Section IV

Findings on Compliance and Reportable Conditions Pertaining to Internal Control Structure Based on the Audit of the Financial Statements

Swan Boats, Public Garden , Boston

The Swan Boats are as much a part of Boston as the bean and the cod. They are the harbinger of Spring to native Bostonians. Famed in the stories Make Way For Ducklings and The Trumpet of the Swan, the Swan Boats are the only boats of their kind in the world! To the delight of the young and old each April for over 120 years, the Swan Boats have appeared in the Public Garden Lagoon with preenly grace.

They slowly cruise the lagoon in the Boston's Public gardens and under the the world's smallest suspension bridge.

This Boston tradition dates back to the 1870's when Robert Paget, whose descendants continue to operate the business, was granted a boat for hire license by the City of Boston. In 1877, he capitalized on the bicycle principle and with the help of others, developed a catamaran which housed a paddle wheel arrangement that was foot-propelled. To cover the captain, Robert suggested a swan! The idea came to him from his familiarity with the opera Lohengrin. The opera is based on a medieval German story in which Lohengrin, a knight of the Grail crosses a river in a boat drawn by a swan to defend the innocence of his heroine, Princess Elsa. The current fleet consists of six boats, the oldest of which was built in 1918.

The tradition, which began over 120 years ago, has grown to become a symbol of Boston and the city's unique blend of history and beauty. Paul Paget, grandson of Robert Paget, and his wife Marilyn maintain the charm and integrity of a vision that became a reality for a young boat builder and his wife many years ago.

Text, courtesy of www.swamboats.com

Massachusetts Highway Department
Findings on Reportable Conditions

Finding Number 1: Oversight of the Owner Controlled Insurance Plan Needs to be Improved

The Massachusetts Highway Department (Department) needs to establish policies and procedures to improve oversight over the recording of financial transactions and the financial reporting process of the Owner Controlled Insurance Plan (OCIP). The OCIP was established to provide a vehicle for the Commonwealth to assume responsibility for providing workers' compensation and general liability insurance coverage for all contractors and subcontractors working on the Central Artery/Third Harbor Tunnel Project (the Project). In 1996, the Department established a Trust, managed and administered by an independent third party (Trustee), to fund the Project's liabilities for worker's compensation and general liability claims, as well as administrative expenses and certain defined contingencies under the OCIP. The Department entered into an agreement with the Massachusetts Turnpike Authority (Authority) to manage the operations of the Project, including the OCIP. An insurance company manages and processes the claims and provides excess liability coverage for the OCIP.

The Authority needs to develop additional controls to monitor the financial transactions of the assets of the OCIP Trust and the payments for claims and expenses paid from the Trust. The Commonwealth makes payments to the insurance carrier through the insurance broker to fund the costs of the program. Certain fees and expenses are deducted from the payments and the balance is deposited into the Trust. Prior to June 30, 2000, the Authority did not maintain a reconciliation of the amounts transferred from the Commonwealth to the amounts deposited into the Trust. In addition, transfers between funds established within the Trust were not documented.

During the current year, the Department contracted with an independent CPA firm to perform an audit of the Trust's assets from 1996 to 2001. As of the date of the independent auditor's report, approximately $15 million of premium deposits and transfers (occurring prior to July 1, 2000) has been identified as potentially due to the Trust. This information has been provided to the insurance company which received the money. The insurance company has not completed their response to the Authority as to their opinion on the matter.

The audit report also noted that "The Investment advisory services agreement provides for a base fee of .25 of 1% computed on the average value of the portfolio under management. In addition, the investment advisor receives a fee equal to 50% of the net income realized from the Trust sub-account entitled Expected Loss Account. The investment advisor does not receive additional fees from the other Trust sub-accounts. The amended and restated agreements described in note 1 of the financial statements were signed during 2001. Prior to the signing of the agreements, the investment advisor shifted funds between the sub-accounts based on their understanding of the terms of the contracts expected to be ratified, combined with the terms of the agreements then in place. The effects, if any, of the provisions of the amended agreements on the composition of the sub-accounts as they existed from time to time, and therefore on the investment earnings, had not been determined as of June 30, 2001, nor to the date of the report. Accordingly, we are unable to determine, the effects, if any, of the fees paid to the investment advisor that may result from such computations."

The Authority has engaged actuaries to develop estimates of the current liabilities of the OCIP and the potential exposure to the Commonwealth over the expected life of the Program. In their report, the actuaries noted that the June 30 assessment of potential losses provided by the insurance company did not agree with the data provided to them from the insurance company's database. This resulted from the fact that certain information relating to general liability claims was suspended in the underlying database and the fact that certain policies were

not included in the database. As a result, the information provided to the actuary from the database was not relied upon by the actuary in performing their calculations.

In addition, over the past several years and continuing through this current year, the Office of the State Comptroller has experienced difficulty in obtaining information necessary to prepare financial statements for the OCIP (reported as an internal service fund of the Commonwealth).

Recommendation

The Department should work with the Authority to establish policies and procedures necessary to maintain accurate records of the assets flowing between the Commonwealth and the Trust and the Trust and the insurance company. These procedures must ensure that the Trustee, the insurance carrier and the insurance broker provide the necessary information to record the financial transactions of the OCIP and prepare financial statements on a timely basis. The Department must also ensure that the management of the Authority takes responsibility for this program and oversees the third parties involved in the OCIP. The management of the Authority should prepare a complete set of financial statements, inclusive of all assets, liabilities, revenues and expenses of the OCIP, on a monthly basis. The Authority should also be responsible for ensuring that accurate information regarding the claims paid by the OCIP is reported to the actuaries engaged to estimate the liabilities in a timely manner. The Department should engage a CPA firm to audit the assets, liabilities and operations of the OCIP on an annual basis.

Department Corrective Action Plan

For the Fiscal 2001 financial report, the Authority utilized an independent audit as the basis of the assets in the OCIP Trust and engaged an independent actuary to determine the claims liability. This is the first time that these independent reports have been used as the basis for reporting in the CAFR. The Authority expects to perform a comprehensive annual audit in future years that will serve as the basis for information included in the Commonwealth financial reports. In December 2000 the Authority hired a Risk Manager with over 30 years of experience, including significant auditing experience. In October 2001 the Project hired a Director of Internal Controls. These positions will perform significant additional oversight over the OCIP Trust. In August 2001, the Risk Manager instituted significant new administrative procedures over OCIP activities and reporting.

The Department will work closely with the Authority to review the current procedures and as appropriate establish additional policies, procedures and internal controls necessary to ensure that the financial transactions of the OCIP are appropriately recorded. As part of the development of these policies and procedures, a mutually agreeable, periodic status report will be designed to outline the financial condition and transactions of the OCIP. The Department will work with the Authority to secure adequate funding to expand the existing engagement of the program's independent audit firm to encompass the entire program's financial activity as of June 30, annually.

Responsible parties: Michael Byrne (Department) and Ron Grenier (Authority)
Implementation date: Before June 30, 2002.
More on Massachusetts Highway Department

Department of Public Health
Findings on Compliance with Rules and Regulations

Finding Number 2: Late Recording of Fixed Assets

The Department of Public Health (Department) did not record a fixed asset onto the Massachusetts Management Accounting and Reporting System (MMARS), the Commonwealth's central accounting system, in a timely manner. The Department purchased a nuclear medicine

machine for Shattuck Hospital, at a cost of $165,228 on May 10, 2000. However, the asset was not recorded into the MMARS fixed asset subsystem until September 8, 2000.

The MMARS Fixed Asset System User Guide issued by the Office of the Comptroller (OSC) requires assets valued at $15,000 or more to: "Be recorded into the system within seven (7) days of acquisition...to properly account for and record those items owned by the Commonwealth...and to allow them to be incorporated into the Commonwealth's Comprehensive Annual Financial Report."

Furthermore, the OSC's Generally Accepted Accounting Principles (GAAP) instructions state that all fixed assets must be posted by June 30th. Not recording assets in a timely and correct manner could understate the value of fixed assets on the MMARS system and in the annual financial report.

Recommendation

The Department should monitor all fixed asset purchases to ensure the recording of fixed assets valued at $15,000 or more onto the MMARS Fixed Asset System within seven days of acquisition, as required by the MMARS Fixed Asset System User Guide.

Department Corrective Action Plan

The Controller at the Lemuel Shattuck Hospital will implement a corrective action plan to ensure fixed assets are recorded within seven days as required by the Commonwealth's Fixed Asset System User Guide. The Department will also advise appropriate personnel involved in the recording of departmental fixed assets, to ensure the timely recording of all GAAP fixed assets. In addition, the Department will monitor this activity to ensure future compliance.

Responsible person: Herb Risser, Director of Accounting
Implementation date: October 15, 2001
More on Department of Public Health

Department of Social Services
Findings on Compliance with Rules and Regulations

Finding Number 3: Department-Wide Risk Assessment Needs to be Completed

The Department of Social Services (Department) needs to complete a department-wide risk assessment as part of developing an internal control plan to comply with Massachusetts General Laws, Chapter 647, of the Acts 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 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 internal control guidelines established by the Office of the Comptroller." These guidelines, *Internal Control Guide for Managers and Internal Control Guide for Departments,* require the development of a documented internal control plan. The plan is defined as a "high level summarization, on a department-wide basis, of the department's risks (as a result of a risk assessment) and of the controls used by the department to mitigate those risks." The risk assessment, which is an identification and analysis of the risks that could prevent the department from reaching its goals and objectives, is an integral part of an internal control plan.

The Department's internal control plan does not contain a department-wide risk assessment. Department officials explained that meetings of Department managers have taken place to discuss the Department's risks. These meetings will continue until the Department's risks are

fully identified and documented.

Discussions were held with Department and Office of the Comptroller officials to identify the significant risks the Department faces. These discussions indicated that the Department is not complying with Commonwealth requirements in the areas of procurement and budgeting/ forecasting. In the area of procurement, all of the Department's Requests for Responses must now be approved by the Operational Services Division prior to release. This situation occurred because the Department did not comply with Commonwealth regulations for extending existing contracts. Invalid contracts could jeopardize the availability of residences for foster children. With regard to budgeting/forecasting, the Department has been in a deficit position at year end and required supplemental appropriations to meet its obligations for the last few years. For fiscal year 2001, the identification of the needed supplemental funding was not finalized until August 2001, two months after the end of the fiscal year and three to four months after supplemental appropriations should be requested. Properly implemented forecasting procedures and improved internal controls would assist in identifying and preventing both of these issues from occurring.

Recommendation

The Department should complete its internal control plan beginning with the documentation of its department-wide risks. The purpose of a risk assessment is to identify and analyze the risks that could prevent the Department from reaching its goals and objectives. A major component of the Department's goals and objectives is to provide adequate foster care homes for the children who require it. Inadequate controls over procurement and budgeting/forecasting could keep the Department from reaching it goals and should be included as two of the risks in the department-wide risk assessment. After the risk assessment is completed, the Department should develop and implement internal controls and procedures to mitigate those risks.

Department Corrective Action Plan

The Department of Social Services' primary mission is to ensure the safety, permanency, and well-being of children who have been abused and neglected in a family setting, or have been determined to be in need of services as a result of an identified behavioral problem. Additionally, the Department of Social Services seeks to prevent abuse and neglect by promoting safe and stable families.

As identified through this audit and in conversations with the Office of the State Comptroller, the Department is not currently in full compliance with guidelines established by Chapter 647 relating to the Internal Control Guide for Managers and the Internal Control Guide for Departments. The Department has not completed a high level summation (department wide analysis) of risk which would prevent the Department from accomplishing its objectives and goals.

To correct this finding, the Department is implementing an agency wide risk assessment. The goal is to identify critical areas that may place the Department at risk and could ultimately prevent the Department from reaching its stated mission, goals and objectives. Upon identification, the Department will implement appropriate internal controls to mitigate and manage those risk factors.

Responsible person: Edward L. Thurman, Deputy Commissioner Administration and Finance
Implementation date: February 2002
More of Department of Social Services

Division of Employment and Training
Findings on Compliance with Rules and Regulations

Finding Number 4: Incorrect Entries into Universal Health Insurance Collection System

The Division of Employment and Training (DET) needs to improve its procedures for calculating the contributions and interest due for Universal Health Insurance (UHI) and for imposing penalties and fines against employers who are delinquent in the filing of their quarterly UHI reports and/or nonpayment of contributions due.

DET overstated receivables by $48,030.35 by billing employers for UHI contributions already paid and incorrectly calculating interest. In addition, DET did not routinely assess a penalty, in accordance with MGL Chapter 151A, Section 14G(g), on employers for late or non-filing of required returns.

The Billing and Accounts Receivable Systems (BARS) is a subsystem of the Massachusetts central accounting system used by agencies to bill and account for amounts owed to the Commonwealth. Four BARS receivable transactions representing a total of $28,400.63 in UHI quarterly contributions and accrued interest due from three employers were reviewed. In addition to reviewing these individual transactions, the three employers' accounts for the entire calendar year were reviewed. These employer accounts showed outstanding UHI contributions due and accrued interest totaling $90,801.36. Three of the transactions for two employers were incorrect resulting in an overstatement of their accounts because one employer had already paid the UHI amount due and was only liable for a lesser amount of interest. The other employer's interest calculations were based on the wrong UHI assessment amount.

The specific details are as follows:

- In March 2001 DET billed an employer $16,821for UHI contributions due for the 2nd, 3rd and 4th quarters of 1990 based on internal reports that showed that the quarterly contributions had not been paid. However, the employer had paid the contributions for these three-quarters in September 1992. The employee calculating the assessment had not correctly researched payment data, payment histories and backup documentation surrounding UHI quarterly payments. As a result of our audit inquiries, DET corrected the employer's account in August 2001 for the $16,821 in contributions already paid.

- DET calculated interest of $32,227.87 due on an employer's unpaid contribution for the 2nd, 3rd and 4th quarters of 1990. The interest was calculated from January 1991 to June 2001. However, the employer had paid the UHI contribution in September 1992, and interest should only have been calculated for the period January 1991 to September 1992. As a result of our audit inquiries, DET corrected the employer's account in August 2001 to reflect that interest of only $3,367.64 was owed for the 2nd, 3rd and 4th quarters of 1990.

- In April 2001 DET calculated contributions and accrued interest of $30,036.52 due from an employer for the 3rd and 4th quarters of 2000. The correct contribution and interest should have been $27,687.40. In determining the contribution due DET used the 1st quarter of 1999 instead of 2000 to calculate the average employee count. DET adjusted this account for $2,349.12 in September 2001.

As stated above, DET personnel did not adequately review the UHI Employers' Quarterly History files and look for supporting documentation when calculating the assessments for non-payment of contributions. The report and supporting documentation would have disclosed that the employer had paid the contribution.

Additionally the "Health Insurance Revenue Service Refund Voucher/Charge Voucher Adjusting Entry" form used to calculate assessments does not include provision for the names and titles of employees responsible for preparing, approving, reviewing, and entering the information and respective dates. Currently it provides for the preparer only.

In reviewing the assessments we also noted that DET had not assessed the employers with penalties or fines for late or non-filing of returns. MGL Chapter 151A requires DET to assess employers *"a penalty equal to 10% of the contribution due under this section; provided, however that the penalty assessed shall not exceed $100 nor . . . be less than $25 for each failure . . .."*

Officials offered no explanation for why the penalties were not imposed.

Recommendation

DET employees, before calculating assessments, should review reports and conduct internal observations and inquiries to determine whether employers subsequently paid contributions. Additionally DET should:

- Require review of the calculations before they are approved for final entry into DET's system and BARS.
- Revise the "Health Insurance Revenue Service Refund Voucher/Charge Voucher Adjusting Entry" form to reflect the names and titles of the employees who prepared, reviewed and approved the form, and entered the data into the system, as well as the dates each of these respective actions took place.
- Impose penalties on late or non-filers as required by MGL Ch.151A, Sec. G.

Department Corrective Action Plan

Effective immediately, a supervisor, to ensure the accuracy of the information, will review assessments. The "Health Insurance Revenue Service Refund Voucher/Charge Voucher Adjusting Entry" form will be revised to reflect the date, names, and titles of the employees who prepare, review, approve, and enter the assessment/adjustment.

The Division of Employment and Training feels that assessing penalties for late or non-filed UHI Contribution Reports is not cost effective.

Responsible person: Joan Lewis
Implementation date: January 15, 2002

Executive Office of Elder Affairs
Findings on Compliance with Rules and Regulations

Finding Number 5: Inadequate Internal Controls over Fixed Assets

The Executive Office of Elder Affairs (Office) has not established adequate controls over fixed assets. Specifically, contrary to state regulations, the Office does not maintain a fixed assets listing which includes dates of acquisition, historical costs and source of funds, and did not perform an annual inventory. In addition, some fixed assets lacked an individual property control identification tag number.

In accordance with Chapter 7, Section C of the State Comptroller's Internal Control Guide and the Massachusetts Management Accounting and Reporting System (MMARS) Fixed Asset Subsystem User Guide, the Office is required to properly manage and safeguard Commonwealth assets including establishing and maintaining a fixed assets listing (property and equipment) by location including historical costs and acquisition date, conducting a physical inventory of all property and equipment verified and accounted for annually and reconciling to department records. By not maintaining proper controls over fixed assets and records, there is no assurance that property and equipment is adequately safeguarded against loss, theft or misuse.

The American Institute of Certified Public Accountants (AICPA) Codification of Statements on Auditing Standards (SAS) defines an adequate internal control structure and what is required to properly safeguard the assets of an organization. Specifically, SAS No. 78 states:

"Establishing and maintaining an internal control structure is an important management

responsibility. In establishing specific internal control structure policies and procedures concerning an entity's ability to record, process, summarize and report financial data that is consistent with management assertions embodies in the financial statements, some of the specific objectives management may wish to consider including the following:

Access to assets is permitted only in accordance with management's authorization.

The recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action taken with respect to any differences."

The Office was not maintaining detailed records of its fixed assets that clearly lists the historical costs, the date of purchase or the source of acquisition for each asset and did not affix identifying tags to all of its furniture and equipment items. In addition, the last annual physical count of furniture and equipment for comparison to fixed asset records was conducted in June 2000, however no record of actual dates are noted on the records.

Ten items were selected from the property listing and their existence confirmed and traced from the listing to the physical location. One item lacked a property identification tag. One fixed asset and 13 computers lacked property identification tag numbers. The Office's Internal Control Plan Section 10.1.1 states that the systems analyst is required to ensure that data processing equipment is properly tagged with an ELD inventory tag and placed on the ELD property listing. Office personnel stated that staff turnover and lack of employee resources contributed to the inability to adhere to these requirements.

Recommendation

The Office should establish controls to ensure that its fixed assets are properly safeguarded, valued and reported and that are in compliance with State and SAS regulation requirements. These controls should include the maintenance of a cumulative fixed assets listing including dates of purchase, historical cost and source of acquisition. In addition, all equipment should be properly inventoried and tagged with an individual property identification number and a physical inventory should be conducted.

Department Corrective Action Plan

By June 30, 2002, Elder Affairs will complete the following steps to implement effective internal controls over fixed assets:

- Creation of a unified asset listing from the current separate schedules for computer equipment and furniture that includes the date of purchase, acquisition cost, and funding source.
- Re-tagging of all assets with standard state inventory tags.
- Documented physical inventory of all assets.

Responsible person: Randal Garten, Budget Director, Finance Division Sheila Springfield, Business Manager, Finance Division
Implementation date: By June 30, 2002
More on Executive Office of Elder Affairs

Institutions of Higher Education
Massasoit Community College
Findings on Compliance with Rules and Regulations

Finding Number 6: Late Recording of Fixed Assets

Massasoit Community College (MCC) still needs to improve its recording of fixed assets in accordance with requirements of the Massachusetts Office of the Comptroller. MCC did not

record fixed assets valued at $980,380 within its fixed asset records or within the Commonwealth's central accounting system in the time frame required.

Our prior audit disclosed that MCC had not recorded fixed assets valued at $15,000 or more onto the Massachusetts Management Accounting and Reporting System (MMARS), Fixed Asset Subsystem, within seven days of acquisition. The MMARS Fixed Asset Subsystem Policy Manual and User Guide required assets acquired prior to June 30, 2001 and valued at $15,000 or more to be recorded onto the system within seven days of acquisition to properly account for and record those items owned by the Commonwealth and to allow the assets to be incorporated into the Commonwealth's Comprehensive Annual Financial Report (CAFR). Effective July 1, 2001 the threshold for recording an asset on the fixed asset subsystem rose to $50,000. In addition, Chapter 6 of the User Guide required departments to maintain an inventory of assets with a historical cost from $1,000 to $49,999 either on the Fixed Asset Subsystem in MMARS or on an in-house system.

In response to the prior audit MCC proposed a multiple step corrective action plan to ensure that future purchases of qualified assets would be recorded, inventoried, and reconciled to the appropriate college and MMARS accounting records.

Our follow-up review revealed that MCC implemented only the physical inventory portion of its corrective action plan. MCC stated that other aspects of its corrective action plan were not implemented because of employee illness and a vacancy in the facilities director position. As a result, assets MCC acquired during the year were recorded late.

Specifically, MCC's fixed asset inventory taken in June 2001 disclosed that a vehicle costing $15,999 purchased in August 1999 (Fiscal Year 2000) was recorded in MMARS in October 2001 (Fiscal Year 2002). In addition, the following five fixed assets, with a total value of $964,381 acquired during fiscal year 2001 were not recorded within the required time frame.

Description	Cost
Administration Computer System	$211,546
SCT Banner System	700,000
CAD Lab/CA Software	18,195
CAD/Lab/CA Hardware	8,852
Vehicle/Van	24,788
Total	**$964,381**

We also noted that MCC acquired an additional $412,329 through betterments to its heating, ventilating and electrical systems during fiscal year 2001 that were recorded in October 2001 the following fiscal year 2002. MCC stated that it had identified these assets during a physical inventory in June but waited until October 1, 2001, when its financial statement audit was complete, to record them in order to avoid double counting. Not recording fixed assets in an accurate and timely manner could lead to an understatement of the value of fixed assets in the Commonwealth's financial reports. *(Fiscal Year 1999; 2000 Report Finding 9)*

Recommendation

Massasoit Community College should fully implement its corrective action plan and record fixed assets valued at $50,000 or more onto the MMARS Fixed Asset Subsystem. MCC should also maintain a campus-based inventory of all fixed assets valued from $1,000 to $49,999. The procedures should require the recording of these fixed assets within seven days to comply with the state comptroller's requirements. MCC should cross train some individuals to compensate for vacancies and the like.

Department Corrective Action Plan

During FY2002, Massasoit Community College will begin to implement the Fisxed Asset module

of their local administrative software system Bannar. This module, which is integrated with the College's general ledger, will aid in the full implementation of proper recording and tracking of fixed assets. The Fixed Assets module is set to start implmentation during the week of November 5, 2001. Also, the College will continue to perform a full physical inventory for each fiscal year.

Responsible person: Darlene Costa, Comptroller
Implementation date: March 2002

Institutions of Higher Education
Roxbury Community College
Findings on Compliance with Rules and Regulations

Finding Number 7: Non-Appropriated Fund Activity and Balances not Reconciled Monthly

Prior audit reports starting in fiscal year 1995 have disclosed that Roxbury Community College (College) had not been entering and reconciling its Non-Appropriated Fund [Fund 901] activity monthly as required by Commonwealth law and regulations. To comply, the College should have reconciled the MMARS 110H Report with its internal records on a monthly basis. Our annual Single Audit work at the College indicated that, while improvements were made, more needed to be done.

In addition, during the fiscal year 2001 Single Audit, the Roxbury Community College (College) did not provide the completed Status of Prior Audit Finding Corrective Action Plan form although we requested the completed form weekly over a 10-week period. The form to be completed by state agencies with prior audit findings is required by the Office of the State Comptroller to assist that office in its preparation of the Summary Schedule of Prior Audit Findings required by section 315(a) of Federal, OMB, Circular A-133. The written status is customarily confirmed as part of the follow-up process. We withdrew from the audit on August 21, 2001 because the College was not able to provide this form and other necessary information and documentation.

Subsequent Event: At the request of the College we returned to the College on October 30th to perform a second review of student financial files and other limited procedures. At this time, the College submitted its Status of Prior Year Corrective Action Plan. We also verified the assertions made in the College's fiscal year 2000 corrective action plan and examined the College's June 30, 2001 year-end reconciliation and observed that all relevant non-appropriated accounts on the College's records had been entered into MMARS.

The College downloaded an unadjusted MMARS 110H-report on September 8, 2001 and began the reconciliation process. Our review showed that the reconciliation process consisted of the College's trust fund accountant inputing adjustments into MMARS so that the MMARS records agreed with the College's Trust Account records. No explanations, details, or other documentation accompanied the adjustments, nor was the accountant able to explain the adjustments. A review of the reconciliations disclosed that adjustments were based on the need to adjust the MMARS records to agree with the College's in-house trust records.*(Fiscal Year 1995; 2000 Report Finding 11)*

Recommendation

The College needs to ensure that it takes corrective action to update and reconcile non-appropriated funds in MMARS. The College should continue to input and reconcile its Fund 901 activity on a monthly basis. Finally, the College should perform a final reconciliation of their fiscal year 2000 and 2001 Fund 901 activity and account balances with MMARS and prepare and document whatever adjustments are required.

Department Corrective Action Plan

The College must (a) input and reconcile its Non-Appropriated Fund [Fund 901-Trust Funds] activity on a monthly basis, and (b) reconcile the College's funds with the MMARS 110H Report on a monthly basis, and (c) document any adjustments required.

This process will be easier to accomplish when the new Jenzabar software is used regularly which is scheduled to occur on July 1, 2002. In the meantime, we will attempt to do this on a monthly basis. However, we will specifically agree to perform these activities by July 31, 2002.

This will be accomplished by enabling the director of finance more time to carry out these duties than was previously possible. Billing and financial aid adjustments have been transferred to other staff within the Business Office to enable this.

The College will continue to improve its reconciliation process in this area.

Responsible persons: Craig Zaehring, Director of Finance
William Fenstemacher, Interim Chief Financial Officer
Implementation date: July 31, 2002
More on Roxbury Community College

Institutions of Higher Education
Salem State College
Findings on Compliance with Rules and Regulations

Finding Number 8: Internal Control Plan Needs to be Updated

The Salem State College (College) does not have an updated 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 internal control guidelines established by the Office of the Comptroller [OSC]."
The OSC has issued guidelines and provides training to assist state agencies in developing internal control plans and agency wide risk assessments.

Chapter 647 also details the important elements of an effective system of controls as a guide for the College to consider when completing its plan. Chapter 647 stipulates that the College designate an individual whose responsibilities include ensuring that the College has written documentation of its accounting and administrative control systems on file and, at least annually, evaluate and implement any changes necessary to maintain the integrity and effectiveness of the system.

Updating the plan is important for the College to quantify the integrity and effectiveness of its internal control system and to respond to changes in its internal control system while maintaining the system's effectiveness.

The College does have standard operating procedures, manuals, and policy directives to inform staff of certain control activities, methods of communication and internal monitoring procedures, which are elements of good internal controls. An internal control plan should identify all operating cycles of the entire College and discuss the components of internal control known as control environment, risk assessment, control activities, information and communication and monitoring for each cycle. None of the documents provided evidence that a risk assessment has been made for each area. The Fiscal Affairs Office has developed an internal control plan. However, the plan does not discuss all of the components of internal

control or the rest of the College's operating cycle.

Recommendation

The College should update its plan to include all components of internal control as well as the college-wide risk assessment.

Department Corrective Action Plan

The College will update its plan to include all components of internal control as well as the college-wide risk assessment.

Responsible person: Matilda B. Delvecchio
Implementation date: March 1, 2002
More on Salem State College

Various Departments
Findings not Repeated from Prior Years

1. The Department of Correction (Department) did not record a fixed asset onto the Massachusetts Management Accounting and Reporting System (MMARS) in a timely manner. A review of the Department's fixed asset reports showed compliance with Office of the Comptroller's reporting requirements. *(Fiscal Year 2000 Report Finding 1)*

2. The Department of Social Services (Department) needed to improve its tracking and recording of fixed assets to comply with Commonwealth of Massachusetts' policies and procedures. The Department conducted a review of currently recorded fixed assets and adjusted all necessary records to comply with Commonwealth policies and procedures. *(Fiscal Year 2000 Report Finding 2)*

3. The Executive Office of Environmental Affairs (Office) did not have an internal control plan that complied with Massachusetts General Law, Chapter 647, of the Acts of 1989 (Chapter 647). The Office has written an internal control plan, which reflects the five COSO internal control elements. It has also begun to develop its department-wide risk assessment. *(Fiscal Year 2000 Report Finding 3)*

4. The Metropolitan District Commission (Commission) did not record a 1980 Ford Tractor purchased in 1980 into the Commonwealth's Fixed Asset Subsystem within the time frame required by Massachusetts regulations. A review of the Commission's fixed assets showed compliance with Office of the Comptroller's reporting requirements. *(Fiscal Year 2000 Report Finding 4)*

5. The Office of the State Treasurer's system of processing "as of period" transactions needed improvements. Our follow-up review disclosed that the Department of the State Treasurer and Office of the State Comptroller provided guidance and training sessions for state personnel responsible for inputting cash deposits and improved preliminary review of agency documentation submissions. The needed improvements to fiscal year-end revenue reporting, recording, and depositing have been achieved *(Fiscal Year 2000 Report Finding 5)*

6. The Office of the Trial Court (Office) did not record fixed assets onto the Massachusetts Management Accounting and Reporting System (MMARS) in a timely manner. The Office has implemented procedures, which requires the recording of its fixed assets at decentralized locations and now complies with Office of the Comptroller's reporting requirements. *(Fiscal Year 2000 Report*

Finding 6)

7. Bridgewater State College (College) did not record a vehicle purchased onto the Commonwealth's Fixed Asset SubSystem within the time frame required by Massachusetts regulations. A review of the College's fixed assets showed compliance with Office of the Comptroller's reporting requirements. *(Fiscal Year 2000 Report Finding 7)*

8. Bunker Hill Community College (College) did not record two fixed assets onto the Commonwealth's Fixed Assets SubSystem within the time frame required by Massachusetts regulations. A review of the College's fixed assets showed compliance with Office of the Comptroller's reporting requirements. *(Fiscal Year 2000 Report Finding 8)*

9. Northern Essex Community College (College) needs to improve it documentation in support of its non-appropriated fund transactions. The College properly documented its non-appropriated funds receipt and disbursement transactions and proper approval of its bank transfers. *(Fiscal Year 2000 Report Finding 10)*

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