



The Commonwealth of Massachusetts

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INDEPENDENT STATE AUDITOR'S REPORT ON
CERTAIN ACTIVITIES OF
BRIDGEWATER STATE COLLEGE
JULY 1, 2006 TO JUNE 30, 2007

OFFICIAL AUDIT
REPORT
APRIL 3, 2008

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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 BSC's 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 conducted a follow-up audit of BSC (No. 2007-0177-16S) covering the period July 1, 2006 to June 30, 2007. Our review was conducted in conjunction with the Single Audit of the Commonwealth of Massachusetts for the fiscal year ended June 30, 2007.

AUDIT RESULTS

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1. PRIOR AUDIT RESULTS RESOLVED

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Our follow-up review determined that BSC has taken corrective action to address two prior audit issues regarding updating its internal control plan (ICP) and improving internal controls in the cash collection area where a misappropriation of funds occurred, as follows:

a. Internal Control Plan Updated

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BSC has implemented and executed its corrective action plan by updating its internal control plan by developing departmental policy and procedures manuals for various departments. The Admissions Department has developed and implemented an internal control plan. BSC has also established an internal auditor's position and several internal audits have been performed.

b. Improvement of Internal Controls in Certain Areas Where Misappropriation of Funds Occurred

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BSC has made substantial progress in improving its internal controls in the area of revenue collection where a misappropriation of over \$341,441 occurred. BSC revised its revenue collection policy and procedures to provide better accountability over deposits by readily identifying and reviewing unaccounted-for deposits in a timely manner. BSC has also improved 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 addition, the Admissions Office has documented its policies and procedures and has stopped collecting cash, and all cash payments for applications and tuition deposits are now made at the Student Accounts Office.

2. PRIOR AUDIT RESULTS UNRESOLVED OR PARTIALLY RESOLVED - SUBMISSION OF FEDERAL WORK STUDY TIMESHEETS NEEDS IMPROVEMENT

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The prior three Single Audit reports disclosed that BSC was not adhering to policies and procedures established to control Federal Work Study (FWS) payrolls. Our follow-up review disclosed that BSC has continued to make progress by conducting an internal audit

of the FWS process; however, BSC was still not adhering to the implemented policies and procedures to adequately correct the issues cited in previous reports. 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.

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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 follow-up of BSC's federal student financial assistance programs funded through the United States Department of Education (DOE) for the period July 1, 2006 through June 30, 2007. We conducted our review in conjunction with the Single Audit of the Commonwealth of Massachusetts for the fiscal year ended June 30, 2007. The Commonwealth's Fiscal Year 2007 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

The audit results contained in this report are also reported in the Fiscal Year 2007 Single Audit of the Commonwealth of Massachusetts 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 mentioned above.

We conducted a follow-up review of the issues in our prior audit report (No. 2007-0177-16S) and in the Single Audit of the Commonwealth of Massachusetts for the final year ended June 30, 2007. Our review was conducted in accordance with applicable generally accepted government auditing 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 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's Circular A-133, March 2007 Compliance Supplement to determine the compliance requirements that must be considered in an audit conducted under OMB Circular A-133.

Our follow-up review of BSC's procedures for corrective action and improvements in the areas identified in our prior audit were as follows:

- Updating and amending its Internal Control Plan
- Improving internal controls over revenues
- Improving the monitoring of Federal Work Study timesheets

We concluded that BSC has implemented the corrective action plan for the audit results identified in our prior audit report regarding internal controls over revenues and improving its internal control plan. However, BSC needs to improve its monitoring of Federal Work Study Programs. We concluded that BSC has complied with the requirements of the United States DOE, OMB Circular A-133 and the Compliance Supplement; the Massachusetts General Laws; and other applicable laws, rules, and regulations for the areas tested in our follow-up review.

AUDIT RESULTS

1. PRIOR AUDIT RESULTS RESOLVED

Our follow-up review determined that Bridgewater State College (BSC) has taken corrective action to address two prior audit issues regarding (a) updating its internal control plan (ICP) and (b) improving internal controls in the cash collection area where a misappropriation of funds occurred, as follows:

a. Internal Control Plan Updated

BSC has updated its ICP to be in compliance with Chapter 647 of the Acts of 1989 (an Act relative to improving internal controls within state agencies) and the Internal Control Guidelines issued by the Office of the State Comptroller to address referencing departmental policies and procedures, detailing staff functions, and identifying the cycles and transactions involved with departmental operations and including them within its ICP and supporting reference documents. In addition, BSC has established an internal auditor's position to improve its overall internal controls.

b. Improvement of Internal Controls in Certain Areas Where Misappropriation of Funds Occurred

BSC has made substantial progress in improving its internal controls in the area of revenue collection where the missappropriation of over \$341,441 occurred. Specifically, BSC revised its revenue collection policy and procedures to provide better accountability over deposits by readily identifying and reviewing unaccounted-for deposits in a timely manner. BSC has also improved 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 addition, the Admissions Office has documented its policies and procedures and has stopped collecting cash, and all cash payments for applications and tuition deposits are now made at the Student Accounts Office.

2. PRIOR AUDIT RESULTS UNRESOLVED OR PARTIALLY RESOLVED - SUBMISSION OF FEDERAL WORK STUDY TIMESHEETS NEEDS IMPROVEMENT

The prior three Single Audit reports disclosed that BSC was not adhering to policies and procedures established to control Federal Work Study (FWS) payrolls. Our follow-up review disclosed that BSC has continued to make progress by conducting an internal audit of the FWS process; however, BSC

was still not adhering to the implemented policies and procedures to adequately correct the issues cited in previous reports.

BSC is required by 34 Code of Federal Regulations (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, 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...

In order to comply with this regulation, BSC has established internal controls in its FWS program and included procedures within BSC's Student Employment Manual, which states, in part:

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.

During our follow-up review, we tested 623 timesheets from fiscal year 2007. Our audit testing disclosed the following:

- Ninety-five timesheets were not submitted on the BSC's pre-printed timesheets. BSC accepted these timesheets without the payroll systems 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 permits handwritten timesheets only in the case of new student employees; however, the students cited were not new employees.
- Thirty-three timesheets had handwritten changes over text without being initialed by a supervisor.

- Fifty-nine timesheets were processed to the payroll department with incomplete data, including missing signatures, dates worked, etc.
- Five timesheets were submitted with “white out” used and without being initialed by a supervisor.
- Ninety timesheets were signed by the student and supervisor before the end of pay period, and included time worked after the signature date of the supervisor.
- Sixty-nine timesheets were signed by the student and supervisor late, including after the payroll was processed and paid.
- Eleven timesheets submitted by students working over six hours in a day did not have a half-hour deducted for lunch as required by the General Laws and the Student Employment Manual.
- Thirty-three timesheets had incorrect calculations of total hours worked.
- Ten timesheets were submitted and filled out with a pencil without being initialed by a supervisor.
- Fifteen timesheets were signed off by a supervisor signature before the student signed the timesheet.
- One timesheet was submitted for a future pay period and was paid in advance of the work being performed.
- One timesheet’s student signature did not match the name of the FWS student.

An audit of the FWS program performed by the college’s internal auditor during fiscal year 2007 disclosed many of the same deficiencies noted in the prior and current Single Audits. 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 more stringent action to ensure that all the departments participating in the FWS program adhere to the internal controls established over the FWS program. BSC staff should again be advised of their responsibilities with regard to payroll policies and procedures and student employee practices. Those staff members not in compliance with their expected FWS

responsibilities should be excluded from participating in the program. In addition, BSC should adhere to its 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 followed. BSC also needs to continue its monitoring by its internal audit staff until satisfactory compliance levels are reached to ensure adherence to these procedures and provide ongoing oversight to prevent the conditions cited from recurring.

Auditee's Response

The College has implemented an electronic timesheet module for the Federal College Work Study Program. All students and supervisors received training in the Summer and early Fall 2007 on the Web Time entry module. All participants were instructed that student employees must take a break after six hours and cannot work over 20 hours per week. Further, they received a written training manual for reference of the policies and procedures reviewed during the training sessions.

In addition, rigorous compliance measures have been put in place to ensure the proper and timely submission of timesheets. Per a presidential directive, the late submittal of timesheets is subject to a two-strikes policy for both students and supervisors. Following a first infraction, students receive a written warning (copied to their supervisor), verbal counseling, and re-training on the submittal of timesheets. Employees receive a written warning (copied to their supervisor and area vice president). The second infraction by the student will result in the permanent loss of the privilege of employment at the college. The second infraction by the supervisor will result in them losing the ability to supervise student workers. For both students and supervisors there is no statute of limitations on either the first or the second violation.

In order to strengthen internal controls, as of September 1, 2007, management of the Payroll Department has been transferred to the purview of the Office of Fiscal Affairs. In addition, and also as of September 1, 2007, all financial operations of the college have been consolidated under the management of the Associate Vice President for Fiscal Affairs, a position reporting directly to the president. The college's internal auditor will continue to monitor the Federal Work Study Program throughout the year to ensure satisfactory compliance.

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Chapter 647

THE COMMONWEALTH OF MASSACHUSETTS

In the Year One Thousand Nine Hundred and Eighty-nine

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

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

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

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

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

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

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

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

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

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

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

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

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

House of Representatives, December 21, 1989.

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

In Senate, December 22, 1989.

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

January 3, 1990.

Approved, *Richard H. Kiah*, Governor.