
Period of Availability of Federal Funds  
Program Income  
Reporting  
Special Tests and Provisions

We examined, on a test basis, evidence regarding BSC's compliance with the applicable requirements and performed other procedures as we considered necessary. Based on these tests, except as reported in the Audit Results section of this report, we concluded that BSC had adequate internal controls in place; and complied with the requirements of the United States DOE, OMB Circular A-133 and the Compliance Supplement; and all applicable laws, rules, and regulations for the areas tested.

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## AUDIT RESULTS

### 1. PRIOR AUDIT RESULTS RESOLVED

Our follow-up review of Bridgewater State College (BSC) disclosed that BSC has taken corrective action to address three prior audit issues regarding (a) untimely exit counseling sessions of student loans and coordination of BSC departments in regards to the administration of the Federal Perkins Loan Program (FPL), (b) management of the FPL Program, and (c) the entering and reconciliation of non-appropriated funds activity to the Massachusetts Management Accounting and Reporting System (MMARS).

#### **a. Implementation of Policies and Procedures to Prevent Untimely Student Exit Counseling Sessions and Inadequate Coordination between College Departments for the Administration of the Federal Perkins Loan Program**

Our prior audit report disclosed that BSC was not timely in conducting exit counseling sessions for students with Federal Perkins Loans (FPL). Improvements were needed in the coordination of student enrollment data and the timely scheduling of exit counseling. BSC has implemented and executed its corrective action plan by instituting policies and procedures that addressed timely exit counseling for all students with FPL.

#### **b. Implementation of Improvements over Perkins Loan Program-Cash Management**

Our prior report disclosed that BSC did not perform monthly reconciliations of its Federal Perkins Loan (FPL) fiscal and program records; therefore making loans that exceeded the funds available. During 2006, BSC's Fiscal Affairs and Financial Aid Offices performed monthly reconciliations between its program and fiscal records, developed clear audit trails, and developed and implemented follow-up procedures to review its FPL awards for accuracy. In addition, BSC established a new Internal Auditor position to monitor its new procedures and activity over the loan award process.

#### **c. Non-Appropriated Fund Activity and Balances Reconciled in a Timely Manner**

Our prior audit report disclosed that BSC had not been entering and reconciling its non-appropriated fund [Fund 901] activity monthly to the Massachusetts Management Accounting and Reporting System (MMARS) with its internal records as required by Commonwealth laws and regulations. BSC has implemented procedures to ensure that monthly postings and reconciliations to MMARS are being made.

## 2. PRIOR AUDIT RESULTS UNRESOLVED OR PARTIALLY RESOLVED

During our follow-up review, we determined that BSC did not take sufficient corrective action to address issues identified during our prior report with regards to (a) monitoring federal work-study timesheets, (b) maintaining an adequate internal control plan, and (c) improving its internal controls in the area of transmitting and reconciling revenue from the Admissions Office to the Bursar's Office.

### a. Submission of Federal Work Study Timesheets Needs Improvement

Our prior report disclosed that although BSC had updated its policies and procedures for the Federal Work Study (FWS) Program, BSC was not adhering to its updated policies and procedures. Furthermore, BSC did not have a system in place to ensure that students are only paid for hours worked, and that students do not work more than 20 hours per week.

In its corrective action plan, BSC stated, "We recognize that any Internal Control Plan is a dynamic document and we will continue to revise and review all internal controls relating to the Work Study program. To ensure compliance within the Program, the College will periodically perform internal audits of the Work Study Program".

Our follow-up audit disclosed that BSC performed internal audits of the work study program during fiscal year 2006. The first semester internal audits disclosed the same deficiencies as were noted in the prior single audit, while improvements were identified in the second semester audits. It was further noted that BSC did not perform tests or provide any further updates to the FWS policies and procedures to ensure that students do not work more than 20 hours per week and are only paid for hours worked.

BSC is required by 34 CFR 675.19 (2)(i) to establish fiscal procedures to certify a student's FWS program work prior to making a payment to the student. The regulation requirement is as follows:

*Include a certification by the student's supervisor, an official of the institution or off-campus agency that each student has worked and earned the amount being paid. The certification must include or be supported by, for students paid on an hourly basis, a time record showing the hours each student worked in clock time sequence, or the total hours worked per day...*

The College's Student Employment Manual also states, in part, that:

*The supervisor is responsible for submitting timesheets to the Payroll Office by noon on the due date in order to produce a paycheck by the next Friday. The due date is five days after the end of the pay period. This allows the student ample time to have the timesheet completed and submitted with the authorized signature(s). It is the student's responsibility to get the timesheet to his or her supervisor to be signed. Once signed it is the supervisor's responsibility to submit all timesheets. Student employees will not be paid without a signed timesheet.*

*.... All students and supervisors must use pen to complete and sign timesheets. If a mistake is made, please cross it out and initial the change. Pencil and correction fluid (i.e. "white out") are not permissible on the time sheets.*

*All hours worked must be documented on the appropriate Pre-Printed timesheet. Under certain circumstances, the Student Employment Office will provide the supervisor with handwritten timesheets. This typically applies only in the case of new student employees.*

To determine if the internal controls were functioning, we tested two of the 18 fiscal year 2006 pay periods. Our tests disclosed that BSC staff was not following the policies and procedures; however, improvements were made in the second semester (Spring semester 2006). Our testing of 670 timesheets disclosed the following:

- 3 timesheets had been partially written in pencil and had been signed by a supervisor. BSC could not determine who brought the timesheets to the FWS office.
- 12 timesheets were altered with no indication of who had altered them (hours were changed by using white out and the change was not initialed). There was no evidence that the altered timesheets had been approved before or after they were submitted to the supervisor.
- 4 timesheets were for more than 20 hours, which is contrary to the FWS policy that prohibits a student from working over 20 hours per week.
- 98 timesheets were not submitted on BSC's required pre-printed timesheets. The students were not new students who are not required to use the pre-printed timesheets for their initial pay period. BSC accepted these timesheets without the payroll system's pre-printed feature, which includes the pay period, pay rate, employee identification number, return date, accounts to be charged, and the student's classification title. Students were allowed to fill in the control information and submit the timesheets, thus circumventing BSC's internal controls. BSC's FWS Policy Manual does not permit handwritten timesheets.
- 7 timesheets submitted by students working over 6 hours in a day did not have a half hour deducted for lunch as required by Massachusetts State Laws and the Student Employment Manual.
- 3 students were paid a total of 7.25 hours not worked.
- 3 timesheets were signed before the pay period was over.

- 1 timesheet was signed after the paycheck was issued.
- 1 timesheet was not signed by the student; however, the supervisor signed the timesheet.
- 2 student timesheets were originally signed in pencil and then traced over in pen.

BSC's Controller stated that BSC will continue to re-educate staff regarding the internal controls necessary to enforce policies and procedures in the FWS Manual and to more closely monitor student timesheets and their submission.

***Recommendation***

BSC needs to take action to ensure that all departments participating in the program adhere to the internal controls established over the FWS program. BSC staff should again be advised of their responsibilities with regard to payroll procedures and student employee practices.

BSC also needs to expand its internal controls to include periodic monitoring by its internal audit staff to ensure adherence to these procedures and to provide ongoing oversight to prevent the conditions cited from recurring. In addition, BSC should consider expanding to an electronic timesheet system to address weaknesses identified in the processing of timesheets. Effective implementation and better utilization of available technology to enhance the electronic system would provide more assurance that existing policies and procedures are being followed.

**Auditee's Response**

*As noted above, the College has made improvements to the Federal College Work Study program and performed an internal audit of the program.*

*To further aid the College with automating the Work Study program and improve compliance, the College has purchased and begun the implementation of the Web for Employees module of Banner. This module utilizes electronic timesheets and signatures. The Web for Employees modules contains parameters that will address many of the weaknesses identified in the Work Study program.*

**b. Internal Control Plan in Need of Improvement**

Our prior audit disclosed that BSC had not updated its Internal Control Plan (ICP) to include a high level summarization, on a department-wide basis, of BSC's risks. Our follow-up audit disclosed that, although BSC has made some significant improvements in its ICP, improvements are still needed to ensure that controls are in place to mitigate BSC's identified risks. Specifically, many of BSC's lower-level detail, i.e. departmental policy and procedure manuals for the fiscal affairs, student financial aid, and admissions departments were either outdated or had not been established in accordance with the Office of the State Comptroller's (OSC) internal control guidelines, policy memos, and other Commonwealth policies, procedures, and regulations. Also, BSC still needed to develop and implement improvements, modifications, and additions to its ICP to properly document BSC's administrative and accounting internal control system to include (a) references to departmental policies and procedures, (b) details of the staff performing the functions, and (c) documentation of the full cycle of all transactions performed for all departmental operations. As a result, BSC is not in compliance with Chapter 647 of the Acts of 1989, an Act Relative to Improving the Internal Controls within State Agencies, and the Internal Control Guidelines issued by the OSC.

Chapter 647 of the Acts of 1989, states, in part:

*Internal control systems for the various state agencies of the Commonwealth shall be developed in accordance with internal control guidelines established by the Office of the Comptroller.*

Further, the OSC Memorandum FY 2001-28, dated June 29, 2001, states, in part:

*A departmental control plan is a high level summarization on a department-wide basis, of the department's risks (as the result of a risk assessment) and of the controls used by the department to mitigate those risks. This high level summary must be supported by lower level detail, i.e. departmental policies and procedures. We would expect this summary to be from ten to fifty pages, depending on the size and complexity of the*

*department . . . A departmental risk assessment is the identification and analysis of the risks that could prevent the department from reaching its goals and objectives. This identification and analysis forms the basis for determining how the risks should be managed. A precondition to risk assessment is the establishment of the organization's mission and goals.*

BSC has worked to improve internal controls by designating staff to review, update, and improve all departmental policies and procedures as well as update the ICP to include a review of BSC's risks. However, BSC needs to complete the process by authorizing and implementing the policies and procedures manuals (currently in draft form), distributing them to staff, and properly cross-referencing the manuals to the ICP. Implementing the policies and procedures as drafted within the manuals and updating the plan is important for BSC to ensure the effectiveness of its internal control structure.

A review of the policies and procedures established for the three major departments that are referenced in the ICP draft; Fiscal Affairs, Student Financial Aid, and Admissions, disclosed the following:

- The Fiscal Affairs Department has prepared detailed, updated, written procedures and controls that document the full cycle of transactions performed for collecting, recording, monitoring, and reconciling revenue from students, applications, miscellaneous departments, grants, and student financial aid.
- The Student Financial Aid Department now has detailed written policies, procedures, and controls that document the full cycle of transactions performed for recording, monitoring, reporting to other departments, and reconciling program records to fiscal records.
- The Fiscal Affairs Department has not fully completed an update of its written procedures and controls that document the full cycle of transactions performed by the department; for example, the accounting functions, which include monthly reconciliations and opening, maintaining, and closing of financial records and policies to ensure that all existing department policies and procedures, including memorandums outlining specific operational procedures, are not cross-referenced or identified within the ICP and there is no requirement that the policies be reviewed annually or as conditions warrant.
- The Admissions Department did not have written policies and procedures manuals including both fiscal and general operations germane to its overall function at BSC.
- BSC does not have an implementation plan as to when policies and procedures manuals are to become effective and to ensure that all staff receives notice of new, revised, or updated policies and procedures manuals along with training.

Without a sufficient documented and supported ICP in place, there is inadequate assurance that BSC will achieve its mission and objectives efficiently, effectively, and in compliance with applicable state laws and regulations, and will properly safeguard its assets against loss, theft, or misuse.

***Recommendation***

BSC should continue its efforts to update its ICP by implementing detailed policies and procedures manuals for all departments throughout BSC in order to achieve its mission and objectives efficiently, effectively, and in compliance with applicable state laws, rules, and regulations. This will also provide support and guidance in the event of employee turnover and safeguard its assets against loss, theft, or misuse. Furthermore, BSC should continue to ensure that its internal control system is reviewed, evaluated, and any necessary changes implemented at least annually or when conditions warrant.

***Auditee's Response***

*The College concurs with this finding. We recognize that any Internal Control Plan is a dynamic document and will continue to revise and review all internal controls.*

*In addition, the College's Board of Trustees has established the Board Audit Committee and an Internal Auditor position. The Internal Auditor will be responsible for the annual audit plan, which will include review policies and procedures for College departments handling cash and fiscal related tasks.*

***c. Investigation and Audit of a Reported Possible Theft of Funds***

Our prior audit disclosed that BSC had filed a Chapter 647 report with the Office of the State Auditor (OSA) notifying the OSA that BSC had missing and unaccounted-for deposits in its General Administrative Operating Checking Account. The OSA's and BSC's annual year-end financial closing and cash cut-off procedures along with BSC's June 2005 reconciliation process disclosed that certain receipts recorded on BSC's records were not deposited in the bank. The dollar value of unaccounted-for deposits totals approximately \$355,441 for fiscal year 2005. BSC's initial internal investigation resulted in the dismissal of an employee from BSC's business office and a referral to the Office of the Attorney General (OAG). The OSA, in conjunction with the OAG, is conducting an audit/investigation with regard to this matter. The exact amount of the loss of funds is unknown at this time.

We conducted a follow-up review for fiscal year 2006 to determine if BSC has strengthened its internal controls in response to the missing and unaccounted-for deposits in its General Administrative Operating Checking Account. We reviewed processes and controls put in place by BSC over deposits and transfers of funds to determine if BSC (1) is ensuring the validity and accounting for all revenues and receipts; (2) has improved the segregation of duties in the collection and depositing process; and (3) is collecting and depositing funds in accordance with applicable laws, rules, and regulations. In response to the prior audit, BSC indicated that “As a result of this incident, the Bursar’s Office immediately changed its procedures relating to the verification of deposits and the College has updated policies and procedures in the Bursar’s Office to reflect this change.”

BSC has made progress in improving its internal controls in the area of revenue collection; however, BSC’s internal controls are still in need of improvement. During the audit, BSC acknowledged these weaknesses and took immediate corrective action, including revisions to its revenue collection policy and procedures. The corrective actions were aimed at providing accountability over deposits and readily identifying and reviewing unaccounted-for deposits in a timely manner. However, BSC still needs to improve its internal controls in the area of transmitting revenue to the Bursar’s Office as follows:

- The Admissions Department has no documented record keeping process for the collection of application fees, tuition deposits, or room security deposits.
- The Admissions Department has not developed written policies and procedures for the individual transactions processed by the Admissions Department, specifically the collection and safekeeping of revenues collected, such as, application fees, tuition deposits, or room security deposits.
- The Admissions Department does not issue cash receipt slips to students for cash received at the Admissions Office for application fees, tuition deposits, or room security deposits.
- BSC has not yet developed a reconciliation process between the Fiscal Affairs Office (which enters and deposits the revenues from Admissions) and the Admissions Department (which receives the revenue) to ensure that all revenues collected by Admissions are properly identified, accounted for, and accurately remitted to the Fiscal Affairs Office and subsequently deposited into BSC’s bank account.

In addition, we noted that many of the policies and procedures developed during fiscal year 2006 as a result of the prior audit for the collection of revenues have not yet been implemented or

communicated to the staff directly participating in the process. Internal control policies and procedures manuals are only effective if staff have been trained and have a copy of the manual.

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

*(A) 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. . .*

*(F) 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.*

### **Recommendation**

BSC should continue to review and evaluate its revenue and receipts policies and procedures and internal controls in this cash collection area. At a minimum, BSC should immediately:

- Address the need for improvement over procedures in the Admissions Department, including the written identification and documentation of its collection process.
- Implement a cash receipts process in which Admissions personnel prepare and return a pre-numbered cash receipt slip to students making cash payments.
- Ensure that BSC's Admissions Office, in concert with the Fiscal Affairs Office, develops an appropriate reconciliation process to ensure all revenue collected in the Admissions Office is properly identified, documented, accounted for, and accurately remitted by Admissions to Fiscal Affairs and deposited into BSC's bank account.
- Continue to promote and emphasize the importance of internal controls through more education and training and increased departmental awareness of control procedures. Managers need to be especially mindful if the internal controls in their departments are adequate for reducing the risk of asset loss, and help to ensure the reliability of financial information and compliance with applicable laws, rules, and regulations.

BSC should also be prepared to update and enhance its controls to mitigate any further identified risks and make appropriate changes to its internal controls and policies and procedures based upon the results of the ongoing investigation of the incident cited upon its conclusion.

***Auditee's Response***

*The Fiscal Affairs suspected a potential discrepancy during the second week of June 2005. Preliminary investigations began immediately by College staff and the College self-reported the issue to the Office of the Attorney General and the Office of the State Auditor in July 2005, upon the reconciliation of the June 2005 bank statement and the confirmation that deposits were indeed unaccounted for in the month of June 2005. This investigation is still underway by the Office of the Attorney General.*

*The Bursar's Office immediately changed procedures relating to the verification of deposits and has updated the policies and procedures in the Bursar's Office to reflect this change. The Admissions Office has begun documenting all of their policies and procedures. In addition, the Admissions Office has stopped collecting cash. All cash payments for applications and tuition deposits are made at the Student Accounts Office.*

## APPENDIX

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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## 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

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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.