



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

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Official Audit Report – Issued July 25, 2012

Holyoke Community College

For the period July 1, 2010 through September 30, 2011



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Holyoke Community College (HCC) is authorized by Chapter 15A of the Massachusetts General Laws and operates under the oversight of the Board of Higher Education. A Board of Trustees appointed by the Governor of the Commonwealth controls its operations, and the President is responsible for implementing the policies set by the Board of Trustees, in accordance with the policies and procedures established by the Board of Higher Education.

In accordance with Chapter 11, Section 12, of the General Laws, we have conducted an audit of HCC for the period July 1, 2010 through September 30, 2011. 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.

The purpose of our review was to conduct an audit of HCC's financial management internal controls over the food service contract, student activity account, trust funds, and property and equipment.

We have concluded that, except as reported in the Audit Results section of this report, for the period July 1, 2010 through September 30, 2011, HCC had adequate internal controls and complied with applicable laws, rules, and regulations for the areas tested.

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Our audit found that HCC was not fully compliant with Office of State Comptroller (OSC) regulations and its own internal control policies regarding the accounting and full reporting of non-Generally Accepted Accounting Principles (GAAP) fixed assets, equipment, and other inventory. Specifically, although HCC maintained a computerized inventory listing of its non-GAAP fixed asset inventory, the listing was not up-to-date and did not contain all information required by the OSC. In addition, contrary to OSC regulations, there was no evidence to substantiate that a complete annual inventory was performed or reconciled to HCC's records as required by OSC regulations, which state that non-GAAP fixed assets must be recorded in a department's inventory and reconciled at least annually. Because HCC did not effectively control its non-GAAP fixed assets in compliance with OSC regulations and its own internal control policies and procedures, these inventory items were exposed to potential loss, theft, or misuse.

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Our audit found that HCC was not compliant with Chapter 647 of the Acts of 1989, An Act Relative to Improving the Internal Controls within State Agencies, which requires that all unaccounted-for variances, losses, shortages, or thefts of funds or property be immediately reported to the Office of State Auditor (OSA). Specifically, although HCC

reported to its campus police that two Lenovo laptop computers purchased on June 27, 2010 with a total cost of \$2,000 had been stolen, it did not file a Chapter 647 report with the OSA. As a result, the OSA was precluded from determining the internal control weaknesses that contributed to or caused the theft; making recommendations to correct the condition found; identifying the internal control policies and procedures that need modification; and reporting the matter to the appropriate management and law enforcement officials.

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Our audit found that HCC was not adequately controlling the gasoline inventory used by its maintenance and campus security personnel. Specifically, HCC does not record when the gasoline pump is used, how much gasoline is being used for each vehicle, the mileage of each vehicle, or the person accessing the gasoline pump. In addition, HCC has not documented any control procedures, thereby preventing effective regulation and monitoring of the usage of its gasoline supply. As a result, HCC's gasoline inventory, on which HCC expended \$45,829 for 14,425 gallons of fuel during our audit period, is vulnerable to loss, theft, or misuse.

INTRODUCTION

Background

Holyoke Community College (HCC) is authorized by Chapter 15A of the Massachusetts General Laws, and operates under the oversight of the Board of Higher Education. A Board of Trustees appointed by the Governor of the Commonwealth controls its operations, and the President is responsible for implementing the policies set by the Board of Trustees, in accordance with the policies and procedures established by the Board of Higher Education.

Audit Scope, Objectives, and Methodology

In accordance with Chapter 11, Section 12, of the General Laws, we have conducted an audit of HCC for the period July 1, 2010 through September 30, 2011. 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.

The purpose of our review was to conduct an audit of HCC's financial management internal controls over its food service contract, student activity account, trust funds, and property and equipment.

The objectives of our audit were to:

- Review and examine the procurement process of HCC's food service contract and determine whether the contract (a) is being continuously extended rather than re-bid; (b) contains provisions dealing with rebates, and if so, who is entitled to keep such rebates; and (c) requires any audit or evaluation to be performed.
- Review internal controls over HCC's student activity accounts and determine whether they are being properly accounted for and expended for their intended purpose.
- Identify all college trust funds, review the internal controls over the accounting and reporting of these funds, and perform a risk analysis and conduct detailed audit work on selected trust funds to determine whether the trust funds were spent appropriately and in compliance with the funds' purpose.
- Review and examine HCC's inventory controls over the purchasing, tracking, and safeguarding of vulnerable equipment and supplies to determine their adequacy and review

Chapter 647 reports received by the Office of State Auditor (OSA) relating to stolen or missing equipment.

To accomplish our objectives, we conducted interviews with management and staff and reviewed prior audit reports, spending plans, applicable laws and regulations, and fiscal monitoring reports. We also obtained and reviewed policies and procedures, contracts, accounting records, and supporting source documents and performed tests of these records and transactions where necessary.

Chapter 73, Section 1B, of the Massachusetts General Laws stipulates that the Board of Trustees may fix the amount of student activity fee to be paid by each student at any state college. All receipts from student activities shall be retained by the President of the college in a revolving fund or revolving funds, and shall be expended as the President of the college may direct in furthering the activities from which the fees and receipts were derived. We determined that HCC does not charge its students a student activity fee. We did, however, review expenditures made by HCC from its student activity account, which is funded through its General Operating Trust Fund Budget. During fiscal year 2011, HCC budgeted \$135,000 for its student activity account. HCC also budgeted \$135,000 for fiscal year 2012. We also reviewed HCC's revolving fund to determine whether receipts and expenditures were properly accounted for and used for their intended purpose.

At the conclusion of our audit, we met with HCC's Vice President of Administration and Finance and Comptroller to discuss the contents of the report. We have concluded that, except as reported in the Audit Results section of this report, for the period July 1, 2010 through September 30, 2011, HCC had adequate internal controls and complied with applicable laws, rules, and regulations for the areas tested.

AUDIT RESULTS

1. INADEQUATE INTERNAL CONTROLS AND REPORTING OVER NON-GAAP FIXED ASSET INVENTORY NEEDS IMPROVEMENT

Our audit disclosed that Holyoke Community College (HCC) was not fully compliant with Office of the State Comptroller (OSC) regulations and its own internal control policies regarding the accounting and full reporting of non-Generally Accepted Accounting Principles (GAAP) fixed assets, equipment, and other inventory. Specifically, although HCC maintained a computerized listing of its non-GAAP fixed asset inventory, the listing was not up-to-date and did not contain all information required by the OSC. In addition, contrary to OSC regulations, there is no evidence to substantiate that an annual inventory of equipment was performed or reconciled to HCC's records. Because HCC did not effectively control its non-GAAP fixed assets in compliance with OSC regulations and its own internal control policies and procedures, these inventory items were exposed to potential loss, theft, or misuse.

Non-GAAP fixed assets are defined as singular assets and include such items as vehicles, equipment, furniture, computer software, and all electrical and computer components with a useful life in excess of one year and with an original cost of between \$1,000 and \$49,999. In addition, all buildings, roads, and other infrastructure with an original cost of between \$1,000 and \$99,999 are non-GAAP fixed assets. The OSC's Accounting and Management Policy for Fixed Assets, issued and last revised November 1, 2006, requires that all assets, regardless of whether they are fixed or not, must be accounted for, managed, and reported in accordance with applicable laws and regulations of the Commonwealth. These guidelines require minimum standards for maintaining adequate internal controls, as follows:

There shall be an annual inventory taken of fixed assets owned by every Department. This inventory shall include, at a minimum, a verification of the existence and location of fixed assets owned by a Department. This inventory shall be done on or about June 30th of each year for GAAP and non-GAAP assets. . . .

There shall be a reconciliation of the fixed asset inventory against the books and records maintained by the Department, either on a Fixed Asset Subsystem or other documented methods. This reconciliation is to be done, at a minimum, on an annual basis. This reconciliation shall be available for audit either by the department's internal auditors, the State Auditor's Office, or the Commonwealth's external auditors.

In addition, the OSC's Fixed Asset Acquisition policy states that non-GAAP fixed assets must be recorded in a department's inventory and reconciled at least annually. This inventory can

either be electronic or on paper, as long as it records the date of purchase, amount, description, location, and disposition of an item.

HCC's internal control policies and procedures require that it maintain adequate inventory controls and accountability systems for physical property; that all acquisitions, loans, transfers, and disposals be recorded currently; that each piece of equipment have an identification tag; and that a physical inventory and reconciliation be performed annually. In addition, HCC's Administrative Policies and Procedures Manual, Section 6.1000, requires that all physical property having an original cost of or appraised at \$1,000 or more be reported. In addition, all electronic items, including computers, scanners, facsimile machines, external zip drives, printers, and LCD projectors, must be inventoried.

Our audit disclosed that HCC did maintain a computerized listing of its non-GAAP fixed asset inventory that included inventory control numbers, with the description, location, and cost of the inventory items. The inventory listing contained 3,826 items with a total cost of \$5,192,916. However, the computerized listing of items was not complete and did not include several of the laptop computers recently purchased by HCC.

Furthermore, because this inventory listing is not complete, it does not provide a basis for valuation of the total inventory for replacement and disposal purposes as the equipment becomes obsolete and unusable. Moreover, because data was not entered into HCC's computerized inventory listing, it is not possible to readily trace or reference these unrecorded items to detailed records of purchase invoices or source-funding accounts to verify when, from whom, and at what cost the items were purchased.

During our audit, we sampled a total of 56 items valued at \$85,701 from the inventory list and traced them to their documented locations. We also sampled and traced 117 items valued at \$106,627 from their locations back to the inventory list. Our review of the inventory list and our testing disclosed the following conditions:

Our test of 56 non-GAAP inventory items selected and traced from HCC's inventory list to location disclosed that HCC did not know the location of the following five (9%) items: two Lenovo netbook computers, one Dell Inspiron laptop computer, one Gateway laptop computer, and one Dell printer, with a total value of \$6,469. HCC officials explained that the Dell Inspiron laptop computer was at the home of the Picknelly Adult and Family Education Center (PAFEC) Director, and another was

located at the home of one of his staff members.¹ However, the Director neither verified this assertion nor completed a Property Pass form, as required by HCC's internal control policies and procedures. When we questioned the PAFEC Director regarding these laptops, he stated that he neither completed a Property Pass nor required his staff members to do so. HCC's Administrative Policies and Procedures Manual, Section 6.300, Property Loans, states the following:

An employee wishing to borrow property from the College must complete and sign a property pass. The pass must then be signed by the person directly responsible for the equipment (Vice President, Dean, Director) and submitted to the Vice President for final approval.

- Our test of 117 inventory items traced from their locations to HCC's inventory list disclosed that 54 items, or 46%, were not documented on the inventory listing, as follows: 14 Dell Latitude laptops located on campus in the Kittredge Center; 11 Lenovo netbooks located off-campus at the PAFEC; 18 Dell Latitude laptops also located off-campus at the PAFEC; and eight Dell netbooks, one Dell Latitude laptop, and two Hewlett Packard laptops located off-campus at HCC's Ludlow location. Our review of invoices at the Information Technology (IT) Department valued these items at \$45,227.
- Our review of a Chapter 647 report submitted to the OSA determined that nine Apple IMAC computers, valued at an estimated \$16,251, were stolen from one of the classrooms located on the HCC campus. Our review of the inventory list provided to us showed only seven stolen Apple iMac computers listed on the Chapter 647 report. These computers did not have a purchase price listed on the inventory listing.
- We found no evidence that annual inventories or reconciliations were performed against the internal records or that any discrepancies were noted, contrary to HCC's policies and procedures that require the storekeeper to keep a current inventory and perform an annual inventory on June 30th of each year.

The storekeeper, the individual responsible for recording and managing the inventory, stated that although he is responsible for processing all incoming items, when HCC receives electronic and computer-related equipment he forwards the equipment to the IT Department to verify all items received to the packing slip. The IT Department is then responsible for tagging the item and forwarding the information to the storekeeper to be entered into the computerized inventory system. The storekeeper believed the IT Department did not send the relevant information back to the storekeeper for entry into the inventory listing.

However, the IT Manager provided us with copies of emails that were sent to the storekeeper along with all appropriate and required information necessary for the storekeeper to document

¹ Located at the new Holyoke Transportation Center at 206 Maple Street, the Picknelly Adult and Family Education Center was established by members of the Juntos Collaborative, Holyoke Public Schools, and HCC to provide Holyoke residents with adult basic education and related services in an easily accessible location.

these computers on the inventory listing. Our review of these emails found them to be complete and timely. In regard to the annual inventory, the storekeeper stated that he performs a partial inventory.

Because HCC did not effectively control its non-GAAP fixed assets in compliance with OSC regulations and its own internal control policies and procedures, these inventory items were exposed to potential loss, theft, or misuse. We discussed these conditions with HCC's Comptroller, who stated that he will take the necessary action to correct these conditions.

Recommendation

To properly control and maintain its non-GAAP fixed asset inventory, HCC should update its internal control policies, implement monitoring procedures to ensure that the storekeeper enters all new computer equipment purchases into the inventory system on a timely basis, and ensure that an accurate and complete inventory is performed by June 30th of each fiscal year. HCC should also ensure that any discrepancies between the current inventory list and the actual inventory taken are investigated and reconciled, maintaining records of any discrepancies and reconciliations for review by the Office of the State Auditor (OSA) and HCC's external auditors. In addition, HCC should enforce its internal control policies and procedures requiring all employees to complete a Property Pass when borrowing equipment. This Property Pass should be signed by all required personnel and be maintained on file for review by the OSA to provide an audit trail for HCC's non-GAAP fixed assets.

Auditee's Response

When the Storekeeper indicated that he does a "partial" inventory, he meant that he relied on the accuracy of the information obtained from the IT Department, particularly for the outlying campus locations – the Picknelly Adult and Family Education Center (PAFEC) and the Ludlow Adult Learning Center (LALC). The "tagged" items in those locations are computer-related. For the future, the Fixed Assets Inventory Report will include a visit to these outlying locations.

A new procedure has been implemented in Fiscal Year 2012 that will reconcile and update asset location in the inventory system by June 30th. The Director of Business Services will supervise and review the reconciliation of Physical Inventory. To make sure that the fixed assets inventory is as up-to-date as possible, the Supervisor of Custodial Services will e-mail the Storekeeper electronically whenever a move takes place. The Director of IT Operations will also e-mail the Storekeeper whenever a move of bar-coded computer equipment takes place. The Storekeeper will then go to the new location, scan the tagged items with the bar code reader, and upload the changes into the inventory to keep it as current as possible.

With no-more-than-one week delay, by the Storekeeper in making entries after receiving notification of a move or surplus, the Fixed-Asset Inventory Report will be a more reliable source of information throughout the year as well as in the Annual Fixed Asset Inventory Report. The Storekeeper has been directed to keep all printouts used in the annual reconciliation and creation of the inventory report.

The PAFEC Director has subsequently been notified and directed to complete a property pass for equipment. Holyoke Community College will include in its internal control policy and will notify employees, on a bi-annual time frame, the policies and procedures regarding property loans. HCC will require that all inventory reconciliation records be kept and signed off by the Comptroller when the final inventory listing is received at year end.

2. STOLEN ITEMS NOT REPORTED TO THE OFFICE OF THE STATE AUDITOR

Our audit found that HCC was not compliant with its own policies and procedures and Chapter 647 of the Acts of 1989, An Act Relative to Improving the Internal Controls within State Agencies, which requires that all unaccounted-for variances, losses, shortages, or thefts of funds or property be immediately reported to the OSA. Specifically, although HCC reported to its campus police that two Lenovo laptop computers purchased on June 27, 2010 with a total cost of \$2,000 had been stolen, HCC did not file a Chapter 647 report with the OSA. As a result, the OSA was precluded from determining the internal control weaknesses that contributed to or caused the theft; making recommendations to correct the condition found; identifying the internal control policies and procedures that need modification; and reporting the matter to the appropriate management and law enforcement officials.

Chapter 647 requires that all unaccounted-for variances, losses, shortages, or thefts of funds or property be immediately reported to the OSA. Moreover, HCC's own internal control policies and procedures require it to notify the OSA of any stolen or missing property. Specifically, HCC's Administrative Policies and Procedures Manual, Section 6.500, Missing Property, states the following:

Any missing property is to be reported immediately to the Campus Police Department. A campus police officer obtains information about the equipment from the Storekeeper and investigates the loss, notifying the local and state police authorities, as appropriate.

The final report is filed with the Vice President for Administration and Finance who determines if the item is to be replaced or if it is to be removed from the inventory.

The Vice President for Administration and Finance then notifies the Office of State Auditor.

Upon finding that the two laptops in question could not be found at the PAFEC location recorded on HCC's inventory listing, we spoke to the PAFEC Director, who stated that both computers had been stolen in December 2010. The PAFEC Director also stated that he reported the thefts to the campus police department and his supervisor. However, neither the campus police department nor HCC's Storekeeper indicated that they had been informed of the thefts. As a result, the computers remained on the inventory listing and a final report was not sent by HCC's campus police to the Vice President of Administration and Finance. Without knowledge of the theft, the Vice President could not file a Chapter 647 report with the OSA.

Recommendation

To ensure that Chapter 647 reports are filed with the OSA, the Vice President of Administration and Finance should contact each department head and all pertinent HCC officials regarding HCC policies and procedures when property or equipment is missing or stolen. In addition, HCC should inform its department heads on Chapter 647 of the Acts of 1989 and its reporting requirement. Moreover, periodic, random monitoring of department inventory should be conducted to help reduce the risk of any missing or stolen equipment not being promptly reported.

Auditee's Response

Holyoke Community College has since refreshed the college's personnel policies and procedures when property is missing or stolen. HCC will inform all cost center directors of Chapter 647 of the Acts of 1989 and its reporting requirements. Cost center personnel will be directed to conduct periodic random monitoring of their department's inventory.

3. INADEQUATE CONTROLS OVER GASOLINE USAGE

Our audit found that HCC was not adequately controlling the gasoline inventory used by its maintenance and campus security personnel. Specifically, HCC does not record when the gasoline pump is used, how much gasoline is being used for each vehicle, the mileage of each vehicle, or the person accessing the gasoline pump. In addition, HCC has not documented any internal control procedures for its gasoline inventory, thereby preventing effective regulation and monitoring of the usage of its gasoline supply. As a result, HCC's gasoline inventory, on which

HCC expended \$45,829 for 14,425 gallons of fuel during our audit period, is vulnerable to loss, theft, or misuse.

Prudent business practices advocate that a system of internal controls be established to properly safeguard assets and limit access to an agency's resources. Moreover, the OSC's Internal Control Guide, page 15, Access to Resources, states that access to an agency's resources should be protected as follows:

Management is required to protect the organization's equipment, information, documents, and other resources that could be wrongfully used, damaged or stolen. The department head is responsible for maintaining accountability for the custody and use of resources and shall assign qualified employees for that purpose. Management can protect resources by limiting access to authorized individuals.

Also, management must occasionally inventory the physical resources and records to reduce the risk of unauthorized use or loss of resources and records to reduce the risk of unauthorized use or loss of resources and protect against wasteful and wrongful acts.

However, HCC did not have policies and procedures in place to effectively monitor the gasoline usage of its maintenance and campus security personnel.

Regarding documentation of gasoline usage and access to the gasoline pump, the Facilities Assistant stated that the gasoline pump is contained inside a locked fence where the maintenance garage is located to which two individuals have keys. The Maintenance Foreman stated that four maintenance department personnel and three campus security personnel have keys to the gasoline pump and that three maintenance department personnel and all security personnel have keys to the gate.

Regarding this matter, HCC's Comptroller stated that he is aware of the problem and is in the process of instituting controls over the use of the gasoline pump.

Recommendation

To effectively monitor and control HCC's gasoline resources, HCC should document within its Administrative Policies and Procedures Manual effective internal controls that require the documentation of the vehicle information, date of access to the gasoline pump, amount of gallons pumped, mileage of the vehicle, and the individual obtaining gasoline. In addition, HCC

should document and monitor the gasoline pump and gate keys issued and the individuals to which the keys are assigned.

Auditee's Response

The college has subsequently documented a gasoline resource policy that includes a gasoline consumption log. The gasoline log documents when the gasoline pumps were used, how much gasoline was pumped for each vehicle, the mileage of the vehicle, or the person accessing the pump.