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2006-0205-12S

July 12, 2007

Dr. Ira Rubenzahl, President
Springfield Technical Community College
One Armory Square
P.O. Box 9000
Springfield, MA 01101

Dear Dr. Rubenzahl:

In accordance with Chapter 11, Section 12, of the General Laws and Chapter 647 of the Acts of 1989, the Office of the State Auditor (OSA) conducted an audit of Springfield Technical Community College's (STCC) bookstore internal controls and operational procedures in place pertaining specifically to the inventory of textbooks. Our audit was conducted in accordance with applicable generally accepted government auditing standards for the period February 10, 2006 through December 29, 2006.

Our audit was initiated as a result of a Chapter 647 report that STCC filed with the OSA. Chapter 647 of the Acts of 1989, An Act Relative to Improving the Internal Controls within State Agencies, requires agencies to report unaccounted-for variances, losses, shortages, or thefts of funds or property to the OSA. Chapter 647 also requires the OSA to determine the internal control weaknesses that contributed to or caused an unaccounted-for variance, loss, shortage, or theft of funds or property; make recommendations to correct the condition found; determine the amount of funds involved; identify the internal control policies and procedures that need modification; and report the matter to appropriate management and law enforcement officials.

The Chapter 647 report disclosed concerns by STCC officials of incidents of possible attempts of textbook thefts in excess of \$1,000 from the STCC bookstore. When STCC discovered this issue, it took immediate responsive action to notify the OSA for assistance in reviewing the incidents. In addition, STCC officials requested OSA staff to assist in determining what action was needed to review security and operational internal controls within its bookstore operation.

We met with STCC's Vice President of Administration and Finance, Assistant Vice-President of Administration and Finance, and Director of Public Safety, who informed us of an internal investigation that was in progress involving a possible scheme to steal textbooks from the bookstore. STCC's preliminary investigation was initiated in January 2006, when an STCC maintenance crew found four brand-new textbooks (costing in excess of \$100 each) under a dumpster near STCC's loading dock, which is located adjacent to the bookstore storage room. As there was no evidence that these books were purchased, it was considered a suspicious occurrence at the time and was reported to STCC security, which then monitored the situation. A second incident occurred in February 2006, when other new books valued at over \$600 were found hidden under a nearby stairwell in a secluded part of the building within walking distance of the bookstore. This second incident raised concern with STCC officials because of recent management changes taking place within the operation of the bookstore. Although in both incidents the textbooks were recovered, STCC officials expressed concerns that these occurrences could be indicative of a larger problem that could result in greater losses in the bookstore operations.

The bookstore had been very profitable in the past, and profits from the bookstore are used to fund many other campus programs approved by the trustees annually. STCC has explored the possibility of privatizing its bookstore operations, but concluded that it could earn significantly more from operating the bookstore itself. In addition, there had been a slight decline in enrollment along with an increase in Internet purchases by students from other textbook suppliers.

The Office of the State Comptroller's (OSC) Internal Control Guide for Managers, which requires agencies to have adequate internal controls over assets, states, in part:

- Internal controls coordinate a department's policies and procedures to safeguard its assets, check the accuracy and reliability of its data, promote operational efficiency, and encourage adherence to prescribed managerial policies. Department managers must develop, implement, monitor, and update an effective plan of internal controls.

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- Internal control systems should provide reasonable assurance that assets are safeguarded, resources are properly used, and objectives are achieved.
 - Internal control systems should involve procedures to restrict access to and enhance control over resources. Resources include money, equipment, supplies, inventory, and the records that account for these assets. Maintaining accountability for the use and custody of resources involves assigning specific responsibilities to specific individuals. Managers should monitor expenditures, revenue collection, and physical assets to ensure that these resources are used only to achieve specific and identified purposes.
 - State managers have an obligation to administer and safeguard the resources that are entrusted to their care.

There has been a reorganization of the bookstore operation since the release of OSA's last audit report (No. 2005-0205-11S), which noted internal control issues in STCC's bookstore operations, including the buy-back of books program. We recommended that STCC continually monitor the buy-back system and associated activities to ensure that the buy-back procedures function as intended, and STCC officials agreed that they needed to make adjustments and improvements. STCC implemented our recommendations and took additional steps to address growing overall budgetary concerns, including strengthening bookstore oversight and monitoring and changing responsibilities and the operational structure within its bookstore operation. The employment of the bookstore manager, who had been working at STCC for 19 years, was terminated on December 31, 2005, as was the employment of seven other top administrative staff as part of a cost-cutting measure. This resulted in a savings in STCC's 2006 budget, which was projected to be in a deficit at the time of the decision. The revamping of the bookstore included the internal hiring and promotion of a new manager, the assignment of fiscal monitoring oversight of bookstore operations directly to the Assistant Vice-President of Administration and Finance, and the hiring of part-time personnel, including students, to run the bookstore.

In regard to the issues of textbook thefts and monitoring of activities within the bookstore operation pertaining to textbook inventory, sales, and overall internal controls, STCC officials provided the following information:

- The Assistant Vice President will immediately review internal controls over textbook inventory. This would include conducting a selected sampling of high-value textbooks on hand in the textbook inventory, comparing these figures to purchase and sales records, and matching them to electronic balances being reported as on hand.

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- The Director of Public Safety and two public safety staff members who have experience in loss prevention procedures and retail goods site selection practices will complete an internal assessment of the bookstore layout and make suggestions on the internal security within the retail operations, including the showroom, storeroom, and other areas.
 - Bookstore personnel will schedule and conduct a full inventory of all textbooks at the end of the spring semester and prior to the start of fall classes. These results will be calculated, reported, and integrated into a new electronic perpetual inventory system being considered by the STCC.
 - STCC and bookstore personnel will review existing internal control policies and operating procedures manuals in the bookstore operation for strengthening or improving enforcement and oversight. Moreover, they will contact industry and book retail specialists to obtain written industry policies and practices to review and implement if proven effective.
 - Internal controls over hiring practices, compliance with state law in regard to bookstore and other personnel, and Criminal Offender Record Information (CORI) checks on new employees will be reviewed.
 - If deemed necessary, security cameras will be installed in areas where the textbooks were found and within areas surrounding the bookstore.

During the audit we were in contact with various STCC officials to provide guidance regarding STCC's monitoring process to address these incidents. Our review of the STCC's monitoring process over bookstore operations was to determine whether the STCC had incurred thefts of textbooks, and if so, to identify the internal control weaknesses which contributed to those thefts; and to ensure that internal controls over security and operational controls within its bookstore operation were adequate to prevent the loss, theft, or misuse of STCC property, that duties and oversight monitoring within its bookstore operation were adequately segregated, and that STCC complied with applicable laws, rules, and regulations in the operation of its bookstore.

To accomplish our objectives, we conducted on-site interviews with STCC administrators and staff, reviewed and analyzed STCC-prepared reports in connection with the bookstore incidents, reviewed the STCC's internal control structure and operating policies and procedures over bookstore operations, and reviewed the specific internal controls in place.

Our review of the bookstore operation concluded that the incidents reported to the OSA could not be substantiated as thefts by STCC. In addition, STCC has initiated or completed steps of the outlined plan to improve monitoring and oversight within its bookstore operations. STCC's

continued application of these outlined procedures should adequately address the concerns reported under the Chapter 647 requirements for safeguarding STCC assets.

Subsequent to our review, an independent public accounting firm (IPA) conducted an audit of STCC's financial statements and noted certain matters involving internal controls regarding the bookstore operations. Specifically, the IPA noted that (a) the bookstore was not staffed at the same level as bookstores of similar size, (b) bookstore inventory management systems did not adequately track inventory movement, (c) physical inventory duties were not adequately segregated in that they were performed solely by bookstore personnel and not employees from other departments independent of bookstore operations, and (d) periodic cycle counts of fast-selling and valuable inventory was not performed. The IPA made recommendations to improve bookstore operations, and STCC indicated that it will take corrective action to implement the IPA's recommendations. We also recommend that STCC continue to enhance its bookstore operations accordingly.

In response to our review, College officials stated:

The report has been helpful in resolving a number of deficiencies that occurred in the STCC bookstore operation. The college has taken several steps to enhance internal controls and improve profitability of the bookstore. In early October 2006, college employees met with the bookstore manager from Holyoke Community College (HCC). The manager agreed to serve as a consultant to STCC to assist with improving the overall bookstore operation. In our first meeting, he identified several areas for improvement and he agreed to assist STCC bookstore staff one day per week for the remainder of FY2007. The consultant also agreed to address ways to eliminate the internal control problems that KPMG identified.

In June 2007, the college took additional steps to improve the bookstore operations and enhance internal controls overall. STCC has negotiated a one-year employee loan agreement with HCC whereby the Director of the Bookstore of HCC will work one day a week during FY2008 at the STCC bookstore overseeing the operation and mentoring the STCC bookstore manager. In addition to extending the arrangement with HCC, a new employee's position for the Bookstore has been approved for hiring July 1, 2007. The new position was recommended by KPMG and will be responsible for receiving and shipping of books to achieve segregation of duties.

We appreciate STCC's action in reporting this incident to OSA in accordance with the statutory requirements of Chapter 647 and its initiating positive corrective action to help prevent future occurrences and improve both bookstore operations and STCC's internal controls as a whole.

If you have any questions or concerns or need further assistance, please contact Howard Olsher, Director of State Audits at 617-727-6200.

Sincerely,

A handwritten signature in black ink, reading "A. Joseph DeNucci". The signature is written in a cursive, flowing style.

A. JOSEPH DeNUCCI

Auditor of the Commonwealth

cc: Janet Wanczyk, Vice President for Administration and Finance/Chief Financial Officer