



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

Making government work better

Official Audit Report – December 15, 2016

Massachusetts College of Art and Design

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





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Dr. David P. Nelson, President
Massachusetts College of Art and Design
621 Huntington Avenue
Boston, MA 02115

Dear Dr. Nelson:

I am pleased to provide this performance audit of Massachusetts College of Art and Design. This report details the audit objectives, scope, methodology, finding, 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 Massachusetts College of Art and Design 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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LIST OF ABBREVIATIONS

ASD	Administrative Services Department
Clery Act	Jeanne Clery Disclosure of Campus Security Policy and Campus Crime Statistics Act
ICP	internal control plan
IT	information technology
MassArt	Massachusetts College of Art and Design
OSA	Office of the State Auditor
OSD	Operational Services Division

EXECUTIVE SUMMARY

In accordance with Section 12 of Chapter 11 of the Massachusetts General Laws, the Office of the State Auditor has conducted a performance audit of certain activities of Massachusetts College of Art and Design (MassArt) for the period July 1, 2013 through June 30, 2015.

In this performance audit, we examined certain MassArt activities related to the inventory 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 finding and recommendations, with links to each page listed.

Finding 1 Page 6	MassArt did not properly administer its inventory of fixed assets.
Recommendations Page 7	<ol style="list-style-type: none">1. MassArt should update its policies and procedures to include the following:<ol style="list-style-type: none">a. monitoring controls and documentation requirements for departments' annual inventory reviews, including requirements that each department give the Administrative Services Department (ASD) a list of specific items inventoried and that ASD follow up if no inventory confirmation is receivedb. a defined relocation policyc. a detailed surplus policy that requires the reconciliation of fixed assets approved for disposal by the state's Operational Services Division to those listed as disposed of by MassArt2. MassArt should ensure the completion of the annual inventory process and update the master inventory list as needed each year.

OVERVIEW OF AUDITED ENTITY

Massachusetts College of Art and Design (MassArt) 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 operates under the regulations promulgated by the state's Board of Higher Education. This includes, as the board's primary responsibilities, setting policy, approving annual budgets, and recommending senior staff members for vacant positions. MassArt is administered by a president who is supported by an executive team consisting of the vice president of Administration and Finance, the vice president of Advancement, the vice president of Student Development, and a chief information officer.

MassArt is a member of the Massachusetts public higher-education system, which consists of 15 community colleges, 9 state universities, and the University of Massachusetts. It is an accredited public four-year undergraduate and graduate institution, founded in 1873, that is located at 621 Huntington Avenue in Boston. The college offers bachelor's degrees in 20 concentrations within the arts, as well as graduate degrees in the arts, media, and architecture. Students can also obtain certificates in fashion, graphic, and industrial design. In the fall 2015 semester, MassArt had a total student enrollment of 1,990: 1,646 in the undergraduate program, 108 in the graduate program, and 236 in continuing education.¹

1. Statistical information is from www.massart.edu.

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 Massachusetts College of Art and Design (MassArt) 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 and 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 MassArt properly administer its inventory of fixed assets?	No; see Finding <u>1</u>
2. Does MassArt comply with the reporting requirements of Chapter 647 of the Acts of 1989? ²	Yes
3. Are MassArt's administrative expenditures reasonable and appropriate?	Yes
4. Does MassArt comply with the federal Jeanne Clery Disclosure of Campus Security Policy and Campus Crime Statistics Act (Clery Act)? ³	Yes

To achieve our audit objectives, we gained an understanding of internal controls we determined to be relevant to our audit objectives and tested the controls' operating effectiveness over the inventory of fixed assets and administrative expenditures. We conducted further audit testing as described below.

Inventory

To gain an understanding of MassArt's inventory process, we reviewed its internal control plan, which documents the college's established inventory policies and procedures. We sampled the inventory list

2. This law requires state agencies to file a report with OSA if any "unaccounted for variances, losses, shortages, or thefts of funds property" are identified.
3. This act requires colleges and universities to report crime on and near their campuses.

and examined it to validate the existence of certain inventory items, the accuracy of the inventory list, and the proper tagging of fixed assets. Specifically, we selected a statistical sample of 40 items out of 2,213 fixed assets that each cost \$1,000 or more. We also judgmentally selected 13 out of the 112 Facilities Department items on the inventory list and verified their existence and proper tagging. Additionally, the Facilities Department gave us a list of 690 maintenance supplies and similar items that were not on the inventory list. We judgmentally selected 8 of these items and verified their existence.

To verify the completeness of the college's inventory list, we selected a judgmental sample of 25 fixed assets from different locations on the MassArt campus and verified that each item was on the inventory list.

During our audit period, the college disposed of 347 fixed assets that it deemed surplus. We judgmentally selected 45 of these 347 surplus assets and traced their tag numbers, locations, and descriptions to the college's inventory list to verify that the list had been properly updated to account for them.

In addition, to verify the completeness and accuracy of the college's surplus list, we compared the fixed assets on the list to the invoices of the vendor that had been hired to dispose of them. However, the vendor invoices only listed the number of items and their weight and gave generic descriptions (e.g., "mixed electronics" or "mixed paper supplies"). Therefore, we were not able to reconcile the items on the invoices to the items on MassArt's surplus list.

Chapter 647

We gained an understanding of MassArt's reporting process under Chapter 647 of the Acts of 1989 by interviewing the director of the Administrative Services Department. We obtained 10 of the 24 campus police logs for our audit period from the campus police captain and scanned them to determine whether there were any unaccounted-for variances, losses, shortages, or thefts of funds or property that had not been reported to OSA. By obtaining the Chapter 647 loss reports from the deputy chief of Public Safety and reconciling them to OSA records, we confirmed that MassArt had complied with Chapter 647's reporting requirements.

Administrative Expenses

To gain an understanding of the college's administrative-expenditure process, we reviewed MassArt's policies and procedures for administrative expenditures and interviewed the assistant vice president of MassArt's Business Office and the college's assistant director of Accounting Services. We used nonstatistical judgmental sampling to select a sample of 41 out of a population of 5,202 expenditures. We reviewed the documentation for the sampled expenditures to verify that they were properly supported by adequate documentation, reasonable in nature and amount, and appropriate within the context of the college's mission.

Clery Act

To gain an understanding of MassArt's compliance with the Clery Act, we interviewed MassArt's chief of campus police and deputy chief of Public Safety. We reviewed the college's annual security reports for calendar years 2014 and 2015. We also validated that the annual security report was posted on the MassArt website and that students were told it was available there, and we verified that campus crime logs were kept on file in the Security Office for seven years. We compared MassArt's number of reported incidents with those of similarly sized public institutions to determine whether its crime statistics seemed comparable based on school location and size.

Data Reliability

We used the Colleague system, the accounting system containing MassArt's financial and student records, to obtain information about inventory and administrative expenditures during our audit period. We determined the reliability of data obtained from Colleague by comparing Colleague reports to other sources for agreement and by testing certain general information technology controls using questionnaires, interviews, and observations. We determined that the data were sufficiently reliable for the purposes of audit testing.

DETAILED AUDIT FINDINGS WITH AUDITEE'S RESPONSE

1. Massachusetts College of Art and Design did not properly administer its inventory of fixed assets.

Massachusetts College of Art and Design (MassArt) could not provide documentation of annual inventories of fixed assets during our audit period; its inventory of fixed assets was inaccurate; and its surplus lists were inconsistent. As a result of these issues, there is a higher-than-acceptable risk of undetected theft or misuse of fixed assets.

MassArt maintains one master list of all fixed assets for the entire college. During the annual inventory process, the Administrative Services Department (ASD) emails each department its own list of fixed assets to be reviewed by the department manager. In this email, department managers are asked to confirm the list and report any inconsistencies they find to the director of ASD, who updates the master list where required. For the two fiscal years in our audit period, we tested a total of 41 departments. Of these departments, a total of 9⁴ (4 in fiscal year 2014 and 5 in fiscal year 2015) did not respond to the email from the director of ASD at all. The other 32 responded to the email, but some did not provide enough detail for us to verify that they had actually conducted an inventory.

Also, the college's inventory of fixed assets was inaccurate. We selected 40 assets from MassArt's inventory list and verified their existence. Six of these assets, collectively valued at \$15,202, could not be located. Our testing showed that some of these assets had not been inventoried since 2001. Seven other assets, collectively valued at \$12,797, were found in different locations from those listed on the inventory list. In addition, to verify the completeness of the inventory list, we judgmentally selected 25 assets on the campus and determined whether they appeared on the college's inventory list; 3 of them did not.

Finally, MassArt's surplus lists were not consistent. MassArt designates fixed assets that are no longer usable as surplus items. In accordance with the college's internal control plan (ICP), the administrative staff creates a list of surplus items, and the college sends the list to the Commonwealth's Operational Services Division (OSD) for approval to dispose of the items. We attempted to reconcile MassArt's OSD-approved surplus list to the college's own list of designated surplus items. The MassArt list contained

4. Two of these departments were information technology departments. This type of department performs its own inventory process regularly throughout the year rather than participating in the yearly college-wide inventory.

347 surplus items. Twenty-three of those items (collectively valued at \$62,878) were not on the OSD-approved list, and management could not account for them.

Authoritative Guidance

MassArt's ICP requires an annual inventory of all non-information technology (IT) items with costs greater than or equal to \$1,000 and IT items with costs greater than or equal to \$500.

Also, best practices, as reflected in the Office of the State Comptroller's Fixed Assets—Accounting and Management Policy, include reconciliation of an agency's fixed assets to its records.

Regarding fixed assets deemed surplus, Section XI of MassArt's ICP states,

If the item is considered no longer usable, ASD will write to the Commonwealth's Operational Services Division (OSD) for permission to throw the item away. If approved, OSD will stamp the request and send it back to the College.

Additionally, with regard to MassArt's surplus list, it is a best practice for organizations to ensure that their records are consistent, as shown in the above policies and other policies that require periodic reconciliation and confirmation of records.

Reasons for Noncompliance

Although MassArt has policies and procedures documented in its ICP for the inventory of its fixed assets, there is no requirement that the college establish monitoring controls to ensure that each department conducts and documents an inventory. For instance, there is no requirement that each department send ASD a list of items examined and each item's status; in addition, if a department does not send any response at all to ASD's inventory email, the ASD director does not follow up with that department.

Recommendations

1. MassArt should update its policies and procedures to include the following:
 - a. monitoring controls and documentation requirements for departments' annual inventory reviews, including requirements that each department give ASD a list of specific items inventoried and that ASD follow up if no inventory confirmation is received
 - b. a defined relocation policy
 - c. a detailed surplus policy that requires the reconciliation of fixed assets approved for disposal by OSD to those listed as disposed of by MassArt

2. MassArt should ensure the completion of the annual inventory process and update the master inventory list as needed each year.

Auditee's Response

In response to the report, MassArt told us it would implement the following changes.

1. The college will update its inventory policies and procedures to include the following:
 - a. immediate follow-up by ASD with college departments that have not responded to initial annual inventory requests, as well as escalation to senior personnel of lack of response to subsequent requests
 - b. departments' confirmation of the accounting for individual items inventoried
 - c. reconciliation of the OSD-approved surplus list to a list of items removed from the college's inventory and Chapter 647 reporting, where necessary
2. The college already has an Inventory Control—Notice of Transfer of Fixed Asset form that was developed to guide employees on its relocation policy; the college will now increase awareness of the relocation process and enhance its policies and procedures to promote use of the form.
3. The college will ensure that an inventory is performed and the master list is updated as needed each year.