



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

*Making government work better*

Official Audit Report – Issued November 8, 2016

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## North Shore Community College

For the period July 1, 2013 through June 30, 2015





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

*Making government work better*

November 8, 2016

Dr. Patricia A. Gentile, President  
North Shore Community College  
1 Ferncroft Road  
Danvers, MA 01923

Dear Dr. Gentile:

I am pleased to provide this performance audit of North Shore Community College. This report details the audit objectives, scope, methodology, findings, and recommendations for the audit period, July 1, 2013 through June 30, 2015. 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 North Shore Community College 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

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## TABLE OF CONTENTS

<b>EXECUTIVE SUMMARY .....</b>	<b>1</b>
<b>OVERVIEW OF AUDITED ENTITY .....</b>	<b>3</b>
<b>AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY .....</b>	<b>4</b>
<b>DETAILED AUDIT FINDINGS WITH AUDITEE’S RESPONSE.....</b>	<b>7</b>
<b>1. North Shore Community College did not properly administer its inventory of fixed assets.....</b>	<b>7</b>
<b>a. NSCC did not conduct a complete annual inventory, maintain an accurate inventory list, or consistently follow its relocation procedures. ....</b>	<b>7</b>
<b>b. NSCC did not file required reports on unaccounted-for losses. ....</b>	<b>8</b>

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## LIST OF ABBREVIATIONS

Clery Act	Jeanne Clery Disclosure of Campus Security Policy and Campus Crime Statistics Act
ICP	internal control plan
IT	information technology
NSCC	North Shore Community College
OSA	Office of the State Auditor
OSC	Office of the State Comptroller

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## 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 North Shore Community College (NSCC) for the period July 1, 2013 through June 30, 2015.

In this performance audit, we examined certain NSCC activities related to the inventory of fixed assets, the reporting requirements of Chapter 647 of the Acts of 1989, certain trust fund 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.

<b>Finding 1a</b> <b>Page <a href="#">7</a></b>	NSCC did not conduct a complete annual physical inventory, maintain a complete and accurate inventory list, or follow its procedures for relocating assets.
<b>Finding 1b</b> <b>Page <a href="#">8</a></b>	NSCC did not file required reports on unaccounted-for losses.
<b>Recommendations</b> <b>Page <a href="#">9</a></b>	<ol style="list-style-type: none"><li>1. NSCC should develop and implement written policies and procedures for conducting an annual physical inventory of all its fixed assets.</li><li>2. NSCC management should periodically review the fixed-asset inventory list to ensure that it is properly maintained and is reconciled with the results of the physical inventory.</li><li>3. NSCC should review and edit its current inventory list, removing items that are under the established dollar threshold for inventory control and adding missing information where possible.</li><li>4. NSCC should develop and implement policies, procedures, and monitoring controls to ensure that all unaccounted-for variances, losses, shortages, and/or thefts of funds or property are communicated to the campus police and immediately reported to OSA.</li></ol>

### Post-Audit Action

In its written response to this report, NSCC told us,

*Management has already taken post-audit action as follows:*

- *The Facilities [associate vice president] and [chief information officer] have met to discuss action steps required to tighten and address findings in the report. Future meetings with representatives from receiving, IT and Media will be scheduled to finalize process improvements.*

- *Established a more formal and timely disposal of surplus equipment, including several rounds of equipment surplus the past two months according to State guidelines.*
- *IT supervisors have met with their staff to reinforce all techs must complete the online add/move/change form timely for all technology equipment.*
- *Facilities will coordinate with appropriate departments for a full physical inventory in February/March 2017.*

## **OVERVIEW OF AUDITED ENTITY**

North Shore Community College (NSCC) is authorized by Section 5 of Chapter 15A of the Massachusetts General Laws and operates under the direction of a board of trustees. The board operates under the regulations promulgated by the state's Board of Higher Education. The college is organized into five major divisions: Administration and Finance, Academic Affairs, Student and Enrollment Services, Institutional Advancement, and Human Resource Development. Each division is led by one of five vice presidents, all of whom report to the president of the college. The president of NSCC reports to the board of trustees and is the administrative head of the college.

NSCC 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, and is accredited by the New England Association of Schools and Colleges. Its main campus is located at 1 Ferncroft Road in Danvers; satellite sites are located in Lynn and Middleton. As of fall 2015, NSCC had 10,451 students enrolled.

## 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 North Shore Community College (NSCC) for the period July 1, 2013 through June 30, 2015.

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 NSCC's fixed assets, including information technology (IT) equipment, accurately accounted for and properly safeguarded?	No; see Finding <a href="#">1a</a>
2. Is NSCC complying with the requirements of Chapter 647 of the Acts of 1989 <sup>1</sup> in reporting stolen and/or missing property?	No; see Finding <a href="#">1b</a>
3. Are trust fund expenditures, including those made with credit cards, accurately recorded, valid, properly approved, supported by adequate documentation, and spent in accordance with the fund's purpose?	Yes
4. Is NSCC complying with the reporting requirements of the federal Jeanne Clery Disclosure of Campus Security Policy and Campus Crime Statistics Act (the Clery Act)? <sup>2</sup>	Yes
5. Is academic counseling available to serve the needs of students?	Yes

To achieve our objectives, we gained an understanding of NSCC's internal controls and tested their operating effectiveness over inventory of fixed assets, as well as certain administrative expenditures including credit-card and procurement-card transactions.

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1. 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."  
2. The Clery Act requires colleges and universities to report crime on and near their campuses.

We also conducted further audit testing as follows:

- To gain an understanding of NSCC's inventory practices, we reviewed NSCC's policies and procedures and interviewed the comptroller, the physical inventory coordinator, the chief information officer, and other staff members who were involved in NSCC's inventory process. We sampled and examined inventory records and verified the existence of certain inventory items. From approximately 4,700 items with values of more than \$500, we selected a random, nonstatistical sample of 60 items to inspect physically in order to ensure that each item was accurately recorded. We also selected 25 items from various NSCC campus locations and attempted to find them on the inventory list.
- We gained an understanding of NSCC's reporting process under Chapter 647 by interviewing the college's comptroller and chief of campus police. To determine whether NSCC complied with reporting requirements, we reviewed the college's police logs to determine whether there were any variances, losses, shortages, or thefts of funds or property that had not been reported to OSA.
- To gain an understanding of NSCC's internal controls over trust fund expenditures, we reviewed NSCC's trust fund management and administrative expense policies and procedures and interviewed the college's vice president of Administration and Finance and comptroller. We conducted an analysis of expenditures paid out from the NSCC local trust fund during our audit period. Based on areas of inherent risk, dollar amount, and/or activity, we selected the following expense categories for further review: office and administrative supplies, printing expenses and supplies, management consultants, and IT equipment. We assessed NSCC's controls over the payment of these types of expenses. More specifically, we used nonstatistical random sampling to select 35 out of 816 administrative expenditures of more than \$250 to determine whether they were accurately recorded, properly approved, supported by adequate documentation, and spent in accordance with the fund's purpose.
- We used a nonstatistical random sampling method to select a sample of 15 credit-card transactions of more than \$100, out of a population of 81, to determine whether they were accurately recorded and supported by adequate documentation.
- We judgmentally selected a sample of 35 procurement-card expenditures of more than \$150, out of a total population of 982, to determine whether they were appropriate, accurately recorded, properly approved, and supported by adequate documentation.
- To gain an understanding of NSCC's compliance with the Clery Act, we interviewed NSCC's chief of campus police regarding Clery Act reporting policies and procedures. We verified that all Clery Act requirements were met on the college's annual security reports. In addition, we compared internal reports with the statistics on the annual security reports and the federal Department of Education's website for agreement.
- To gain an understanding of the college's commitment to academic advisory and support services for students, we interviewed the dean of Enrollment Services, the vice presidents of Academic Affairs and Student Affairs, and the assistant vice president of Planning and Research

and Institutional Assessment, and we reviewed the academic-counseling information made available to students through various brochures, pamphlets, and websites.

Because our sampling was nonstatistical, we did not project the results of our audit tests to the total populations in the areas we reviewed.

We determined the reliability of data obtained from NSCC's Banner system, the accounting system containing financial records used at the college, by comparing Banner reports to other sources for agreement; performing electronic tests of report data; and testing certain general IT controls using questionnaires, interviews, and observations. We determined that the data were sufficiently reliable for the purposes of this report.

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## DETAILED AUDIT FINDINGS WITH AUDITEE'S RESPONSE

### 1. North Shore Community College did not properly administer its inventory of fixed assets.

North Shore Community College (NSCC) did not conduct an annual physical inventory of all its fixed assets, maintain an accurate inventory list, follow its procedures for relocating assets, or report missing fixed assets to the Office of the State Auditor (OSA). As a result of these issues, NSCC cannot be certain that all its assets are adequately safeguarded against abuse and/or misuse or that it can effectively detect lost, missing, or stolen items.

#### a. NSCC did not conduct a complete annual inventory, maintain an accurate inventory list, or consistently follow its relocation procedures.

NSCC did not conduct a complete annual inventory of all its fixed assets during our audit period. Although there were periodic checks of some assets, NSCC did not confirm the existence of all inventory items annually. Further, NSCC's inventory records were incomplete and inaccurate and were not maintained in accordance with its internal control plan (ICP). Specifically, 1,786 items on NSCC's inventory list were missing key identifying information such as the purchase date, original cost, location, and description.

In addition to missing information, NSCC's inventory record also contained inaccuracies. We selected a sample of 60 fixed assets to verify physically, and we identified the following problems:

- Six of the fixed assets could not be located.
- Eleven fixed assets were found in locations other than the ones on the inventory list.

As well as this sample, 613 other items were listed at locations that were no longer occupied by the college.

Finally, 37 fixed assets had been relocated, but for 19 of these assets, the required asset-transfer documentation had not been submitted in accordance with NSCC's ICP. Nine of these 19 assets were among those that had been found in locations other than the ones on the inventory list.

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## Authoritative Guidance

NSSC's ICP states,

*The College shall maintain an inventory system that includes: Affixing a property ID number to an item valued at \$1,000 or more. . . .*

*A property identification tag should be placed on the equipment and logged in by the Receiver. The log [list] shall include the property ID number, description of item, cost, date received, and location to be sent. . . .*

*All departments wanting to transfer equipment to a different location must file a "Request to Transfer" form with the Physical Inventory Coordinator.*

The plan also requires an annual physical inventory, as does the Office of the State Comptroller's (OSC's) Accounting and Management Policy.

The Fixed Asset Acquisition Policy issued jointly by OSC and the state's Operational Services Division states,

*Non-GAAP Fixed Assets must be recorded in a Department's inventory and reconciled at least annually. This inventory can be either electronic or on paper, as long as it records the date of purchase, amount, description, location and disposition of an item.*

## Reasons for Noncompliance

NSSC does not have formally documented policies and procedures for all phases of the inventory process. In addition, NSSC management did not periodically monitor the administration of inventory to ensure that required information was recorded and maintained properly on the inventory list and that an annual physical inventory was completed. Finally, although NSSC had established \$1,000 as the threshold for items to be included on the inventory list, we found that as of June 30, 2015, only 2,171 of the 7,962 items had cost \$1,000 or more. This significantly increased the number of items requiring verification during the annual physical inventory process. Efficiency decreases with such a significant volume of inventory.

### **b. NSSC did not file required reports on unaccounted-for losses.**

During our audit period, NSSC did not report to OSA 11 instances (totaling \$10,422) of missing or stolen computer equipment. Because it did not report these thefts and losses, NSSC did not give OSA the opportunity to identify the internal control weaknesses that might have contributed to, or

caused, these incidents; in addition, OSA did not have the opportunity to make recommendations to NSCC regarding addressing those weaknesses to reduce the likelihood of future thefts or losses.

### **Authoritative Guidance**

Chapter 647 of the Acts of 1989 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**

NSCC officials told us that the college has a process for filing a report with the campus police whenever an item is reported as lost or stolen and reporting all unaccounted-for variances to OSA. However, they could not provide us with any documentation to substantiate this assertion, and there were no records to indicate that the campus police had been notified of the 11 missing items.

### **Recommendations**

1. NSCC should develop and implement written policies and procedures for conducting an annual physical inventory of all its fixed assets.
2. NSCC management should periodically review the fixed-asset inventory list to ensure that it is properly maintained and is reconciled with the results of the physical inventory.
3. NSCC should review and edit its current inventory list, removing items that are under the established dollar threshold for inventory control and adding missing information where possible.
4. NSCC should develop and implement policies, procedures, and monitoring controls to ensure that all unaccounted-for variances, losses, shortages, and/or thefts of funds or property are communicated to the campus police and immediately reported to OSA.

### **Auditee's Response**

*College management agrees with the auditor's recommendations to tighten aspects of our inventory policies and procedures. We did provide the auditors with our internal controls, which included written inventory policies and procedures as well as policies and procedures for unaccounted-for variances, losses, shortages, and/or thefts of funds or property, including communications to campus police and reporting to OSA; we also did provide copies of Chap. 647 reports to OSA during the audit period. There have been multiple department moves in the last year, a closing of the Beverly campus site, and a turnover of staff due mostly to retirements, all impacting the full implementation of internal procedures. We believe this has negatively impacted our accuracy of inventory leading to the findings.*

*The six fixed assets that could not be located from the 60 sampled items were very old. Thirty-six of the sampled assets were IT items and two not located were purchased in 1993 and 2000 respectively. The other four assets not located were all purchased prior to year 2003 and*

*included a typewriter and cabinets. These items should have been purged long ago from the asset list. In addition, other fixed assets listed at locations that we no longer occupy also need to be removed. The IT department performs a complete annual inventory of approximately 2300 technology assets and provided complete reports for the years being audited. From the 2300 assets information, 11 missing/non-verified computers were provided by IT on their reports. Of these 11 assets, seven were purchased in 2010 or earlier, three in 2012, and 1 in 2014; the value of these items is less than reported, as computers depreciate over time and have no useful value after six or seven years.*

*Although the current inventory database is old and a new inventory system would be ideal, we are first addressing process improvements so that the existing system works—this will provide a firm understanding of the requirements to invest in a new system.*

*Management will address the recommendations further:*

- 1. Written policies and procedures will be updated with specifics regarding annual inventory.*
- 2. Written procedures for staff periodic review and reconciliations with the physical inventory will be updated.*
- 3. The current inventory list will be reviewed and edited, removing locations no longer occupied, equipment no longer in use or below established value.*
- 4. Periodic reminder communications will be made to College managers to report losses or thefts immediately to Campus Police, as well as completing the periodic review and reconciliations with the physical inventory.*

## **Auditor's Reply**

We acknowledge that NSCC provided us with a copy of its ICP, but this plan did not document a process for filing a report with the campus police whenever an item is reported as lost or stolen, or for reporting all unaccounted-for variances to OSA. Further, as stated above, NSCC did not have formally documented policies and procedures for all phases of the inventory process, and the procedures that were established in its ICP were not being followed. Most significantly, NSCC did not conduct a complete annual inventory of its fixed assets, which is necessary to determine whether all assets are accounted for and accurately reported.

Regardless of an asset's age or value, an effective internal control system, among other things, ensures that an entity's fixed-asset inventory list is accurate and properly maintained, which requires reconciling the information on the list with the results of an annual physical inventory. NSCC's inventory list contained many items that were listed at locations NSCC no longer occupied and that would have been

accounted for at the time of an annual inventory. If NSCC could not account for some items, it should have reported the matter to OSA when it realized it could not account for them, regardless of their age or value at that time. Timely reporting of unaccounted-for assets is necessary to determine the internal control weaknesses that may have contributed to these losses and the changes that may be required to reduce the likelihood of losses in the future.

According to its response, NSCC is taking measures to address the problems we identified. However, although NSCC states that will send periodic reminders to its managers to report losses or thefts immediately to the campus police, we believe that NSCC should also take additional measures, including ensuring that it has effective policies, procedures, and monitoring controls in place so that all unaccounted-for variances, losses, shortages, and/or thefts of funds or property are properly communicated to the campus police and immediately reported to OSA.