



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

Making government work better

Official Audit Report – Issued March 2, 2016

Middlesex Community College

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





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Office of the State Auditor
Suzanne M. Bump

Making government work better

March 2, 2016

President James Mabry
Office of the President
Middlesex Community College
33 Kearney Square
City Building 501B
Lowell, MA 01852

Dear Mr. Mabry:

I am pleased to provide this performance audit of Middlesex Community College. 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 college, whose comments are reflected in this report.

I would also like to express my appreciation to Middlesex Community College for the cooperation and assistance provided to my staff during the audit.

Sincerely,

A handwritten signature in blue ink, appearing to read "SMB", written in a cursive style.

Suzanne M. Bump
Auditor of the Commonwealth

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LIST OF ABBREVIATIONS

Clery Act	Jeanne Clery Disclosure of Campus Security Policy and Campus Crime Statistics Act
GAAP	generally accepted accounting principles
ICP	internal control plan
IT	information technology
MCC	Middlesex Community College
MMARS	Massachusetts Management Accounting and Reporting System
OSA	Office of the State Auditor

EXECUTIVE SUMMARY

In accordance with Section 12 of Chapter 11 of the Massachusetts General Laws, the Office of the State Auditor (OSA) has conducted an audit of certain activities of Middlesex Community College (MCC) for the period July 1, 2012 through June 30, 2014.

In this performance audit, we examined certain MCC activities related to the purchasing and safeguarding of fixed assets, the reporting requirements of Chapter 647 of the Acts of 1989, certain administrative expenditures, and the federal 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 5	MCC's fixed-asset list was incomplete: it did not include \$39,229 of exercise equipment in the college's fitness center.
Recommendation Page 6	MCC should develop updated controls over its fixed assets that include instructions for additions/deletions, annual inventories, and reconciliations. The controls should be incorporated into the college's internal control plan.
Finding 2 Page 7	Four items had been stolen but not reported to OSA as required.
Recommendation Page 7	MCC should develop policies and procedures that ensure that all unaccounted-for variances are reported to OSA as required.

OVERVIEW OF AUDITED ENTITY

Middlesex Community College (MCC), a two-year nonresidential college, is authorized by Section 5 of Chapter 15A 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 requirements of the state's Board of Higher Education, such as the Standards for the Expenditure of Trust Funds. This includes, as the board's primary responsibilities, setting policy, approving annual budgets, monitoring quarterly budget performance, and participating in the approval of internal audits. The president of MCC reports to the board of trustees and is the administrative head of the college. The president is supported by the executive vice president, the provost, the vice president of Academic and Student Affairs, the vice president of Enrollment Services Research and Planning, and the executive director of Public Affairs.

MCC 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. The college operates two campuses: a 200-acre main campus located at 591 Springs Road in Bedford and a satellite campus located at 33 Kearney Square in Lowell. As of June 30, 2014, MCC had 12,299 full- and part-time students and 133 full-time faculty members. MCC offers 103 degree and certificate programs. It conferred 1,325 degrees in 2013 and 1,356 in 2014.

AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY

In accordance with Section 12 of Chapter 11 of the Massachusetts General Laws, the Office of the State Auditor (OSA) has conducted a performance audit of certain activities of Middlesex Community College (MCC) for the period July 1, 2012 through June 30, 2014.

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. Does MCC have controls over purchasing, tracking, and safeguarding of fixed assets, including information-technology (IT) equipment, that are adequate to prevent loss?	No; see Finding <u>1</u>
2. Does MCC comply with the reporting requirements of Chapter 647 of the Acts of 1989? ¹	No; see Finding <u>2</u>
3. Does MCC have adequate controls over certain administrative expenses to ensure that all expenditures are reasonable and appropriate?	Yes
4. Does MCC comply with the reporting requirements of the federal Jeanne Clery Disclosure of Campus Security Policy and Campus Crime Statistics Act (the Clery Act)? ²	Yes

To achieve our objectives, we gained an understanding of, and tested, the relevant internal controls in the following areas: procurement of goods; safeguarding of fixed assets, including IT equipment; Chapter 647 reporting; certain administrative expenses; access and use of computer resources; and the Clery Act. We conducted further audit testing as follows:

1. This law requires agencies to file a report with the Office of the State Auditor if they find any “unaccounted for variances, losses, shortages or thefts of funds or property.”
2. The Clery Act requires colleges and universities to report crime on and near their campuses.

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- We reviewed MCC's organizational charts; minutes of the meetings of its board of trustees for the audit period; and laws, regulations, policies, and procedures related to our audit objectives.
 - We chose a nonstatistical sample of 8 out of 35 fixed assets purchased during the audit period that had a value greater than or equal to \$5,000 but less than \$50,000. We reviewed these items for evidence of competitive solicitation, proper approvals, and agreement of purchase orders / contracts to invoices and amounts paid.
 - We selected a judgmental sample of 36 out of 7,387 IT equipment items from the college's fixed-asset list in order to verify their physical existence and the accuracy of MCC's inventory list and to determine whether the items were properly tagged with asset identification numbers. In performing this test, we chose items from both campuses and also traced items from their physical locations to the fixed-asset list.
 - We reviewed Chapter 647 of the Acts of 1989, which requires state agencies and departments to file a report with OSA regarding all unaccounted-for variances, losses, shortages, or thefts of funds or property. We reviewed MCC's inventory lists, campus police reports, and minutes of the meetings of the board of trustees to determine whether MCC had experienced any losses or thefts and, if so, whether it had properly reported these occurrences to OSA.
 - For fiscal year 2013, we statistically sampled 36 out of 1,475 administrative and trust-fund expenditures from specific categories using codes from MCC's principal accounting software (Banner) that correspond to codes in the Massachusetts Management Accounting and Reporting System (MMARS). For fiscal year 2014, we statistically sampled 35 out of 3,906 administrative and trust-fund expenditures from specific categories using MMARS object classes for transactions ranging from \$0 to \$20,000, and we judgmentally sampled 10 out of 40 transactions using the same MMARS object classes for items over \$20,000. We reviewed the documentation for these expenditures to determine whether they were properly authorized, reasonable, adequately documented, and applicable to MCC's business operations.
 - We interviewed MCC's director of Public Safety, dean of students, and director of Compliance about the college's policies and procedures for Clery Act reporting and reviewed these policies and procedures. In addition, we reviewed internal crime logs related to the annual incident reports submitted by MCC to the US Department of Education under the Clery Act and assessed MCC's compliance with Clery Act requirements.

To assess the reliability of the financial data, we performed a data-reliability assessment of Banner. Our assessment included interviewing key MCC IT personnel, completing an IT questionnaire, and reviewing evidence to support the answers provided. We determined that the data were sufficiently reliable for the purposes of our report.

We used a combination of statistical and nonstatistical sampling to help us achieve our audit objectives. Our tests of the statistically chosen samples revealed no issues, and our testing of nonstatistically chosen samples revealed no systemic issues. As a result, we did not project our results to the various populations.

DETAILED AUDIT FINDINGS WITH AUDITEE'S RESPONSE

1. Middlesex Community College omitted \$39,229 of fitness equipment from its inventory of fixed assets.

Although Middlesex Community College (MCC) had documentation to substantiate that it had conducted an annual physical inventory of its fixed assets during our audit period, and although it reported in its Internal Control Questionnaire³ that it had procedures for inventory, the fixed-asset list that it used to conduct this inventory was incomplete. Specifically, the list did not include exercise equipment valued at \$39,229 that was located in the college's fitness center.

Without making sure that all of its fixed assets are included in its fixed-asset inventory list, MCC cannot be certain that these assets are properly safeguarded against loss and misuse.

Authoritative Guidance

The Fixed Assets—Acquisition Policy issued jointly by the Office of the State Comptroller and Operational Services Division states that “non-[generally accepted accounting principles, or GAAP] Fixed Assets must be recorded in a department's inventory.”

Reasons for Noncompliance

The college's internal control plan (ICP) does not address requirements for managing fixed assets other than information-technology (IT) equipment, and there appears to be no follow-up by the accounting staff to check the year-end fixed asset reconciliations.

According to the college's comptroller, responsibility for inventory of fixed assets is delegated to departments based on the type of asset (e.g., physical science, dental technology, nursing, or IT); if there is no relevant department, then responsibility is delegated to the Facilities Management staff. The comptroller stated that perpetual records and physical counts of assets were maintained or performed by the department with designated responsibility for them. She reported that she had instructed the department heads to add items to their inventory lists after the Purchasing and Accounting departments

3. Each year, the Office of the State Comptroller issues a memo (Fiscal Year Update) to internal control officers, single audit liaisons, and chief fiscal officers instructing departments to complete an Internal Control Questionnaire designed to provide an indication of the effectiveness of the Commonwealth's internal controls. In the Representations section of the questionnaire, the department head, chief fiscal officer, and internal control officer confirm that the information entered in the questionnaire is accurate and approved.

approved the purchase orders. However, we were not given any memos to the staff regarding these procedures, nor could the college give us year-end inventory instructions.

MCC's comptroller stated that the omission of the fitness equipment from the inventory list was an oversight and that there are not enough accounting personnel to perform an extensive review of fixed-asset reconciliations. She also stated that many of the items in the fitness center are large pieces of exercise equipment or weights that are not very susceptible to theft.

Recommendation

MCC should develop updated controls over its fixed assets that include instructions for additions/deletions, annual inventories, and reconciliations. The controls should be incorporated into the college's ICP.

Auditee's Response

We agree that we missed the fitness center equipment in the reporting of equipment college-wide. The College is in the process of refining its annual process of accounting for our non-GAAP fixed assets in order to adhere to the state comptroller's office guidelines. We are researching inventory systems that would facilitate our fulfilling this annual obligation and plan on implementing it within this calendar year. We will also update the ICP to incorporate the accounting for such assets.

We do not agree with the conclusion to audit objective #1. The College has substantial internal controls in place and over 18 years of audit results with no findings. To make an absolute statement that we do not have controls to adequately safeguard our assets does not take into account the materiality of the finding nor the fact that given the weight and location of the equipment it cannot be moved easily.

Auditor's Reply

Our report does not state that MCC has no controls at all to safeguard its assets adequately. Our objective was to determine whether it had sufficient controls to prevent loss, and we found that the controls were not adequate for that purpose. Our report does acknowledge that MCC had controls over its inventory of fixed assets, but we identified certain deficiencies in these controls, including the lack of year-end follow-up by the accounting staff and ICP requirements for managing certain fixed assets. As a result, MCC's inventory records were inaccurate. While MCC may believe that the value of the fixed assets makes this immaterial, we believe that the deficiencies we identified in MCC's inventory-control process need to be addressed in order to ensure that all of MCC's fixed assets are properly safeguarded against loss and misuse.

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

2. MCC did not properly report all unaccounted-for losses to the Office of the State Auditor.

Four items had been stolen but not reported to the Office of the State Auditor (OSA). The value of the items totaled \$3,739: an Apple iPad (\$729), an HP laptop (\$799), a Lenovo projector (\$1,599), and a Dell projector (\$612). In addition, 13 hot plates, with a total replacement cost of \$3,900, had been stolen from MCC's science department in fiscal year 2014, but in its filing to OSA regarding this theft, the college reported that only 10 hot plates had been stolen.

Because MCC did not report all these missing assets, OSA did not have the opportunity to determine the internal control weakness that contributed to, or caused, the loss of these assets and make recommendations to MCC to address the weakness and help ensure that the college's fixed assets would be adequately safeguarded against theft.

Authoritative Guidance

Chapter 647 of the Acts of 1989 (incorporated by reference into MCC's ICP) requires that "all unaccounted for variances, losses, shortages or thefts of funds or property . . . be immediately reported to the state auditor's office."

Reasons for Noncompliance

MCC does not have effective policies and procedures to ensure that all unaccounted-for losses are properly reported to OSA in accordance with Chapter 647. Although the college's ICP requires that employees report suspected financial fraud and sets forth a chain of notifications extending to the college's executive vice president, it does not contain a procedure for reporting losses or shortages other than fraud and does not state which college official is responsible for preparing Chapter 647 reports.

Recommendation

MCC should develop policies and procedures that ensure that all unaccounted-for variances are reported to OSA as required.

Auditee's Response

The college agrees with this finding. Although we do have a system in place in which we follow up on each loss report filed by public safety and then report the unaccounted for variances to the

OSA, we did not file 4 reports in a timely manner. We will further develop a process that adds an additional control mechanism to ensure that all unaccounted for variances are reported as required.