



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

Making government work better

Official Audit Report – Issued July 21, 2015

Worcester State University

For the period July 1, 2012 through June 30, 2014





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

Making government work better

July 21, 2015

Mr. Barry M. Maloney, President
Worcester State University
Office of the President
486 Chandler Street
Worcester, MA 01602-2597

Dear President Maloney:

I am pleased to provide this performance audit of Worcester State University. This report details the audit objectives, scope, methodology, findings, and recommendations for the audit period, July 1, 2012 through June 30, 2014. My audit staff discussed the contents of this report with management of the university, whose comments are reflected in this report.

I would also like to express my appreciation to Worcester State University for the cooperation and assistance provided to my staff during the audit.

Sincerely,

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

Suzanne M. Bump
Auditor of the Commonwealth

TABLE OF CONTENTS

EXECUTIVE SUMMARY	1
OVERVIEW OF AUDITED ENTITY	2
AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY	3
DETAILED AUDIT FINDINGS WITH AUDITEE'S RESPONSE.....	6
1. Worcester State University's Strategic Planning Trust Fund has not been properly administered.	6
2. WSU's controls over its inventory of fixed assets are inadequate.	8
3. WSU is not filing monthly summary reports and midyear reports as required by OSC.....	11

LIST OF ABBREVIATIONS

Clery Act	Jeanne Clery Disclosure of Campus Security Policy and Campus Crime Statistics Act
MMARS	Massachusetts Management Accounting and Reporting System
OSA	Office of the State Auditor
OSC	Office of the State Comptroller
SPTF	Strategic Planning Trust Fund
WSU	Worcester State University

EXECUTIVE SUMMARY

In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, the Office of the State Auditor has conducted a performance audit of certain activities of Worcester State University (WSU) for the period July 1, 2012 through June 30, 2014. In this performance audit, we examined certain WSU activities related to trust funds, inventory of property and equipment, the administration of WSU's food-service contract, certain administrative expenditures, accounts receivable, and the Jeanne Clery Disclosure of Campus Security Policy and Campus Crime Statistics Act.

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

Finding 1 Page 6	WSU's Strategic Planning Trust Fund was not properly administered: funds were reallocated without proper approval from the board of trustees.
Recommendation Page 7	New initiatives and reallocation of project funds should be approved by the finance and facilities subcommittee and ultimately the full board of trustees, per the fund agreement and guidelines. The board of trustees should be given the necessary financial information. For instance, WSU could consider measures such as including annual financial reports and budgets showing current year-to-date spending for each initiative to obtain board authorization of new initiatives and reallocation of resources.
Finding 2 Page 8	WSU's inventory control system is inadequate to safeguard its assets.
Recommendations Page 11	<ol style="list-style-type: none">1. WSU should ensure that all of its departments comply with its policies and those of the Office of the State Comptroller (OSC) for the inventory of its fixed assets.2. The property control manager should be notified when items are moved or discarded, and WSU's inventory list should be updated accordingly.3. WSU should consider tagging all inventory before the item leaves the Central Receiving office (where most items are received for the campus).
Finding 3 Page 11	WSU is not updating its accounts receivable monthly and filing midyear Summary Aging Receivable Reports as required by OSC.
Recommendations Page 12	<ol style="list-style-type: none">1. WSU should report accounts receivable in summary every month and complete the midyear Summary Aging Receivable Reports.2. WSU should ensure that it is aware of current OSC policies and complies with the latest requirements.

OVERVIEW OF AUDITED ENTITY

Worcester State University (WSU), formerly Worcester State College,¹ is authorized by Chapter 15A, Section 5, of the Massachusetts General Laws and operates under the direction of a board of trustees, whose members are appointed by the Governor. The board is responsible for operating under the regulations promulgated by the state's Board of Higher Education, which includes setting policy, approving annual budgets, monitoring quarterly budget performance, and participating in the approval of internal audits. The president of WSU reports to the board of trustees, is the administrative head of the university, and is supported by the vice presidents of Academic Affairs, Administration and Finance, University Advancement, and Enrollment Management, as well as the dean of students / chief student affairs officer.

WSU is a member of the Massachusetts public higher-education system, which consists of 15 community colleges, 9 state universities, and 5 University of Massachusetts campuses. WSU is located on Chandler Street in Worcester. As of fall 2013, its student population was 5,338.

1. Chapter 189 of the Acts of 2010 amended Chapter 15A, which created a state university system. As a result of this legislation, the six state colleges were renamed Bridgewater State University, Fitchburg State University, Framingham State University, Salem State University, Westfield State University, and Worcester State University. The three specialized state colleges—Massachusetts College of Art and Design, Massachusetts College of Liberal Arts, and Massachusetts Maritime Academy—retained their existing names.

AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY

In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, the Office of the State Auditor (OSA) has conducted a performance audit of certain activities of Worcester State University (WSU) for the period July 1, 2012 through June 30, 2014. In some cases, we examined information from outside our audit period to accomplish our audit objectives.

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

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

Objective	Conclusion
1. Are the administrative and managerial controls over WSU's food-service contract effective in ensuring that all the contract provisions are followed and that commissions due WSU are monitored and reconciled?	Yes
2. Are the financial and managerial controls over WSU trust funds sufficient and effective to ensure that money is spent appropriately and in compliance with the funds' purposes?	No; see Finding <u>1</u>
3. Are there effective inventory controls that safeguard WSU's property and equipment?	No; see Finding <u>2</u>
4. Is WSU complying with Chapter 647 of the Acts of 1989 ² in reporting stolen and/or missing property?	Yes
5. Are WSU's internal controls over administrative expenditures effective in ensuring that expenditures are reasonable and appropriate?	Yes
6. Is WSU complying with the Office of the State Comptroller's (OSC's) receivable-reporting regulations?	No; see Finding <u>3</u>
7. Are WSU's internal policies and procedures sufficient to ensure its compliance with the federal Jeanne Clery Disclosure of Campus Security Policy and Campus Crime Statistics Act (the Clery Act)? ³	Yes

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

To achieve our objectives, we gained an understanding of internal controls and tested their operating effectiveness over WSU's financial and management controls related to WSU trust funds, inventory of property and equipment, the administration of WSU's food-service contract, certain administrative expenditures, accounts receivable, and the Clery Act. We conducted further audit testing as follows:

- We obtained and reviewed the WSU food-service contract that was in effect during our audit period and interviewed key personnel regarding WSU food services. Also, we obtained and reviewed relevant documentation to support commissions due WSU per the food-service contract.
- We obtained and reviewed the board of trustees' meeting minutes, as well as WSU's annual budgets, to evaluate controls over WSU trust funds and determine whether the board was appropriately informed regarding trust-fund activity. We compared board-approved trust-fund budgets to budgets entered in WSU's accounting system to determine whether they agreed. We also reviewed trust-fund agreements for each of WSU's 12 trust funds to gain an understanding of the purpose of each fund and reviewed WSU financial records to determine whether expenditures made from the trust funds complied with the funds' purposes. Additionally, we judgmentally selected 3 of the 12 trust funds for further review based on activity during our audit period.
- We reviewed WSU inventory policies and procedures, conducted interviews with the director of Administrative Services and other WSU personnel involved in WSU's inventory process, and gained an understanding of WSU's inventory practices. We sampled and examined inventory records and verified the existence of certain inventory items. To do this, we selected a random sample of 40 items whose value was equal to or greater than \$1,000 to determine whether they were recorded on WSU's inventory list in accordance with WSU's inventory policy. We also conducted an additional non-statistical test by randomly selecting 10 items from different locations on the WSU campus to determine whether each item was appropriately recorded on the inventory list.
- We gained an understanding of WSU's reporting process under Chapter 647 of the Acts of 1989 by interviewing key WSU personnel, and we reconciled Chapter 647 reports submitted by WSU to OSA records to determine whether WSU was complying with reporting requirements. We also reviewed the police reports filed for each incident reported.
- We reviewed and analyzed WSU's policies and procedures for administrative expenses. We used a non-statistical sampling methodology to randomly select a sample of different types of administrative expenses paid by WSU during our audit period. These expenditures fell into the following categories: travel, consultants, and credit cards assigned to staff. We obtained a random sample of 30 expenditures, for both out-of-state and in-state travel, from populations of 647 and 698 transactions respectively. For consultant expenses, we judgmentally chose a sample of 54 items from a population of 974. We judgmentally chose 4 out of 43 cardholders, chose two months in each fiscal year, and tested 100% of the transactions for each cardholder in those months, resulting in a total sample of 87 credit-card transactions. Because our sampling methodology included a non-statistical, judgmental, or random approach, the results of our testing in these areas cannot be projected to the entire population.

- We interviewed WSU's director of Student Accounts and requested from WSU officials copies of all aging receivable and write-off reports for our audit period, as well as all accounts-receivable reports filed with OSC.
- We interviewed WSU's police chief and lieutenant regarding Clery Act reporting policies and procedures. We compared the number of reported incidents with those at similarly sized public institutions to determine whether the numbers were similar. In addition, we reviewed internal logs related to the incidents reported annually to the federal government under the act.

The financial data we obtained from the Massachusetts Management Accounting and Reporting System about WSU's activities during our audit period were not used in our audit testing. Information obtained through WSU's Colleague System, the information system containing financial records and student records used at the university, was supported by source documentation, and we conducted information-security tests through the use of questionnaires, interviews, and observations to determine the reliability of the data. We determined that the data were sufficiently reliable for the purposes of the report.

DETAILED AUDIT FINDINGS WITH AUDITEE'S RESPONSE

1. Worcester State University's Strategic Planning Trust Fund has not been properly administered.

Funds designated to the university's Strategic Planning Trust Fund (SPTF) were reallocated within the fund without proper approval from the Worcester State University (WSU) board of trustees. Without financial information for all activities in the SPTF, the board of trustees cannot properly exercise its oversight responsibilities or direct resources for the SPTF.

In 2011, Worcester State University (WSU) established the SPTF to support multiple one-time initiatives to achieve WSU's five-year strategic plan. According to the SPTF's guidelines, WSU's board of trustees was to be made aware of all planned uses of the money in this fund and also approve all expenditures from the fund. In fiscal year 2011, the board approved 35 initiatives to be completed during fiscal years 2012 through 2014, with a budget totaling \$1,398,877.

In fiscal year 2014, unspent funds totaling \$323,434 were reallocated to two existing projects (an upgrade of a campus television station and a marketing initiative) and one new project (\$50,000 for a strategic planning consultant). While these projects were consistent with the purpose of the trust fund, there is no documentation showing that the reallocation and new project were authorized by the board of trustees.



Some projects were abandoned and their allotted funds transferred to other projects.

After the close of fiscal year 2012, a detailed report titled Strategic Trust Fund Review, identifying the current status of each initiative, was given to the full board of trustees; however, no fully detailed financial update of SPTF initiatives was given to the board or its committees in later fiscal years. In WSU's budgets for fiscal years 2013 and 2014, the SPTF spending was not detailed, although the SPTF was mentioned in the 2014 budget. There were no specific details as to any reallocation of funds or remaining initiative balances.

Authoritative Guidance

Chapter 73, Section 14, of the Massachusetts General Laws authorizes the board of trustees of a state college or university such as WSU to create trust funds for the purpose of generating and expending

money for specified purposes to supplement programs at the university that would not otherwise be possible with state appropriations. The law states,

The trustees may, from time to time, establish and manage trust funds for self-amortizing projects and self-supporting activities including, but not limited to, the operation of the boarding halls, student health service, research institutes and foundations, dormitories and student and faculty apartments. All income received from such projects or activities shall be held in trust by the trustees and expended for the purpose for which the trust fund was established.

WSU's Strategic Plan Trust Fund Agreement defines appropriate expenditures as follows:

Non-recurring expenditures proposed as new initiatives specifically linked to achieving the goals of the current 5 year strategic plan. . . . The President [will forward] the final group of recommended proposals to the Finance and Facilities subcommittee for their consideration and recommendation to the full board.

In addition, WSU's Strategic Planning Trust Fund Guidelines and Processes document states, "The Board of Trustees will approve disbursement of any dollars associated with the Strategic Planning Trust Fund."

Reasons for Improper Administration

WSU officials told us that they believed they were adhering to the agreement and guidelines with regard to project approval.

Recommendation

New initiatives and reallocation of project funds should be approved by the finance and facilities subcommittee and ultimately the full board of trustees, per the fund agreement and guidelines. The board of trustees should be given the necessary financial information. For instance, WSU could consider measures such as including annual financial reports and budgets showing current year-to-date spending for each initiative to obtain board authorization of new initiatives and reallocation of resources.

Auditee's Response

The University asserts its position that the Strategic Planning Trust Fund was properly administered. The WSU Board of Trustees and Finance & Facilities Subcommittee were provided updates on the financial status of the projects for both FY13 and FY14. Enclosed with the June 12, 2013 Board of Trustees meeting packet for approval were WSU Finance & Facilities Subcommittee March/April 2013 minutes highlighting a \$300K+ balance in this trust fund with notice of potential recommendations including the redirecting of funds and/or liquidation of funds. The June 11, 2013 WSU Finance & Facilities Subcommittee meeting minutes also included a general statement that a review of the Strategic Planning Trust Fund had taken place.

Additionally in FY14, the WSU Board of Trustees September 10th meeting dedicated a separate agenda item to an update of the WSU Strategic Planning Trust Fund addressing the need and justification for project funds reallocation:

Of the original 35 projects funded through the competitive grant process, 10 remain active. Various projects were never implemented as it was determined soon after approval they were not viable. Others were implemented and have remainder balances that are available to be reallocated. Since the funds were appropriated to the projects and spending is from the rollover of previously authorized funds, a revenue/expenditure plan is not included in the current FY 2014 budget. The University will be pooling resources from the projects that have become inactive. The funds will be redistributed to projects that were originally approved and require additional funding. The categories include: University marketing needs specifically in the areas of the Division of Graduate and Continuing Education, Web Marketing and public relations; targeted undergraduate enrollment; and University Television Studio upgrades. The Trust fund will add a new project for FY2014 which will be a \$50,000 line to fund a strategic planning consultant and other ancillary costs associated with developing the next five year strategic plan.

Although WSU maintains it complied with the Strategic Planning Trust Fund guidelines, the University will accept the recommendation of the OSA to provide more detailed financial reports and budgets showing current year-to-date spending for each Strategic Planning Trust Fund project, new initiatives, and the reallocation of resources, thereby facilitating a more specific Board authorization of all items.

Auditor's Reply

We do not agree with WSU's position that the SPTF was properly handled. Specifically, as noted above, in fiscal year 2014, an unspent \$323,434 was reallocated to two existing projects, and although the board was made aware of these reallocations and they were consistent with the SPTF's purpose, the documentation the board was given was not sufficiently detailed to warrant their authorization.

Based on its response, WSU is taking measures to address our concerns in this area.

2. WSU's controls over its inventory of fixed assets are inadequate.

Although WSU has established policies and procedures for the inventory of its fixed assets, it has not established adequate controls to ensure that these policies and procedures are consistently followed.

We found numerous resulting problems with WSU's inventory of fixed assets.

One such problem is that WSU did not perform the required annual physical inventory of all of its fixed assets, although departments did conduct inventories of limited sets of assets. Another is that, contrary to WSU policy, not all items received are reported to the university's property control manager to be added to the inventory and assigned an asset identification tag. Because WSU has not established adequate controls in this area, there is a higher-than-acceptable risk of undetected theft or misuse of fixed assets and of inaccuracies in WSU's financial records and reports regarding the value of its fixed-asset inventory.

Most items do pass through WSU's Central Receiving office, but they are not necessarily tagged while they are there and are not reported to the appropriate manager.

During our audit, WSU gave us what it represented as its most recent inventory list of fixed assets. This list, dated November 6, 2014, indicated that the total value of WSU's fixed assets with costs exceeding \$1,000 was \$5,100,237 as of that date. We selected a sample of 40 items from this list and attempted to locate them. We found problems with 18 (45%) of these items:

- Eleven could not be located.
- Three were located, but not at the location shown on the list.
- Two had been taken out of service and should not have been on the list.
- Two did not have inventory identification tags and had serial numbers recorded on the list instead.

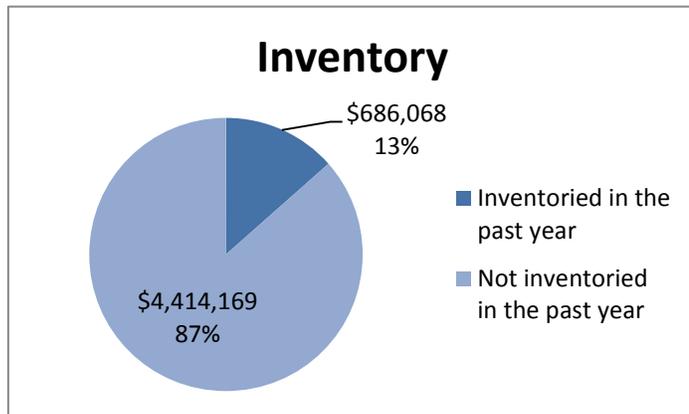
We also randomly sampled 10 assets at different locations on campus and attempted to locate them on WSU's inventory list. We only found 2 of these assets on the list; the remaining 8 items' identification tag numbers did not reconcile to tag numbers and related item descriptions on the list.

In addition to our previously discussed samples of 40 and 10 items, we also obtained an invoice dated November 22, 2013, sent by Valley Communications Systems and paid by WSU, for \$145,923 of new television-studio equipment. However, none of these items appeared on the fixed-asset inventory list WSU gave us.

In addition, WSU had not conducted a complete annual physical inventory of all of its fixed assets during the audit period. WSU's inventory list identifies the last date each item's location was verified in person.

Of the 40 sampled items we selected and tested from WSU's inventory list, 35 had not been inventoried (physically located for verification) in the previous year. Further analysis revealed the following:

- Sixteen items were last inventoried between May 4, 2006 and December 3, 2009.
- Nineteen items were last inventoried between July 7, 2010 and November 4, 2013.
- Of the total \$5,100,237 of assets on the list, only \$686,068 (13%) had been inventoried in the past year.



Authoritative Guidance

The Office of the State Comptroller's (OSC's) Fixed Assets—Accounting and Management Policy, issued July 1, 2004 and last revised November 1, 2006, states, "There shall be an **annual inventory** taken of fixed assets owned by every Department."

In addition, Section IV(B) of WSU's Inventory Control Procedures states,

Upon receiving items which meet the Inventory Control threshold of \$1,000.00 or more . . . Central Receiving will notify the Property Control Manager. In certain cases items will not be released until proper tags have been affixed to the item, however in most cases items are direct shipped to the end user, where the PCM will be notified by Central Receiving and/or the Department, as to its destination, and will affix the tag and add to the Inventory Control System in-location.

Furthermore, Section VIII(B) of WSU's own Inventory Control Procedures states that "each department is responsible for ensuring the proper use, care, maintenance, and safekeeping" of equipment it has purchased.

Finally, Chapter 647, Section F, of the Acts of 1989, Section F, states, in part,

Periodic comparison shall be made between [a department's] resources and the recorded accountability of the resources to reduce the risk of unauthorized use or loss and protect against waste and wrongful acts.

Reasons for Inventory Problems

WSU's current inventory system is decentralized, with multiple departments responsible for conducting their own tagging, monitoring of assets, and reporting of changes/additions to the director of Administrative Services, who then updates the main inventory list. However, WSU personnel told us that because of low staffing levels, they do not always complete these tasks.

Recommendations

1. WSU should ensure that all of its departments comply with OSC's and its own policies for the inventory of its fixed assets.
2. The property control manager should be notified when items are moved or discarded, and WSU's inventory list should be updated accordingly.
3. WSU should consider tagging all items before they leave the Central Receiving office.

Auditee's Response

WSU is in the process of hiring a consulting firm to conduct a baseline inventory of all University assets, evaluate the current inventory process, and provide a plan for improvement, thereby implementing the above-mentioned OSA recommendations.

3. WSU is not filing monthly summary reports and midyear reports as required by OSC.

WSU is not updating its accounts receivable monthly in the state's Massachusetts Management Accounting and Reporting System (MMARS) and did not submit any of the midyear Summary Aging Receivable Reports required by OSC during our audit period. As a result, the Commonwealth cannot be certain that the information in MMARS accurately reflects WSU's outstanding accounts receivable.

WSU is required to update its accounts-receivable information in summary each month in MMARS. Also, each January, OSC sends a memorandum to entities such as WSU that have independent billing systems, asking them to prepare and transmit to OSC a midyear Summary Aging Receivable Report summarizing the amounts and ages of all their receivable items. Along with the memorandum, OSC provides departments with a report showing the MMARS midyear balances of the departments' accounts receivable, organized by fund and revenue source code, and asks each department to provide an analysis of aging information of the recorded accounts-receivable balance in six assigned age categories: current, 1–30 days, 31–60 days, 61–90 days, 91–120 days, and more than 120 days past due.

Authoritative Guidance

OSC's Accounts Receivable—Receivable Recognition and Reconciliation Policy, issued July 1, 2004 and last revised November 1, 2006, requires the following of any entity that maintains its own accounting system and one summary receivable in MMARS, as WSU does:

Departments that have approved delegated billing and accounts receivable systems are required to utilize MMARS to maintain one summary receivable that accurately represents the net value of the earned revenue/accounts receivable by revenue source code, across fiscal years. Departments are required to maintain their approved delegated accounts receivable systems at a sufficient level of detail to verify the accuracy of summary reporting. By the close of each [month] each department is required to adjust the summary receivable amount. . . .

[OSC] requires departments to prepare and transmit a mid-year Summary Aging Receivable Report which details the age of all receivables contained in the MMARS summary receivable by revenue source code.

Reasons for Noncompliance

WSU personnel told us that they were not aware of any such reporting requirements.

Recommendations

1. WSU should report accounts receivable in summary every month and complete the midyear Summary Aging Receivable Reports.
2. WSU should ensure that it is aware of current OSC policies and complies with the latest requirements.

Auditee's Response

The University intends to comply with the OSC's Receivable Recognition Policy (issued July 1, 2004 and last revised November 1, 2006). Additionally, the WSU Internal Control Officer will reach out to the OSC to ensure that all compliance-related communications are sent to and acknowledged by the University.