

Office of the State Treasurer

Findings on Compliance with Rules and Regulations

Finding Number 12: Internal Control Plan Needs to be Updated

The Office of the State Treasurer (Office) does not have an internal control plan in accordance with Massachusetts General Law, Chapter 647, *State Agencies Internal Control Act of 1989* (Chapter 647). Chapter 647 outlines internal control standards which... "define the minimum level of internal control systems in operation throughout the various state agencies and departments..." and it constitutes... "the criteria against which such internal control systems will be evaluated." The chapter also states that "Internal control systems for the various state agencies and departments of the Commonwealth shall be developed in accordance with Office of the Comptroller guidelines." These guidelines require the establishment of an internal control plan.

Chapter 647 requires that the Office document its internal control systems to include:

"(1) Internal control procedures, (2) internal control accountability systems, and (3) identification of the operating cycles. Documentation of the Department's internal control systems should appear in management directives, administrative policies, and accounting policies, procedures and manuals."

Chapter 647 also details the important elements of an effective system of controls as a guide for the Office to consider when completing its plan. Chapter 647 stipulates that the Office designate an individual, equivalent in title or rank to an assistant or deputy to the department head, whose responsibilities include ensuring that the Office has written documentation of its accounting and administrative control systems on file and, at least annually, evaluating and implementing any changes necessary to maintain the integrity and effectiveness of the system. The plan, in addition to the information discussed above, should also discuss the components of internal control known as control environment, risk assessment, control activities, information and communication and monitoring as described in Office of the Comptroller guidelines.

The newly-elected State Treasurer assumed office in January 1999 and has embarked on making many changes to the internal control systems and processes that were in place when she assumed the office. She has hired many new managers and staff to implement those changes. One of the staff hired was an internal auditor who is currently working on an update to the plan. Such turnover in personnel in an elected office can happen frequently making the development and continuous update of the plan critically important to avoid confusion about roles, responsibilities and functions and to maintain the integrity and effectiveness of the internal control system. (*Fiscal Year 1998 Report Finding 14*)

Recommendation

The Office should continue to update and complete its internal control plan using the Office of the Comptroller *Internal Control Guide for Managers* and ensure that the plan contains all of the elements of Chapter 647. Once completed, the plan should be reviewed by the Office of the Comptroller or by an independent third party to ensure that the plan is logical, applicable and complete.

Department Corrective Action Plan

As has been noted in the ongoing investigation by the Office of the Attorney General for alleged illegal activities over the past several years, there has been a long-term degradation of systems and internal controls. Over the past several years, Treasury staffing had been depleted by 34% and as much as 67% in certain divisions. Key positions needed to develop and implement controls were not present. For instance, the previous table of organization had one position for a reconciliation analyst, which was vacant in the fall of 1998 and subsequently deleted in the fiscal year 2000 budget request. The current administration has employed a series of initiatives to review current practices, assess adequacy, and assure sufficient internal control. Staffing for reconciliation positions was increased to three with additional increases proposed for fiscal year 2001. When the current Treasurer assumed office in late January 1999, several initiatives were put into place to improve controls. These include the formation of a joint committee (Office of the State Auditor, Office of the State Treasurer, and Office of the State Comptroller) to review manual check processes. As noted in the Comptroller's Statutory Financial Report for 1999, the recommendations of this committee have been implemented. The Office has also implemented the recommendations of a special task force on Abandoned Property and implemented risk mitigation initiatives, such as transferring abandoned property and unpaid check fund disbursements to warranted payment systems that are fully integrated with the Commonwealth's statewide accounting system.

The Treasurer appointed an Internal Auditor in June 1999. While the previous administration did submit an internal control plan, it is clearly not comprehensive in its scope and did not address key risk criteria and meet the requirements of Chapter 647 as noted in prior year findings. While the current administration's internal control plan has not been finalized, drafts of all key Treasury processes (Abandoned Property, State Board of Retirement, Cash Management, encumbrance and payment management, Administration and Finance) have been developed and are currently being reviewed by management staff. It is the current administration's intent to completely involve all levels of management and staff in the internal control process, including risk assessment and risk mitigation.

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