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**INDEPENDENT STATE AUDITOR'S REPORT ON
AGENCY COMPLIANCE WITH THE
OFFICE OF THE STATE COMPTROLLER'S
YEAR-END CLOSING INSTRUCTIONS
FOR CASH AND REVENUE MANAGEMENT
FISCAL YEAR 2006**

**OFFICIAL AUDIT
REPORT
JUNE 22, 2007**

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INTRODUCTION

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Chapter 29, Section 5C, of the Massachusetts General Laws requires the Office of the State Comptroller (OSC) to certify to the Commissioner of Administration, on or before October 31, the amount of the consolidated net surplus in the operating funds at the close of the preceding fiscal year. To have accurate and timely data for this and other reports, the Commonwealth must close its books properly. Therefore, prior to the close of each fiscal year, which ends on June 30, the Comptroller issues a set of closing/opening instructions that detail procedures specific to handling cash receipts and reporting state revenue at year-end. The Office of the State Auditor (OSA) examined the accounting records at 50 state agencies, one lockbox location, and the Cash Management/Central Remit (CMCR) lockbox for compliance with the OSC's Fiscal Year 2006 Closing and Fiscal Year 2007 Opening Instructions, Section 10, Revenue Management and Cash Receipts. Agency compliance with OSC closing instructions would ensure that cash and other revenues realized near year-end are quickly and accurately reported in the correct fiscal year.

AUDIT RESULTS

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Overall, our audit found that the majority of state agency locations that we tested had complied with the OSC's Fiscal Year 2006 Closing and Fiscal Year 2007 Opening Instructions regarding cash and revenue management. While this positive observation was noted, our audit identified three state colleges (one reported in our prior audit) that did not comply with the year-end closing instructions of the OSC; three state agencies (two reported in our prior audit) not making daily deposits of cash receipts, one of which was not in compliance with Chapter 647 of the Acts of 1989 and OSC internal control guidelines; one district court (reported in our prior audit) still needing to implement segregation of duties internal controls over its handling of cash receipts (cashier and bookkeeper functions performed by the same person); two state colleges (one reported in our prior audit) that did not adhere to state finance law and the OSC year-end debt collection procedures and "Collection of Debts" regulations, which resulted in collection agencies remitting collections to colleges net of contingency fees and, consequently, all debts collected not being deposited with the Office of the State Treasurer (OST) and processed through the Massachusetts Management Accounting and Reporting System (MMARS); and one state agency (reported in our prior report) still lacking necessary internal controls to ensure that authorized agents or city or town clerks receiving funds for licenses issued on behalf of the Commonwealth adhere to payment requirements presently set forth in state law. Additionally, this agency did not administer, control, and separately contract for electronic payment processing services or make use of the OSC sponsored and approved Statewide Contract. As a result, revenues due the Commonwealth were not deposited with the OST and processed through MMARS, but instead were used to pay electronic payment processing fees in place of appropriated funds.

During our audit, we provided the OSC with pertinent information regarding improper recording of fiscal year 2006 revenues totaling \$2,211.34 so that appropriate final adjustments to the Commonwealth's records could be made.

1. PRIOR AUDIT RESULT - RESOLVED **4**

Our prior audit found that improvements were needed over compliance with the OSC's year-end closing instructions for cash and revenue management. Our follow-up review found that corrective action was taken on the following prior issue.

a. Fall River District Court Properly Accounted for Fiscal Year 2006 Revenue **4**

Our prior audit found that Fall River District Court did not include all cash received on June 30, 2005 as fiscal year 2005 revenue. Our follow-up review found that Fall River District Court had established necessary controls to ensure compliance with OSC's Fiscal Year 2006 Closing and Fiscal Year 2007 Opening Instructions. Management has communicated specific fiscal year closing/opening instructions with the district court staff. All funds on hand and collected on June 30, 2006, totaling \$22,539.74, were deposited and credited to fiscal year 2006.

2. PRIOR AUDIT RESULTS – UNRESOLVED OR PARTIALLY RESOLVED **4**

Our prior audit found that certain improvements were needed over the processing, recording, reporting, and depositing of revenue, as well as compliance with the OSC's year-end closing instructions for cash and revenue management. Our follow-up review found that although some corrective actions have been taken, several issues remain unresolved.

a. Bridgewater State College Improperly Accounted for Fiscal Year 2006 Revenue **4**

Our prior audit determined that the Bridgewater State College (BSC) did not have necessary revenue management controls in place to ensure that all cash receipts received through June 30 were accounted for in the proper fiscal year. As a result, the BSC improperly reported fiscal year 2005 full-time tuition receipts as fiscal year 2006 revenue.

Our follow-up review disclosed that the BSC had implemented internal controls to ensure that full-time tuition receipts received through June 30, 2006 totaling \$114,894.72 had been properly deposited and recorded as fiscal year 2006 revenue; however, the BSC lacked necessary controls to ensure that state tuition debt collection receipts totaling \$116.45 were posted promptly and accurately in MMARS and that prescribed OSC closing instructions to remind its debt collection agency of fiscal year-end reporting requirements were properly executed. Our review showed that the college's debt collection agency submitted its June 2006 electronic debt collection report to the college on July 14, 2006, or seven days after the OSC July 7 deadline. Moreover, our review determined that the BSC posted its cash receipts document (CR) in MMARS on August 11, 2006 (35 days beyond the OSC July 7 deadline) not as period 12 fiscal year 2006 but instead as period 2 fiscal year 2007. For this reason, state tuition collections totaling \$116.45 were improperly recorded and reported as fiscal year 2007 revenue.

The college needs to improve its review practices for year-end closing and opening responsibilities, as well as ensure that all staff with fiscal responsibilities are provided effective supervision and training.

b. Improvements Needed in Internal Controls at the Massachusetts Environmental Police Regarding Daily Deposits

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Our prior audit determined that the Massachusetts Environmental Police (MEP) needed to strengthen internal controls over revenue at its Springfield, Worcester, Fall River, and Hyannis branch offices to ensure that all cash receipts are deposited on a daily basis, thereby ensuring compliance with governing policies and procedures issued by the OSC and applicable Massachusetts General Laws.

Our follow-up review disclosed that, although the MEP (Boston) and its Hyannis branch office made timely deposits of cash receipts, its Springfield, Worcester, and Fall River branch offices continue to not deposit daily cash receipts in accordance with applicable laws, regulations, and policies. Furthermore, even though our prior report recommended that the MEP consider requesting permission from the Executive Office for Administration and Finance (EOAF) and the Office of the State Treasurer (OST) for an exception to the daily remittance of cash receipts, no formal request was made. Additionally, our follow-up review determined that, contrary to Chapter 647 of the Acts of 1989 and OSC internal control guidelines, the MEP did not develop, document, and make available an internal control plan or a department-wide risk assessment, and did not designate an Internal Control Officer responsible for the department's internal controls (see Audit Result No. 4b).

c. Improvements Needed in Debt Collection Internal Controls at the Massachusetts College of Liberal Arts

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Our prior audit disclosed that the Massachusetts College of Liberal Arts (MCLA) did not establish and implement necessary internal controls to ensure that invoicing requirements prescribed in the OSC Fiscal Year 2005 Closing Instructions and terms and conditions set forth in the Commonwealth's Debt Collection Service Statewide Contract were followed by the college's debt collection agency. As a result, the college did not make sure that gross debt collections were deposited with the college, that debtors were notified of proper payment provisions, and that debt collection agencies only billed for authorized contingent fees after remitting all collected debt. Additionally, the MCLA, contrary to the OSC "Collection of Debts" regulations, did not designate a contract manager to monitor collection agency compliance with debt collection contract terms.

Our follow-up review found that: (1) the college still needs internal controls to ensure compliance with state finance law and the OSC year-end debt collection procedures and "Collection of Debts" regulations; (2) the college permitted two Commonwealth-authorized debt collection agencies to submit state tuition debt collections net of the collection agency's contingency fee; and (3) the college had not yet designated a contract manager. For the Fiscal Year ended June 30, 2006, Collection Company of America collected \$15,329.41 and remitted to the college \$11,510.87, while Delta Management Associates, Inc., collected \$365 and remitted \$291 to the college. Net remittances have resulted in debts collected on behalf of the college totaling \$3,892.54 not being deposited with the OST and processed through MMARS. Furthermore, collection agency net remittances indicate that recovered state tuition funds had been deposited into the collection agency's own bank account and that debtors were not being notified to submit their debt payments payable to the Commonwealth.

As a result of our review, the college contacted its collection agencies and instructed that gross collections be remitted to the college and invoiced in accordance with set provisions. Furthermore, the college delegated contract manager responsibilities to its Bursar.

d. Improvements Needed in Internal Controls at Westborough District Court Regarding Segregation of Duties

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Our prior audit disclosed that the primary cashier in the Westborough District Court (WDC) Clerk-Magistrate's Office also performed the office bookkeeping functions. For that reason, our prior audit noted that internal controls over daily cash receipts processing needed to be strengthened to ensure compliance with segregation of duties policies and procedures issued by the OSC and the Administrative Office of the Trial Court, and to lessen the risk of funds intended for deposit with the Commonwealth from being omitted, lost, stolen, or misused. In a subsequent examination conducted by our office, the same segregation of duties concern was unchanged and reported.

Similarly, our follow-up review showed that office bookkeeping and primary cashier activities (considered incompatible when performed by the same individual) again were not properly segregated. Our examination of daily deposits showed that this employee was involved in court collections and was responsible for making cash receipts postings of \$15,429 to the Clerk Magistrate's Office cash journal during June 27 through June 29, 2006, the period of our test. Without adequate segregation of duties, court funds intended for deposit are susceptible to being omitted, lost, stolen, or misused.

e. Division of Fisheries and Wildlife Year-End Revenue Controls Need Improvement

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Our prior audit disclosed that the Department of Fish and Game's (DFG) Division of Fisheries and Wildlife (DFW) Licensing Division did not establish necessary year-end cash receipts and revenue management controls to ensure that all cash receipts collected on behalf of the Commonwealth were properly accounted for and reported in the appropriate fiscal year. Additionally, our prior year-end closing examination determined that DFW's internal controls and manual collection system did not ensure that licensing sale receipts collected by authorized licensing agents were remitted to the division in accordance with payment requirements set forth in state law. Accordingly, had the DFG not been selected as part of our review, \$570,177.05 in fiscal year 2005 licensing sales would have been inappropriately reported and credited to fiscal year 2006. As a result of our review and with the OSC's assistance these funds were properly accounted for and reported.

Our follow-up review determined that the DFW, similar to OSC's instructions last year, listed estimated June sales on its 2006 generally accepted accounting principles (GAAP) report totaling \$632,000 as pending receivables. Moreover, the DFW reported that as of August 31, 2006, all June licensing sales had been remitted to the division, bringing June licensing sales to a total of \$672,351.70. While this action addresses the reporting of June sales and the valuation of DFW receivables, it did not remedy difficulties in collecting funds through the division's manual collection system that continues to result in overdue or late remittals of licensing sales from authorized agents and noncompliance with the statutory payment timeline. Although management indicated that it had looked at various alternative options and that they were considered to be cost prohibitive and

complex, documentation to corroborate management's assertion was not made available. Given that the DFG and its Division of Marine Fisheries (DMF) are making use of electronic payment processing services, electronic payment services under the Commonwealth's Statewide Contract seemingly is a workable alternative for the department.

f. Improvements Needed in Internal Controls at the Division of Marine Fisheries Regarding Daily Deposits, Related Cash Receipt Transactions, and Monthly Reconciliations

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Our prior review found that the Division of Marine Fisheries (DMF), within the Department of Fish and Game, needed to strengthen internal controls over revenue to ensure that all cash receipts are deposited on a daily basis; that required cash receipts (CR) documents allocating revenue are entered accurately and in a timely manner into the Massachusetts Management Accounting and Reporting System (MMARS); that supporting CR documentation is maintained for all cash deposits; and that monthly reconciliations between the division's records and relevant MMARS tables and/or reports are performed, thereby ensuring compliance with the governing policies and procedures issued by the OSC and applicable Massachusetts General Laws.

Our follow-up review determined that, although the DMF, has developed and strengthened internal controls for revenue and, as such, now records accurate cash receipts (CR) documents in MMARS in a timely manner, maintains supporting CR documentation for all cash deposits, and performs monthly reconciliations between the division's records and relevant MMARS tables and/or reports, the DMF is still not making daily deposits of cash receipts. Our analysis of the last three deposits completed revealed that, with the exception of its Pocasset branch office, both the Boston and Newburyport branch offices made just three deposits over an 8-day and 41-day period, respectively, with corresponding deposits totaling \$39,320 and \$7,810. By not making daily bank deposits, the DMF increases the risk of revenues being misplaced, lost, stolen, or misused. Moreover, not depositing funds in a timely manner decreases potential investment income and the Commonwealth's use of these funds. Management cited lack of staffing as the cause for not adhering to the daily deposit requirement.

3. FISCAL YEAR 2006 REVENUE RECOGNIZED IN FISCAL YEAR 2007

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Our review of agency compliance with the OSC's Fiscal Year 2006 Closing and Fiscal Year 2007 Opening Instructions, Section 10, Revenue Management and Cash Receipts, found that in addition to Bridgewater State College's improper recognition of fiscal year 2006 revenue (see Audit Result No. 2a), two other colleges improperly accounted for fiscal year 2006 revenue as fiscal year 2007 revenue.

a. Mount Wachusett Community College Improperly Accounted for Fiscal Year 2006 Revenue

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Our audit found that the Mount Wachusett Community College (MWCC) did not have necessary revenue management controls in place to ensure that its debt collection agency was advised of OSC year-end deposit, reporting, and invoicing requirements essential for the accurate accounting of fiscal year 2006 debt collections and proper fiscal year closing. As a result, its debt collection agency submitted its June 2006 debt collection report to the college on July 18, 2006, or 11 days after the OSC July 7 deadline, and the

MWCC did not ensure that June debt collections were properly recorded and reported in MMARS. For these reasons, \$399.85 in fiscal year 2006 state tuition collections were improperly recorded and reported as fiscal year 2007 revenue. The MWCC Comptroller stated that they were unaware of the OSC-prescribed timeframes for year-end depositing and reporting of debt collection income.

The college each year should review and become familiar with the closing/opening instruction details and key areas, and improvements are needed in its review practices for year-end closing and fiscal year opening responsibilities. Furthermore, the designation of a contract manager would help ensure the college of adherence to OSC year-end closing instructions.

b. University of Massachusetts-Lowell Improperly Accounted for Fiscal Year 2006 Revenue **21**

Our audit determined that the University of Massachusetts-Lowell (UML) did not have necessary revenue management controls in place to ensure that one of its debt collection agency's collections—through June 30, 2006—was accurately recorded and reported in MMARS. Notwithstanding known year-end computer problems at the debt collection agency and its late submission of the June 2006 collection report, the college did not alert the OSC of pending 2006 debt collection receipts and did not ensure that the required cash receipts document (CR) entered into MMARS properly classified 2006 debt collections as period 12 fiscal year 2006. This omission resulted in June 2006 state tuition debt collections totaling \$1,695.04 being inappropriately recorded and reported as fiscal year 2007 revenue.

4. IMPROVEMENTS NEEDED IN CERTAIN INTERNAL CONTROLS OVER REVENUE MANAGEMENT AND COMPLIANCE WITH INTERNAL CONTROL REQUIREMENTS OF CHAPTER 647 OF THE ACTS OF 1989 **23**

Summarized below are internal control shortcomings that came to our attention while on site on June 30, 2006.

a. Improvements Needed in Internal Controls at the Harold Parker State Forest Regarding Daily Deposits **23**

Our review determined that the Department of Conservation and Recreation's (DCR) Harold Parker State Forest needed to strengthen internal controls over revenue to ensure that all cash receipts are deposited on a daily basis, thereby ensuring compliance with governing policies and procedures issued by the OSC and applicable Massachusetts General Laws. Our analysis disclosed that cash receipts were not consistently deposited in a timely manner. Examples of daily deposit exceptions show that during the periods June 21st through June 25th and June 28th through June 30th cash receipts were deposited three to six days after being collected. Not depositing funds in a timely manner decreases potential investment income and deprives the Commonwealth of the use of funds collected on its behalf. Moreover, in the event that revenues are not properly safeguarded, not depositing revenue daily increases the risk of funds due the Commonwealth being misplaced, lost, or stolen. The park supervisor explained that he was unaware of the OSC daily deposit requirement. Additionally, when requested, the DCR could not provide any written directives that supported the OSC daily deposit requirement.

b. Massachusetts Environmental Police Internal Control Plan and Department-wide Risk Assessment Need Development and Documentation 25

Our audit determined that, contrary to Chapter 647 of the Acts of 1989 and internal control guidelines established by the OSC, the Massachusetts Environmental Police (MEP) did not develop, document, and make available an internal control plan, a department-wide risk assessment of the department's risks and those controls implemented to minimize risks, and did not designate an Internal Control Officer responsible for the department's internal controls. As a result, the MEP is not in compliance with Chapter 647 of the Acts of 1989 and internal control guidelines set forth by the OSC. The Deputy Director of Administration stated that while the MEP was aware of the requirements of Chapter 647, the lack of time and resources has prevented their compliance. Without documented internal control systems, a department-wide risk assessment, and a designated Internal Control Officer, there is inadequate assurance that the MEP will achieve its goals and objectives efficiently, effectively, and in compliance with applicable laws and regulations and will properly safeguard its assets against loss, theft, or misuse.

c. Improvements Needed in Debt Collection Internal Controls at Bristol Community College 27

Our review determined that Bristol Community College (BCC) did not establish and implement necessary internal controls to ensure that invoicing requirements prescribed in the OSC's Fiscal Year 2006 Closing Instructions and terms and conditions set forth in the Commonwealth's Debt Collection Service Statewide Contract were followed by the college's debt collection agency. As a consequence, the BCC did not make sure that: (1) gross debt collections were deposited with the college, (2) debtors were notified of proper payment provisions, and (3) its debt collection agency only billed for its authorized contingency fee after remitting all collected debt. Additionally, the BCC, contrary to the OSC's "Collection of Debts" regulations, did not designate a contract manager to monitor collection agency compliance with debt collection contract terms. More specifically, our examination found that Allen Daniels Associates Inc., one of the Commonwealth's authorized debt collection agencies used by the college, did not properly invoice for all debt it collected as of June 30, 2006, but instead remitted debt collections net of its contingency fee. Our examination of the June 2006 invoice showed that Allen Daniels Associates Inc. collected a total of \$3,440.15 due to the BCC; however, collection agency fees totaling \$573.41 were netted out, and not deposited in the OST and processed through MMARS. Furthermore, the collection agency net remittance also indicates that recovered state tuition funds had been deposited into the collection agency's own bank account and that debtors were not being notified to submit their debt payments payable to the Commonwealth. Management stated that they believe that the contractor, Allen Daniels Associates Inc., was adhering to the terms of the contract. The designation of a contract manager likely would have assured college management that its debt collection agency had complied with all provisions relating to debt collection services.

d. Inadequate Internal Controls over Electronic Payment Processing Services at the Department of Fish and Game	30
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Our audit disclosed that the Department of Fish and Game (DFG) does not administer, control, and separately contract for electronic payment processing services that generate Internet sales revenue. In its place, the DFG shares and relies on the Massachusetts Environmental Police's (MEP) Internet application for accepting and processing its customer electronic payment transactions. This arrangement has resulted in: (1) over \$39,000 in fiscal year 2006 shipping and handling revenues not being deposited with the OST and processed through MMARS, but instead used to pay electronic payment processing fees in place of appropriated funds, (2) the untimely reporting of revenues, and (3) the potential for overcharging/undercharging of department obligations to pay associated electronic payment processing fees. Moreover, neither the DFG nor the MEP made use of the OSC sponsored and approved Electronic Payment Processing Services Statewide Contract, which is available to all departments. Consequently, neither agency can be assured that its electronic payment processing services have resulted in a lower cost or a more cost-effective or better value than the Commonwealth's statewide contract. Also, had the DFG opted to use the Statewide Contract, it likely would have improved operational efficiencies and made easier the reconciliation of revenues and determination of processing fees charged. More importantly, as more departments participate in the Statewide Contract, the opportunity for fee reductions increases.

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INTRODUCTION

Background

As authorized by Chapter 11, Section 12, of the Massachusetts General Laws, the Office of the State Auditor (OSA) examined the accounting records at 50 state agencies—including one lockbox location—and the Cash Management/Central Remit (CMCR) lockbox, for compliance with the Office of the State Comptroller’s (OSC) Fiscal Year 2006 Closing and Fiscal Year 2007 Opening Instructions, Section 10, Revenue Management and Cash Receipts.

Chapter 29, Section 5C, of the Massachusetts General Laws (MGL) requires the OSC to certify to the commissioner of administration, on or before October 31, the amount of the consolidated net surplus in the operating funds at the close of the preceding fiscal year. This report is essential to subsequent-year budgeting and planning. To have accurate data in a timely manner for these and other reports, the Commonwealth must close its books properly. Therefore, the Comptroller issues a set of closing instructions to each agency prior to the close of each fiscal year, which ends on June 30.

Section 10 of the Fiscal Year 2006 Closing and Fiscal Year 2007 Opening Instructions contains specific procedures for handling cash receipts and reporting state revenue at year-end. Agency compliance with these procedures would ensure that cash and other revenue received at year-end are promptly and accurately reported in the correct fiscal year.

Audit Scope, Objectives, and Methodology

Our review, which was conducted in accordance with applicable generally accepted government auditing standards, included observation and review procedures to measure agency compliance with Section 10 of the Fiscal Year 2006 Closing and Fiscal Year 2007 Opening Instructions.

To accomplish our objectives, we:

- a. Observed and reviewed the processing of cash received during the last week in June and observed whether all cash on hand on June 30 was deposited by noon on July 3.
- b. Tested the processing of “as-of” period transactions by reviewing the following:
 - Agency submissions of cash deposits (CD) processed by the Office of the State Treasurer (OST) and advance refunds (AR) and expense refunds (ER) processed by the

Office of the State Comptroller (OSC) during the period July 3, 2006 through July 7, 2006 to determine whether these receipts were recorded in the proper fiscal year and supported by proper forms and documentation.

- OST controls over submissions returned to agencies because of improper input documentation.
 - Post audit adjustments made after July 7, 2006 by the OST and OSC to ensure receipts were recorded in the proper fiscal year and adequate documentation was submitted by state agencies.
- c. Conducted fiscal year-end observations at one lockbox location and the CMCR lockbox for compliance with cutoff procedures and interviewed Bank of America senior management.
- d. Observed whether the required cash receipts (CR) documents allocating revenue were entered accurately into the Massachusetts Management Accounting and Reporting System (MMARS) for all cash deposited with the OST.
- e. Determined through the Department of Revenue, the agency that oversees the financial and reporting activities of the Registry of Deeds, whether the Bristol, Southern New Bedford, Essex, Southern Salem, Norfolk County, Dedham, Plymouth, Suffolk County, Boston, and Worcester registries filed reports in a timely manner and forwarded their revenue to the Commonwealth in accordance with state law and established procedures.
- f. Identified those departments in our sample that engaged the services of private debt-collection services and the collection agencies to recover outstanding debts owed Commonwealth agencies to determine whether:
- The Commonwealth-provided Debt Collection Services Statewide Contract was used to procure debt collection services, and the collection agencies selected by the Departments are included on the listing of qualified contractors under contract.
 - All outstanding debts recovered through June 30, 2006 were properly recorded and recognized as fiscal year 2006 revenue as required by the OSC's closing instructions.
- g. Observed and reviewed the processing of credit card payments (point-of-sale transactions, telephone transactions, and web-based electronic payments) through June 30, 2006 and determined whether the credit card payments were properly accounted for and recognized as fiscal year 2006 revenue.
- h. Followed up on issues in our prior audit report (No. 2005-5002-16S).
- i. Reviewed, where applicable, agency internal control policies and procedures regarding revenue collection and retained revenue accounts.
- Identified the retained revenue amounts, relevant appropriation numbers, and authorized ceiling limits.

- Documented the last five deposits made to retained revenue accounts prior to June 30, 2006.
- Obtained the first five deposits made to retained revenue accounts for fiscal year 2007 and documented the check dates and amounts to ensure recording was made in the proper fiscal year.

Our audit found that the majority of state agency locations that we tested had complied with the OSC's Fiscal Year 2006 Closing and Fiscal Year 2007 Opening Instructions regarding cash and revenue management. However, we identified three state colleges that did not comply with the year-end closing instructions of the OSC; three state agencies not making daily deposits of cash receipts, one of which was not in compliance with Chapter 647 of the Acts of 1989 and OSC internal control guidelines; one district court needing to implement segregation of duties internal controls over its handling of cash receipts; two state colleges that did not adhere to state finance law and the OSC year-end debt collection procedures and "Collection of Debts" regulations; and one state agency lacking internal controls to ensure that its authorized agents or city or town clerks adhered to payment requirements set forth in state law. This agency also did not administer, control, and separately contract for electronic payment processing services or make use of the OSC sponsored and approved Statewide Contract. During the audit, we provided the OSC with pertinent information regarding improper recording of fiscal year 2006 revenues totaling \$2,211.34 so that appropriate final adjustments to the Commonwealth's records could be made.

AUDIT RESULTS

1. PRIOR AUDIT RESULT - RESOLVED

Our prior audit disclosed that improvements were needed over compliance with the Office of the State Comptroller's (OSC) year-end closing instructions for cash and revenue management. Our follow-up review found the following corrective action taken.

a. Fall River District Court Properly Accounted for Fiscal Year 2006 Revenue

Our prior review determined that Fall River District Court did not establish necessary year-end cash receipts and revenue management controls to ensure that all cash receipt collections were properly accounted for and reported in the appropriate year. As a result, the Fall River District Court did not include all cash received on June 30, 2005 as fiscal year 2005 revenue. Rather, these funds were improperly accounted for as fiscal year 2006 revenue.

Our follow-up review determined that Fall River District Court had established necessary controls to ensure compliance with OSC's Fiscal Year 2006 Closing and Fiscal Year 2007 Opening Instructions. Further, as a result of management communicating specific fiscal year closing/opening instructions to district court staff, all funds on hand and collected on June 30, 2006, totaling \$22,539.74, were deposited and credited to fiscal year 2006.

2. PRIOR AUDIT RESULTS – UNRESOLVED OR PARTIALLY RESOLVED

Our prior audit found that certain improvements were needed over the processing, recording, reporting, and depositing of revenue, as well as compliance with the OSC's year-end closing instructions for cash and revenue management. Our follow-up review found that although some corrective actions have been taken, several issues remain unresolved.

a. Bridgewater State College Improperly Accounted for Fiscal Year 2006 Revenue

Our prior audit determined that the Bridgewater State College (BSC) did not have necessary revenue management controls in place to ensure that all cash receipts received through June 30th were accounted for in the proper fiscal year. As a result, the BSC improperly reported fiscal year 2005 full-time tuition receipts totaling \$4,097.17, received after 12:00 p.m. on June 30, 2005, as fiscal year 2006 revenue.

Our follow-up review determined that although the BSC had implemented internal controls to ensure that full-time tuition receipts—received through the end of the June 30, 2006 business day—totaling \$114,894.72 had been properly deposited and recorded as fiscal year 2006 revenue, the BSC lacked necessary internal controls to ensure that state tuition debt collection receipts totaling \$116.45 were posted promptly and accurately in MMARS (see Appendix D). Furthermore, our review found that contrary to prescribed OSC closing instructions, the BSC did not remind its debt collection agency of fiscal year-end reporting requirements essential for a proper fiscal year closing.

Specifically, the OSC's Fiscal Year 2006 Closing and Fiscal Year 2007 Opening Instructions, Section 10, Revenue Management and Cash Receipts, subsection titled CR Guidance, states in part that:

All FY2006 CRs should be entered by July 7th and must be marked Period 12 AFY2006 and BFY2006. Care must be taken in preparing CRs either manually or through an interface so that they are marked with the proper fiscal year.

Additionally, a subsection of Section 10 titled Debt Collection further requires that:

Departments need to remind debt collection agencies that reporting and invoicing requirements may differ from their normal reporting/invoicing schedule, but are required for proper fiscal year end closing: No later than July 7, 2006 the debt collection agency must submit the required standard electronic debt collection report and invoice for all debt collected through June 30, 2006. Departments should review this information for accuracy and process any resultant payment vouchers no later than July 7, 2006.

Our review disclosed that the BSC's debt collection agency—OSI Collection Services, Inc.—did not submit its June 2006 electronic debt collection report to the college until July 14, 2006, or seven days after the OSC July 7 deadline. Moreover, the BSC did not ensure that June state tuition debt collections due the Commonwealth were entered promptly and accurately into MMARS. Our review showed that the BSC posted its cash receipts document (CR) in MMARS on August 11, 2006 (35 days beyond the OSC July 7 deadline), not as period 12 fiscal year 2006 but instead as period 2 fiscal year 2007. For this reason, state tuition collections totaling \$116.45 were improperly recorded and reported as fiscal year 2007 revenue.

The college explained that the individual normally responsible for handling debt collection transactions was out on sick leave and that the staff person assigned to complete those transactions was unaware of the OSC year-end CR deadline requirement. The college's

statement highlights improvements that are needed in its review practices for year-end closing and opening responsibilities, and the need to provide effective supervision and training to all staff to ensure consistent and proper execution of fiscal responsibilities.

Recommendation

The BSC needs to establish and implement the necessary internal control procedures to ensure that debt collection agency state tuition collections through June 30 are entered promptly and accurately into MMARS and in accordance with OSC prescribed year-end closing requirements. Accordingly, procedures must be implemented that make sure that final fiscal year deposits reflected in the college's clearing account are properly posted to the appropriate fiscal year closing and that the CR entered in MMARS is marked period 12 and discloses the correct fiscal year. In addition, the BSC should ensure that all staff with fiscal responsibilities are conforming to the OSC year-end closing procedures and specific dates and are appropriately supervised and trained to assure a clear understanding and consistent handling of the OSC year-end closing requirements. Furthermore, to ensure a proper fiscal year-end closing, the BSC should remind its debt collection agency of the OSC prescribed reporting requirements and deadlines.

b. Improvements Needed in Internal Controls at the Massachusetts Environmental Police Regarding Daily Deposits

Our prior audit disclosed that the Massachusetts Environmental Police (MEP) needed to strengthen internal controls over revenue to ensure that all cash receipts are deposited on a daily basis, thereby ensuring compliance with governing policies and procedures issued by the OSC and applicable Massachusetts General Laws. Our prior examination reported that the MEP's Springfield branch made cash receipts deposits weekly, while its Worcester, Fall River, and Hyannis branches made deposits twice per week.

Our follow-up review disclosed that, although the MEP (Boston) and its Hyannis branch office made timely deposits of cash receipts, its Springfield, Worcester, and Fall River branch offices still did not process daily cash receipts in accordance with applicable laws, regulations, and policies. Furthermore, even though our prior report recommended that the MEP consider requesting an exception from the daily remittance of its cash receipts from the Executive Office for Administration and Finance (EOAF) and the Office of the State Treasurer (OST), no formal request was made. Additionally, our review determined that, contrary to Chapter 647 of the

Acts of 1989 and OSC internal control guidelines, the MEP did not develop, document, and make available an internal control plan, a department-wide risk assessment, and did not designate an Internal Control Officer responsible for the department's internal controls (see Audit Result No. 4b).

As part of our review of agency compliance with the OSC's Fiscal Year 2006 Closing and Fiscal Year 2007 Opening Instructions, we examined the last three deposits made by the MEP to determine whether cash receipts were deposited daily as required by the OSC Cash Recognition and Reconciliation Policy, issued July 1, 2004, which states, in part:

A department must deposit all cash receipts in a bank account designated by the Office of the State Treasurer daily.

Our examination disclosed that the Fall River, Springfield, and Worcester branch offices did not have procedures in place to ensure that all cash receipts collected on behalf on the Commonwealth were deposited daily. Moreover, exceptions to the daily remittance of cash receipts are provided if the EOAF and OST determine it is in the interest of the Commonwealth to allow payments to be made weekly.¹ While our prior report suggested that the MEP consider this alternative, the MEP did not petition for the daily remittance waiver. Consequently, unless expressly authorized, the MEP should be depositing its cash receipts daily. Our test of the MEP's last three deposits showed the following:

¹ Chapter 30, Section 27, of the Massachusetts General Laws states: Except as otherwise expressly provided, all fees or other money received on account of the commonwealth shall be paid daily into the treasury thereof, but if in the opinion of the commissioner of administration and the state treasurer the interests of the commonwealth require, payments may be made weekly in accordance with such rules and regulations as the state treasurer may prescribe.

MEP Deposits

Branch	Collection Date(s)	Dollar Amount Collected	Deposit Date
Boston	06/27/06	\$9,770.00	06/27/06
	06/28/06	\$9,370.00	06/28/06
	06/29/06	\$7,620.00	06/29/06
Hyannis	06/27/06	\$5,400.00	06/28/06
	06/28/06	\$4,860.00	06/29/06
	06/29/06	\$5,125.00	06/30/06
Fall River	06/21-22/06	\$10,625.00	06/23/06
	06/23,26,27/06	\$15,315.00	06/28/06
	06/28-29/06	\$14,820.00	06/30/06
Springfield	06/12-16/06	\$22,955.00	06/26/06
	06/19-23/06	\$26,385.00	06/29/06
	06/26-28/06	\$14,635.00	06/29/06
Worcester	06/19-21/06	\$16,955.00	06/23/06
	06/22-23/06	\$12,375.00	06/27/06
	06/26-27/06	\$14,910.00	06/28/06

The above table illustrates that, with the exception of its Boston and Hyannis offices, the MEP did not ensure that all cash receipts collected on behalf of the Commonwealth were deposited daily. For example, during the period of June 21st through June 29th, the Fall River branch office made only three deposits totaling \$40,760. The Springfield branch office made only three deposits totaling \$63,975 during the period June 12th through June 28th, while the Worcester branch office during the period June 19th through June 27th made only three deposits totaling \$44,240.

MEP management explained that because cash receipts in their branch offices were checks, they did not believe they were at a high risk, and courier services were cost prohibitive. While there was no written agency-wide policy stipulating that all cash receipts be deposited daily, it was understood at the Boston office that its receipts should be deposited daily and that the other branches were to make deposits two or three times a week.

In the event that revenues due the Commonwealth are not properly safeguarded, not depositing cash receipts daily increases the risk of revenues being misplaced, lost, stolen, or misused. Moreover, funds that are not deposited in a timely manner decrease potential investment income and deprive the Commonwealth of the use of funds collected on its behalf.

Recommendation

The MEP should establish and implement agency-wide internal control procedures to ensure that all revenues collected are deposited daily in accordance with applicable laws, regulations, and policies. Given that its Boston and Hyannis offices conducted timely deposits, it seems reasonable that the other branches could also. Nevertheless, if it is determined to be cost-prohibitive, the MEP should again consider requesting permission from the EOAF and OST for an exception to the daily remittance of cash receipts. Until such approval, the MEP, to the extent practical, should adhere to prescribed daily deposit requirements.

c. Improvements Needed in Debt Collection Internal Controls at the Massachusetts College of Liberal Arts

Our prior audit disclosed that the Massachusetts College of Liberal Arts (MCLA) did not establish and implement necessary internal controls to ensure that invoicing requirements prescribed in the OSC fiscal year 2005 closing instructions and terms and conditions set forth in the Commonwealth Debt Collection Service Statewide Contract were followed by the college's debt collection agency. As a result, MCLA did not ensure that gross debt collections were deposited with the college, that debtors were notified of proper payment provisions, and that its debt collection agency only billed for its authorized contingent fee after remitting all collected debt. Additionally, contrary to the OSC "Collection of Debts" regulations,² the college did not designate a contract manager to monitor collection agency compliance with debt collection contract terms.

Our follow-up review found that the MCLA still lacks necessary internal controls to ensure compliance with the OSC year-end debt collection requirements and "Collection of Debt" regulations, continues to receive state tuition debt collections—from two Commonwealth authorized debt collection agencies—net of the collection agency contingency fee, and has yet to designate a contract manager to monitor collection agency compliance with the Commonwealth's statewide contract for debt collection services as well as OSC prescribed debt collection regulations. As a result, contrary to state finance law, all funds received on account of the Commonwealth are not being recorded in the state's MMARS accounting system.

² The OSC 815 Code of Massachusetts Regulations 9.00 governs the collection of non-tax revenue accounts receivable and debts owed to the State and apply to agencies, subdivisions, offices, boards, commissions, committees, councils, boards or institutions of the Executive Department, the Institutions of Higher Learning, the Judicial and Legislature Branches and Constitutional Offices.

Commonwealth agencies that use the services of debt collection agencies are required to comply with the subsection of OSC's Fiscal Year 2006 Closing and Fiscal Year 2007 Opening Instructions, Section 10, Revenue Management and Cash Receipts, titled Debt Collection, which states:

Departments also need to remind debt collection agencies that reporting and invoicing requirements may differ from their normal reporting/invoicing schedule, but are required for proper fiscal year end closing: No later than July 7, 2006 the debt collection agency must submit the required standard electronic debt collection report and invoice for all debt collected through June 30, 2006.

Under the Commonwealth's Debt Collection Service Statewide Contract—which incorporates by reference the OSC Request for Responses (RFR) for Debt Collection Services—deposit requirements for authorized debt collection agencies state, in part:

Pursuant to M.G.L. chapter 30 section 27, for Commonwealth Departments, Authorized Debt Collection Agencies must deposit all gross collections into a specified Commonwealth approved bank account using the deposit slips provided by the Department within twenty-four (24) hours of receipt so that the funds are recorded on the state accounting system (MMARS).

Therefore, to comply with the aforementioned provision, debt collection agencies must deposit the full amount of all its collections and may not net their fees for services from the amount transmitted to the Commonwealth. Furthermore, the OSC RFR requires that authorized collection agencies “notify all debtors to make payments payable to: The Commonwealth of Massachusetts, (c/o client Department name),” and “bill for the authorized contingency fee payment after the debt has been properly remitted to the Eligible Entity.” Nevertheless, our follow-up review determined that the MCLA still has not established and implemented necessary internal controls to ensure that all debts collected on behalf of the college were recorded through the Commonwealth's MMARS accounting system and that authorized collection agencies were adhering to prescribed invoicing requirements. For the fiscal year ended June 30, 2006, Collection Company of America (CCA) collected \$15,329.41 and remitted to MCLA \$11,510.87, while Delta Management Associates, Inc. collected \$365 and remitted \$291 to MCLA. Only one Commonwealth-authorized debt collection agency—Windham Professionals, Inc.—had deposited gross collections totaling \$7,510.04 and properly invoiced the college in

accordance with the Statewide Contract.³ These net remittances have resulted in debts collected on behalf of the college totaling \$3,892.54⁴ not being deposited with the OST and processed through MMARS.

Furthermore, collection agency net remittances indicate that recovered state tuition funds had been deposited into the collection agency's own bank account and that debtors were not being notified to submit their debt payments payable to the Commonwealth. The MCLA's acceptance of these activities constitutes noncompliance with the OSC fiscal year 2006 closing instructions and debt collection regulations as well as the Commonwealth's Debt Collection Service Statewide Contract.

Additionally, our follow-up review determined that the college, contrary to the OSC "Collection of Debts" regulations, continues to operate without a designated contract manager. The designation of a contract manager would ensure that debt collection transactions involving revenue receipts and payments to collection agencies were processed properly through MMARS and that the college and its debt collection agencies adhered to applicable laws, rules, and regulations.

The MCLA Bursar explained that two of its debt collection agencies offered the netting option and the college accepted because it resulted in less work for its small administrative staff. However, by offering to net its contingency fees from collections, debt collection agencies are not in compliance with the OSC RFR and its Statewide Contract, which prohibits netting of payments. Moreover, the MCLA is not in compliance with state finance law and the Statewide Contract by permitting collection agency deductions before collection revenue is fully remitted into the college's accounting system, deposited with the OST, and accounted for in the state's accounting system. As a result of our review, the college has contacted the collection agencies and has instructed that all (gross) collections be remitted to the college and invoiced in accordance with set provisions. Furthermore, the college delegated contract manager responsibilities to its Bursar.

³ Eligible entities, such as the MCLA, have not been appropriated funding for the Commonwealth's Debt Collection Services Statewide Contract. Accordingly, any payments to an authorized debt collection agency may only be paid from amounts (1) actually collected for an assigned debt from an eligible entity, (2) properly and timely remitted into an eligible entity official accounting system, and (3) properly invoiced to the eligible entity.

⁴ Total collections (\$15,329.41 + \$365) \$15,694.41 minus total remittances (\$11,510.87 + \$291) \$11,801.87 = \$3,892.54.

Recommendation

MCLA needs to develop and implement internal control policies and procedures to ensure that the OSC annual year-end closing procedures and the Commonwealth's Debt Collection Service Statewide Contract terms and conditions are adhered to and are documented in its internal control plan. At a minimum, the college's control policies and procedures should ensure that: (a) debt collection contractors only receive payment contingent upon the college receiving gross revenues and are properly invoiced for the contingency fee amount by the contractor; (b) debt collection contractors deposit gross revenues into a specified Commonwealth approved bank account and are notifying debtors to make payments payable to the Commonwealth of Massachusetts, (c/o the college); and (c) the contract manager (Bursar) reminds debt collection contractors of the OSC year-end closing requirements and monitors compliance with the college's collection account referral contract.

d. Improvements Needed in Internal Controls at Westborough District Court Regarding Segregation of Duties

Our prior audit disclosed that the primary cashier in the Westborough District Court (WDC) Clerk-Magistrate's Office also performed the office bookkeeping functions. As a result, our prior audit reported that WDC internal controls over daily cash receipts processing needed to be strengthened to ensure compliance with segregation of duties policies and procedures issued by the OSC and the Administrative Office of the Trial Court (AOTC), and to lessen the risk of funds intended for deposit with the Commonwealth being omitted, lost, stolen, or misused. Likewise, in a subsequent examination by our office that included an assessment of internal controls over cash management, our audit (No. 2006-1184-3O)⁵ reported that the WDC Clerk-Magistrate's Office bookkeeper continued to function as the primary office cashier.

Similar to our previous disclosures, our follow-up review determined that an issue with segregation of duties still exists at the WDC. Our analysis of daily deposits revealed that the primary cashier was still involved in court collections and was responsible for making cash receipts postings of \$15,429 to the Clerk-Magistrate's Office cash journal during June 27 through June 29, 2006, the period of our test.

⁵ Independent State Auditor's Report on Certain Activities of the Westborough Division of the District Court Department of the Massachusetts Trial Court – July 1, 2004 to June 30, 2005, issued February 28, 2006.

The Internal Control Guide for Managers, Chapter 4, Section A, issued by the OSC states, in part:

The fundamental premise of segregated duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same action. These are called incompatible duties when performed by the same individual.

In addition, the AOTC Fiscal Systems Manual, Volume 8, Section 8.3 states, in part:

To ensure proper controls over the court's collection of funds, strict segregation of duties in the collection process must be maintained. This policy requires that the Court's cashier and bookkeeper be different employees. One individual must not perform both cashing and bookkeeping functions on the same day.

Because the same employee performs the cashier and bookkeeper functions at the WDC Clerk-Magistrate's Office, management did not ensure that activities considered incompatible were properly segregated. Furthermore, without adequate segregation of duties, court funds intended for deposit are susceptible to being omitted, lost, stolen, or misused.

Although our prior recommendations strongly encouraged that the WDC place a greater emphasis on segregation of duties and that all efforts must be exhausted to reassign responsibilities to achieve proper segregation of duties, the Clerk-Magistrate continues to assert that staffing constraints have hindered the court's compliance with prescribed internal control regulations.

The OSC Internal Control Guide for managers recognizes that maintaining segregation of duties in agencies that have a small number of employees is challenging. Nevertheless, management of such departments must still consider this principle when designing and defining job responsibilities, and must implement necessary control procedures to assure the proper segregation of duties. In those situations with limited personnel, management needs to exercise greater supervision and become more involved in its operations.

Recommendation

To enhance the integrity of its internal control system, the WDC must make segregation of duties a high priority. To that end, proper segregation of duties will lessen the court's risk of asset loss as well as heighten the reliability of its financial information and adherence with governing policies and procedures. If segregation of responsibilities to the extent desirable

continues to be hampered by limited staffing, supervision and monitoring and management involvement in its operations must be increased. Further, the WDC should seek guidance from AOTC to remedy its ongoing segregation of duties and staffing dilemma.

e. Division of Fisheries and Wildlife Year-End Revenue Controls Need Improvement

Our prior audit reported that the Department of Fish and Game's (DFG) Division of Fisheries and Wildlife (DFW) Licensing Division did not establish necessary year-end cash receipts and revenue management controls to ensure that all cash receipts collected on behalf of the Commonwealth were properly accounted for and reported in the appropriate fiscal year. Moreover, our examination disclosed that the DFW's internal controls and manual collection system did not ensure that licensing sale receipts collected by authorized licensing agents⁶ were remitted to the division in accordance with payment requirements set forth in state law. Not ensuring compliance with necessary year-end cash receipts and revenue management controls would have resulted in the DFW's noncompliance with the OSC Fiscal Year 2005 Closing Instructions and Massachusetts General Laws, and licensing revenues totaling \$570,177.05 being incorrectly credited to the 2006 fiscal year, had we not selected them for review.

To set right the reporting of fiscal year-end 2005 June licensing sales, the OSC instructed the DFW to list estimated June sales on its 2005 generally accepted accounting principles (GAAP)⁷ report—submitted to the OSC—as pending receivables. Our follow-up review showed that the DFW employed the same methodology for reporting its fiscal year-end 2006 June sales. To that end, the DFW reported estimated June sales valued at \$632,000 as fiscal year 2006 GAAP pending receivables. Although this action addresses the reporting of June sales and the valuation of DFW receivables that occurred at year-end, the division has not resolved difficulties in collecting funds—through its manual collection system—from authorized agents that continue to result in overdue or late remittals of licensing sale receipts to the DFW and noncompliance with the payment timeline set forth in state law.

Specifically, Chapter 131, Section 18, of the General Laws states, in part:

⁶ A DFW authorized agent or city or town clerk may issue sporting, hunting, fishing, and trapping licenses on behalf of the DFW.

⁷ The Commonwealth reports on the basis of generally accepted accounting principles (GAAP) as defined for governments by the Governmental Accounting Standards Board. Departments provide year-end financial information so that the Commonwealth is able to issue its Comprehensive Annual Financial Report (CAFR) under GAAP.

Each issuing officer shall, on the first Monday of every month, pay to the director all monies received by him for licenses issued during the month preceding...All such remittances shall be by cash, United States post office money order, express money order, or in lawful money of the United States.

Our follow-up review determined that, contrary to Chapter 131, Section 18, of the General Laws, the DFW's internal controls and manual collection system did not ensure that the transmittal of licensing sales receipts were made by the first Monday of every month. Our examination showed that as of July 31, 2006, 391 of the 416 (94%) licensing agents reported June 2006 licensing revenues totaling \$571,430.60. The remaining 25 agents—roughly four weeks overdue—still had not remitted June licensing sales receipts to the division. In view of these outstanding remittances, the division and the Commonwealth cannot be assured that all June sales were properly accounted for and reported as fiscal year 2006 revenue. The Commonwealth depends on the successful collection of revenue to maintain its operations. Moreover, because the Commonwealth earns interest on its funds, funds that are not remitted in a timely manner result in lost interest income. Subsequently, the DFW reported that all 416 agents had remitted June sales to the division by August 31, 2006, bringing the June licensing sales total to \$672,351.70.

In response to our prior audit, DFW management indicated that they would continue efforts to implement an automated licensing system. During our follow-up review we conducted interviews with management to ascertain the division's progress and/or alternative payment methods being considered, such as Electronic Payment Processing Services.⁸ In response, management stated that it had looked at various options; however, they were found to be cost prohibitive and complex. Notwithstanding requests to review documentation of the options studied and cost analysis work performed, nothing was made available to corroborate management's assertion. Nevertheless, at present the DFG and its Division of Marine Fisheries (DMF) are making use of electronic payment processing services, even though services are shared with the Massachusetts Environmental Police (see Audit Result No. 4d) for boat and recreational vehicle registration renewals. For that reason, electronic payment services under the Commonwealth's Statewide Contract would coincide with the DFG's overall needs. Also, as

⁸ Currently, the Commonwealth's Statewide Contract for Electronic Payment Processing Services provides entities with the ability to offer its customers the option of paying for goods, services, and other obligations via credit cards (VISA, MasterCard, Discover, or American Express) and Automated Clearing House. The transactions can be processed over the web (Internet), over the phone via Interactive Voice Response (IVR), or in person using point of sale 'swipe' terminals.

more departments participate in the Statewide Contract, the opportunity for fee reductions increases. Accordingly, potential fee reductions would be attractive to the department with its limited operating funds.

Recommendation

The DFW should: (a) review existing policies and procedures and strengthen and implement the necessary internal controls to ensure that all cash receipts are properly accounted for and reported in the appropriate fiscal year, (b) ensure that all authorized licensing agents remit payments of licensing revenue in accordance with the statutory required due date, and (c) explore alternative payment options (with assistance from the OSC). Two cost-effective options include the Commonwealth's Statewide Contract for Electronic Payment Processing Services and lockbox processing.

f. Improvement Needed in Internal Controls at the Division of Marine Fisheries Regarding Daily Deposits, Related Cash Receipt Transactions, and Monthly Reconciliations

Our prior audit disclosed that the Division of Marine Fisheries (DMF), within the Department of Fish and Game, needed to strengthen internal controls over revenue to ensure that all cash receipts are deposited on a daily basis; that required cash receipts (CR) documents allocating revenue are entered accurately and in a timely manner into the Massachusetts Management Accounting and Reporting System (MMARS); that supporting CR documentation is maintained for all cash deposits; and that monthly reconciliations between the division's records and relevant MMARS tables and/or reports are performed, thereby ensuring compliance with the governing policies and procedures issued by the OSC and applicable Massachusetts General Laws.

Our follow-up review determined that, although the DMF has developed and strengthened internal controls for revenue and, as such, now records accurate and timely cash receipts (CR) documents in MMARS, maintains supporting CR documentation for all cash deposits, and performs monthly reconciliations between the division's records and relevant MMARS tables and/or reports, the DMF is still not depositing its cash receipts on a daily basis.

As part of our year-end examination, we reviewed the last three deposits made by the DMF to determine whether cash receipts⁹ were deposited daily in accordance with prescribed policies issued by the OSC. The OSC's Cash Recognition and Reconciliation Policy, issued July 1, 2004, states, in part:

A department must deposit all cash receipts in a bank account designated by the Office of the State Treasurer daily.

Our analysis disclosed that, contrary to the abovementioned policy, the DMF is not making daily deposits of cash receipts. Exceptions to the daily remittance of cash receipts are provided if the Executive Office for Administration and Finance (EOAF) and the State Treasurer (OST) determine it is in the interest of the Commonwealth to allow payments to be made weekly.¹⁰ However, unless expressly authorized, the DMF should be depositing its cash receipts daily. Our examination of the last three deposits showed the following exceptions to the daily deposit requirement.

Division of Marine Fisheries Deposits

Branch Location	Collection Date(s)	Dollar Amount Collected	Deposit Date
Boston	06/22/06	\$11,405.00	06/22/06
	06/23-27/06	\$15,895.00	06/27/06
	06/28-29/06	\$12,020.00	06/29/06
Pocasset	06/27/06	\$260.00	06/27/06
	06/28/06	\$735.00	06/28/06
	06/29/06	\$600.00	06/29/06
Newburyport	05/17-22/06	\$2,968.00	05/24/06
	05/23-06/12/06	\$1,116.00	06/12/06
	06/13-26/06	\$3,726.00	06/26/06

The above table shows that, with the exception of the Pocasset branch office, the DMF did not ensure that cash receipts collected on behalf of the Commonwealth were being deposited daily. For example, during the 8-day period June 22, 2006 through June 29, 2006, the Boston branch office made only three deposits totaling \$39,320. Likewise, during the 41-day period May 17, 2006 through June 26, 2006, the Newburyport branch office made three deposits totaling \$7,810. By not making bank deposits daily, the DMF increases the risk of revenues due the

⁹ The DMF receives revenue from the following sources: commercial licensing fees, shellfish fees, funds collected for its Marine Mammals and Fisheries Research and Conservation Trust, miscellaneous fees (primarily commercial lobster license transfers), credit card income, and non-sufficient check fees.

¹⁰ Chapter 30, Section 27, of the Massachusetts General Laws.

Commonwealth being misplaced, lost, stolen, or misused. Moreover, because the Commonwealth earns interest on its funds, not depositing funds promptly decreases potential investment income and the use of funds collected on the Commonwealth's behalf. The DMF management cited lack of staffing as the cause for not adhering to the daily deposit requirement.

Recommendation

The DMF should establish and implement the necessary internal control procedures to ensure that the division and its branch offices deposit cash receipts daily or within one business day of receipt to reduce the risk of loss, and those who collect or process revenue clearly understand the responsibilities entrusted to them. As part of this effort, management should develop sufficient oversight and monitoring procedures over revenue activities to ensure that prescribed policies and procedures are consistently followed. Alternatively, if daily deposits are problematic, the DMF should consider requesting permission from the EOAF and OST for an exception to the daily remittance of cash receipts or consider the use of a lockbox system for the receipt and processing of legislatively authorized cash payments.

3. FISCAL YEAR 2006 REVENUE RECOGNIZED IN FISCAL YEAR 2007

Our review of agency compliance with the OSC's Fiscal Year 2006 Closing and Fiscal Year 2007 Opening Instructions, Section 10, Revenue Management and Cash Receipts, found that in addition to Bridgewater State College's improper recognition of fiscal year 2006 revenue (see Audit Result No. 2a), two other colleges improperly accounted for fiscal year 2006 revenue as fiscal year 2007 revenue.

To ensure that all revenues and cash are recognized in the proper fiscal year, the OSC requires state agencies to deposit all cash received and on hand through the end of the last business day of the fiscal year and enter all revenue data pertaining to these deposits into the Massachusetts Management Accounting and Reporting System (MMARS) by a prescribed date. Specifically, the OSC's Fiscal Year 2006 Closing and Fiscal Year 2007 Opening Instructions state, in part:

Cash receipts on hand or on deposit as of June 30, 2006 are FY2006 assets and revenue of the Commonwealth and need to be reflected as such on the annual financial statements.

Final Deposits for June 30th collections must be posted by the bank by noon on Monday July 3rd, 2006. To ensure that all deposits reflected in clearing accounts are properly

posted for the FY2006 closing, departments should enter CRs at the same time that the deposits are made for cash received through June 30th.

All FY2006 CRs should be entered by July 7th and must be marked Period 12 AFY2006 and BFY2006. Care must be taken in preparing CRs...so that they are marked with the proper fiscal year.

Our audit found that of the 50 agencies reviewed, three state colleges improperly reported fiscal year 2006 revenue totaling \$2,211.34 as fiscal year 2007 revenue.

a. Mount Wachusett Community College Improperly Accounted for Fiscal Year 2006 Revenue

Our audit found that the Mount Wachusett Community College (MWCC) did not have necessary revenue management controls in place to ensure that its debt collection agency was advised of OSC year-end deposit, reporting, and invoicing requirements essential for the accurate accounting of fiscal year 2006 debt collections and proper fiscal year closing. As a result, \$399.85 in fiscal year 2006 state tuition collections were improperly recorded and reported as fiscal year 2007 revenue.

To maximize the collection of debts owed to Commonwealth agencies and thereby enhance Commonwealth revenue, the OSC executed a statewide contract with 11 qualified contractors for the provision of debt-collection services to eligible entities.¹¹ Commonwealth agencies that use the services of debt collection agencies are required to comply with Debt Collection requirements, a subsection of the OSC's Fiscal Year 2006 Closing and Fiscal Year 2007 Opening Instructions, Section 10, Revenue Management and Cash Receipts, which states, in part:

Departments also need to remind debt collection agencies that reporting and invoicing requirements may differ from their normal reporting/invoicing schedule, but are required for proper fiscal year closing: No later than July 7, 2006 the debt collection agency must submit the required standard electronic debt collection report and invoice for all debt collected through June 30, 2006. Departments should review this information for accuracy and process any resultant payment vouchers no later than July 7, 2006.

Our review determined that the MWCC's debt collection agency—Collection Company of America (CCA)—did not submit its June 2006 debt collection report to the college until July 18, 2006, or 11 days after the OSC July 7 deadline. Moreover, the MWCC did not exercise the care

¹¹ Eligible entities: All Commonwealth agencies, constitutional offices, the Legislature, and the Judiciary; cities, towns, municipalities, counties, and other political subdivisions of the Commonwealth, including schools and other service districts; authorities, commissions, institutions of higher education, and quasi-public agencies; and eligible not-for-profit entities currently contracting with the Commonwealth to provide human and social services.

necessary to ensure that June debt collections were properly recorded and reported in MMARS. Consequently, state tuition collections totaling \$399.85 were improperly recorded and reported as fiscal year 2007 revenue.

The MWCC Comptroller stated that they were unaware of the OSC prescribed timeframes for year-end depositing and reporting of debt collection income.

The OSC's annual closing and opening instructions highlight the most important aspects of the year-end closing and fiscal year opening of MMARS. To that end, the OSC requires that Chief Fiscal Officers and staff with fiscal responsibilities give careful attention to procedures and specific dates disclosed in their annual instructions. Further, the OSC conducts an annual closing/opening meeting, provides special workshops, and displays e-updates on its Knowledge Center webpage to assist departments with fiscal year closing and opening requirements. The college's comments demonstrate that greater attention needs to be paid to closing/opening instruction details and key areas, as well as points to improvements needed in its review practices for year-end closing and fiscal year opening responsibilities. The designation of a contract manager—as promulgated in the OSC "Collection of Debt" regulations—would help ensure the college of adherence to OSC year-end closing instructions.

Recommendation

The MWCC should establish and implement the necessary internal controls to ensure that debt collection agency state tuition collections through June 30 are deposited, reported, and invoiced in accordance with OSC prescribed year-end closing instructions, as well as entered promptly and accurately into MMARS. Further, the MWCC should designate a contract manager to monitor and advise its debt collection contractor of applicable OSC year-end closing requirements and to ensure compliance with the college's collection account referral contract. Additionally, the MWCC should ensure that all staff with fiscal responsibilities are provided effective training and have a clear understanding of OSC prescribed year-end closing requirements and regulations governing debt collection so that personnel can execute the requirements with accuracy and consistency.

b. University of Massachusetts-Lowell Improperly Accounted for Fiscal Year 2006 Revenue

Our audit determined that the University of Massachusetts-Lowell (UML) did not have necessary revenue management controls in place to ensure that one of its debt collection agency's collections—through June 30, 2006—was accurately recorded and reported in MMARS. As a result, the UML improperly recorded and reported fiscal year 2006 state tuition debt collections totaling \$1,695.04 as Fiscal Year 2007 revenue.

To maximize the collection of debts owed to Commonwealth agencies and thereby enhance Commonwealth revenue, the OSC executed a statewide contract with 11 qualified contractors for the provision of debt-collection services to eligible entities. Commonwealth agencies that use the services of debt collection agencies are required to comply with the subsection titled Debt Collection of OSC's Fiscal Year 2006 Closing and Fiscal Year 2007 Opening Instructions, Section 10, Revenue Management and Cash Receipts, which states:

All FY2006 collections made by a debt collection agency on behalf of a department must be deposited into the department's approved bank account by noon July 1, 2006. Departments should remind debt collection agencies of this deposit requirement to ensure accurate accounting of FY2006 debt collected.

The subsection titled Debt Collection further requires that:

Departments also need to remind debt collection agencies that reporting and invoicing requirements may differ from their normal reporting/invoicing schedule, but are required for proper fiscal year closing: No later than July 7, 2006 the debt collection agency must submit the required standard electronic debt collection report and invoice for all debt collected through June 30, 2006. Departments should review this information for accuracy and process any resultant payment vouchers no later than July 7, 2006.

During our review it was determined that the UML, in accordance with the OSC closing requirements, properly notified its debt collection agency (Windham Professionals, Inc.) of year-end deposit, reporting, and invoicing time limits. However, even though the UML informed us (while we were on site) that its debt collection agency was experiencing computer problems that did not allow for processing of their reporting (to the university) of debt collections and deposit information (through June 30, 2006) by the July 7 deadline set forth by the OSC, the university did not alert the OSC of pending 2006 debt collection receipts and did not ensure that the required cash receipts document (CR) entered into MMARS properly classified 2006 debt collections as period 12 fiscal year 2006. Consequently, this omission resulted in June 2006 state

tuition debt collections totaling \$1,695.04 being inappropriately recorded and reported as fiscal year 2007 revenue.

The OSC, in an effort to ensure that all 2006 deposits were posted for the fiscal year 2006 closing, recommended that departments enter CRs at the same time that deposits were made for cash received through June 30. Given that collection agencies had until July 7th to submit their standard electronic debt collection report, the university was unable to prepare its CR document until it received and verified the accuracy of the collection agency report and determined how much of the debt collections represented state tuition due the Commonwealth. Nevertheless, the university was required to ensure the accurate accounting of fiscal year 2006 debt collections for proper fiscal year-end closing. Furthermore, in the event that departments needed assistance or that 2006 deposited funds were inadvertently posted to the 2007 opening year, the OSC asked departments to contact its General Accounting Bureau. Although the UML did not receive its June 2006 debt collection report from Windham Professionals until July 10, 2006, necessary care was not taken to ensure the accurate accounting and proper closing of 2006 debt collections.

Recommendation

The UML should establish and implement the necessary internal controls to ensure that all debt collections through June 30—made by a debt collection agency—are entered accurately and in a timely manner into MMARS in accordance with OSC prescribed year-end closing instructions. For that reason, procedures must be implemented that make sure that final fiscal year debt collection deposits reflected in the college's clearing account are properly posted to the appropriate fiscal year closing and that the CR document entered in MMARS is marked period 12 and discloses the correct fiscal year. Furthermore, to help reduce the risk of year-end debt collections being improperly posted, timely and effective two-way communication between the college and the OSC General Accounting Bureau will make certain that year-end issues are appropriately resolved. The OSC provides debt collection and CR guidance for those departments needing assistance with handling year-end activities. Along those same lines, management needs to be certain that its current closing process allows for the ability to deal with unexpected difficulties, should they arise.

4. IMPROVEMENTS NEEDED IN CERTAIN INTERNAL CONTROLS OVER REVENUE MANAGEMENT AND COMPLIANCE WITH INTERNAL CONTROL REQUIREMENTS OF CHAPTER 647 OF THE ACTS OF 1989

During our review of agency compliance with the OSC Fiscal Year 2006 Closing and Fiscal Year 2007 Opening Instructions, we identified four agencies that needed to improve revenue management controls to ensure compliance with governing policies and procedures issued by the OSC. Additionally, one of the agencies (see Audit Result 2b) also needs to develop and document an Internal Control Plan (ICP) and a department-wide risk assessment to meet the requirements of Chapter 647 of the Acts of 1989 and Office of the State Comptroller (OSC) guidelines. Chapter 647 requires that departments develop an ICP in accordance with OSC guidelines. Summarized below are the internal control issues that came to our attention while on site on June 30, 2006.

a. Improvements Needed in Internal Controls at the Harold Parker State Forest Regarding Daily Deposits

Our audit determined that the Department of Conservation and Recreation's (DCR) Harold Parker State Forest¹² needed to strengthen internal controls over revenue to ensure that all cash receipts are deposited on a daily basis, thereby ensuring compliance with governing policies and procedures issued by the OSC and applicable Massachusetts General Laws.

As part of our review of agency compliance with OSC's Fiscal Year 2006 Closing and Fiscal Year 2007 Opening Instructions, we examined deposits made by Harold Parker State Forest during the last two weeks of June 2006 to determine whether cash receipts were deposited daily as required by the OSC Cash Recognition and Reconciliation Policy, issued July 1, 2004, which states, in part:

A department must deposit all cash receipts in a bank account designated by the Office of the State Treasurer daily.

Our analysis disclosed that, contrary to the above-mentioned policy, Harold Parker State Forest did not have procedures in place to ensure that all cash receipts collected on behalf of the Commonwealth are deposited daily. Exceptions to the daily remittance of cash receipts are provided if the Executive Office for Administration and Finance (EOAF) and the OST

¹² The Department of Conservation and Recreation, through its Division of State Parks and Recreation, manages Harold Parker State Forest activities.

determine it is in the interest of the Commonwealth to allow payments to be made weekly.¹³ However, unless expressly authorized, Harold Parker State Forest should be depositing its cash receipts daily. Our analysis of collection and deposit activity during the last two weeks of June 2006 showed the following exceptions to the daily deposit requirement.

Harold Parker State Forest Deposits

Collection Date	Dollar Amount Collected	Deposit Date
06/19/06	\$343.00	06/19/06
06/20/06	\$463.00	06/20/06
06/21–25/06	\$1,113.00	06/26/06
06/26/06	\$95.00	06/27/06
06/27/06	\$152.00	06/28/06
06/28-30/06	\$806.50	07/03/06

The above table shows that although cash receipts at times have been deposited on the same day as funds were collected, the practice of depositing cash receipts daily was not consistently followed. Daily deposit exceptions are best illustrated during the periods of June 21st through June 25th and June 28th through June 30th, when cash receipts were deposited three to six days after being collected.

The park supervisor explained that he was not aware of the OSC requirement that all cash receipts should be deposited on a daily basis. Furthermore, a representative from the DCR could not provide any written policies and procedures that specified the OSC daily deposit requirement.

In the event that revenues due the Commonwealth are not properly safeguarded, not depositing cash receipts daily increases the risk of revenues being misplaced, lost, stolen, or misused. Moreover, funds that are not deposited in a timely manner decrease potential investment income and deprive the Commonwealth of the use of funds collected on its behalf.

Recommendation

Management at DCR should address the above issues by establishing and implementing necessary internal control policies and procedures to ensure that revenue collected on behalf of the Commonwealth at Harold Parker State Forest is deposited daily. Moreover, the DCR should ensure that staff collecting and processing revenues understand responsibilities entrusted to

¹³ Chapter 30, Section 27, of the Massachusetts General Laws.

them and follow governing policies and procedures issued by the OSC. If the agency is unable to comply with the daily deposit requirements, they should initiate efforts to request and secure written permission from EOAF and OST for an exception to the daily remittance of cash receipts. Until such approval, cash receipts should be deposited daily.

b. Massachusetts Environmental Police Internal Control Plan and Department-wide Risk Assessment Need Development and Documentation

Our audit determined that, contrary to Chapter 647 of the Acts of 1989 and internal control guidelines established by the OSC, the Massachusetts Environmental Police (MEP) did not develop, document, and make available an internal control plan, a department-wide risk assessment of the department's risks and those controls implemented to minimize risks, and did not designate an Internal Control Officer responsible for the department's internal controls. As a result, the MEP is not in compliance with Chapter 647 of the Acts of 1989 and internal control guidelines set forth by the OSC. Furthermore, the lack of written internal control policies and procedures and effective management oversight lessen the expectation that branch offices will comply with the OSC daily deposit requirement (see Audit Result No. 2b).

Chapter 647 of the Acts of 1989, An Act Relative to Improving Internal Controls within State Agencies, establishes standards for maintaining internal control systems for state government operations. These standards "define the minimum level of internal control systems in operation throughout the various state agencies and departments" and constitute "the criteria against which such internal control systems will be evaluated." The following are requirements outlined within Chapter 647 of the Acts of 1989:

- Internal control systems of the agency are to be clearly documented and readily available for examination, including all operation cycles.
- Documentation of the agency's internal control systems should appear in management directives, administrative policies, and accounting policies, procedures, and manuals.
- All transactions and significant events are to be promptly recorded, clearly documented, and properly classified.
- Transactions and other significant events are to be authorized and executed only by persons acting within the scope of their authority.
- Qualified and continuous supervision should be provided to ensure that internal control objectives are achieved.

Chapter 647 also states, in part: “Internal control systems for 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, the 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.” Further, these publications detail important elements of an effective system of controls as a guide for departments to consider when completing its plan and discuss such components of internal control as the control environment, risk assessment, control activities, information and communication, and monitoring. These guidelines also require that departments assign the responsibilities of internal controls to a senior official, equivalent in title to an assistant or deputy to the department head, whose responsibilities include ensuring a department has written documentation (that includes all aspects of the department’s business) of its internal control systems on file and, at least annually, evaluates and implements any changes necessary to maintain the integrity and effectiveness of the system.

Risk assessment is an integral part of an internal control plan because it identifies and analyzes risks and assists management in prioritizing those activities where controls are most needed. Management uses risk assessments for all aspects of their business, for programmatic as well as financial operations, to determine the extent to which legislative, regulatory, or organizational goals and objectives are being achieved and to design and implement cost-effective and productive internal controls.

Without documented internal control systems, a department-wide risk assessment, and a designated Internal Control Officer, there is inadequate assurance that the MEP will achieve its goals and objectives efficiently, effectively, and in compliance with applicable laws and regulations and will properly safeguard its assets against loss, theft, or misuse.

The Deputy Director of Administration stated that while the MEP was aware of the requirements of Chapter 647 of the Acts of 1989, they had not complied with the requirements due to a lack of time and resources.

Recommendation

The MEP should comply with Chapter 647 of the Acts of 1989 and the OSC established internal control guidelines by completing an internal control plan, beginning with the documentation of a department-wide risk assessment. After the risk assessment is completed, the MEP should develop and implement internal controls and procedures to mitigate identified risks. Furthermore, the MEP should assign its internal control officer's responsibility to a senior official to ensure that written documentation of the department's internal control systems are on file and, at least annually, are evaluated and necessary changes implemented to ensure the integrity and effectiveness of its internal control systems.

c. Improvements Needed in Debt Collection Internal Controls at Bristol Community College

To maximize the collections of all debts owed to Commonwealth agencies and thereby enhance Commonwealth revenue, the OSC executed a statewide contract with 11 qualified contractors for the provision of debt-collection services to eligible entities. Commonwealth agencies that use the services of debt collection agencies are required to comply with the subsection of OSC's Fiscal Year 2006 Closing and Fiscal Year 2007 Opening Instructions, Section 10, Revenue Management and Cash Receipts, titled Debt Collection, which states, in part:

Departments also need to remind debt collection agencies of the following reporting and invoicing requirements that may differ from their normal reporting/invoicing schedule, but are required for proper fiscal year closing: No later than July 7, 2006 the debt collection agency must submit the required standard electronic debt collection report and invoice for all debt collected through June 30, 2006. Departments should review this information for accuracy and process any resultant payment vouchers no later than July 7, 2006.

Our review determined that the Bristol Community College (BCC) did not establish and implement necessary internal controls to ensure that the aforementioned invoicing requirement was followed by the college's debt collection agency. Specifically, we found that Allen Daniels Associates Inc., one of the Commonwealth's authorized debt collection agencies used by the college, did not properly invoice for all debt it collected as of June 30, 2006, but instead remitted collections to the college net of their contingency fee. Our examination of the June 2006 invoice showed that Allen Daniels Associates Inc. collected a total of \$3,440.15 due to the BCC; however, collection agency fees totaling \$573.41 were netted out, and not deposited in the

Treasury through MMARS. As a result, contrary to state finance law, all funds received on behalf of the Commonwealth are not being recorded in the state's MMARS accounting system.

Under the Commonwealth's Debt Collection Service Statewide Contract—which incorporates by reference the OSC Request for Response (RFR) for Debt Collection Services—deposit requirements for authorized debt collection agencies state, in part:

Pursuant to M.G.L. chapter 30 section 27, for Commonwealth Departments, Authorized Debt Collection Agencies must deposit all gross collections into a specified Commonwealth approved bank account using the deposit slips provided by the Department within twenty-four (24) hours of receipt so that the funds are recorded on the state accounting system (MMARS).

Consequently, to comply with the above provision, debt collection agencies must deposit the full amount of all collections and may not net their fees for services from the amount transmitted to the Commonwealth. Additionally, the OSC RFR required that authorized collection agencies must, “notify all debtors to make payments payable to: The Commonwealth of Massachusetts, (c/o client Department name),” and “bill for the authorized contingent fee payment after the debt has been properly remitted to the Eligible Entity.” The collection agency's net remittance indicates that: (a) invoicing for contingent fee payments were not executed in accordance with the payment provision set forth in the RFR, and (b) that recovered state tuition funds had been deposited into the collection agency's own bank account and that debtors were not being notified to submit their debt payments payable to the Commonwealth. Furthermore, this net remittance has resulted in debt collections of at least \$573.41 not being deposited in the Treasury and processed through MMARS.

BCC did not ensure that (1) gross debt collections were deposited with the college, (2) debtors were notified of proper payment provisions, and (3) its debt collection agency only billed for its authorized contingency fee after remitting all collected debt, resulting in noncompliance with OSC fiscal year 2006 closing instructions and the Commonwealth's Debt Collection Service Statewide Contract. Furthermore, the collection agency net remittance also indicates that recovered state tuition funds had been deposited into the collection agency's own bank account and that debtors were not being notified to submit their debt payments payable to the Commonwealth. Also, our review determined that the BCC, contrary to “Collection of Debts” regulations promulgated by the OSC, had not designated a contract manager to monitor

collection agency compliance with contract terms. Part of effective internal controls, fiscal responsibility, and effective and efficient expenditure of Commonwealth funds is dependent on oversight and management of a contract by the contract manager. Without an assigned contract manager, the BCC cannot effectively monitor or determine the collection agency's overall compliance with its debt collection contract. Moreover, even though the netting of fees may be administratively easier, the BCC, in accordance with state finance law, has a fiduciary responsibility to account for total revenues collected on behalf of the Commonwealth. Accordingly, fees associated with the collection of revenues are accounted for separately from the revenues. BCC management stated that they believe that the contractor, Allen Daniels Associates Inc., was adhering to the terms of the contract. The designation of a contract manager would help to assure college management that its debt collection agency had complied with all provisions relating to debt collection services.

Recommendation

The BCC should establish and implement internal control procedures to ensure that the OSC annual year-end closing procedures and the Commonwealth's Debt Collection Service Statewide Contract terms and conditions are adhered to and are documented in its internal control plan. At a minimum, the BCC controls should ensure that: (a) debt collection contractors only receive payment contingent upon the college receiving gross revenues and are billed for the contingency fee amount by the contractor, (b) debt collection contractors deposit gross revenues into a specified Commonwealth approved bank account and are notifying debtors to make payments payable to the Commonwealth of Massachusetts (c/o the college), (c) a contract manager is designated to remind debt collection contractors of the OSC year-end closing requirements and to monitor compliance with the college's collection account referral contract, and (d) all users are familiar with prescribed regulations governing debt collection that are currently posted on Comm-PASS (Commonwealth Procurement Access and Solicitation System).

d. Inadequate Internal Controls over Electronic Payment Processing Services at the Department of Fish and Game

Our audit disclosed that the Department of Fish and Game (DFG) does not administer, control, and separately contract for electronic payment processing services¹⁴ that generate Internet sales revenues. Instead, the DFG shares and relies on the Massachusetts Environmental Police's (MEP)¹⁵ Internet application for accepting and processing its customer electronic payment transactions. This arrangement has resulted in over \$39,000 in shipping and handling revenues collected on behalf of the Commonwealth in fiscal year 2006 not being deposited with the OST and processed through MMARS, the untimely reporting of revenues, and the potential for overcharging/undercharging of department obligations to pay associated electronic payment processing fees. Moreover, neither the DFG nor the MEP made use of the OSC sponsored and approved Electronic Payment Processing Services Statewide Contract, which is available to all departments. Consequently, neither agency can be assured that its electronic payment processing services have resulted in a lower cost or a more cost-effective or better value than the Commonwealth's statewide contract.

Commonwealth entities within the Executive Branch, such as the DFG and the MEP, are required to purchase goods and services in accordance with 801 CMR 21.00, Procurement of Commodities and Services.¹⁶ Moreover, these entities are required to use Statewide Contracts, regardless of dollar amount, unless the Statewide Contract does not meet the entity's specific needs. Furthermore, statewide contract negotiations typically produce such favorable terms for the Commonwealth as lower prices and volume discounts. If the procuring entity determines that a Statewide Contract does not meet its need, the procuring entity should document why a Statewide Contract could not be used. This documentation should be included in the entity's procurement file¹⁷ for audit purposes.

¹⁴ Departments that are legislatively authorized to collect revenues, fees, and other charges may establish electronic payment options, such as credit cards, debit cards, and Automated Clearing House (ACH) payments to enhance revenue collections and to provide faster and more convenient services to their customers.

¹⁵ Although once part of the DFG, the MEP—also known as the Office of Environmental Law—is now a separate entity (office) comprised under the Executive Office of Environmental Affairs (EOEA).

¹⁶ The purpose of 801 CMR 21.00 is to provide all departments with uniform rules and standards governing the procurement of commodities and services.

¹⁷ Each procuring department, pursuant to 801 CMR 21.06(1), is required to maintain a paper or electronic procurement file for each procurement to serve as its central repository for all information concerning the procurement process and as a contract management tool to monitor and document contract performance and contract activity.

Our review disclosed that the DFG and its Division of Marine Fisheries (DMF) do not handle their own revenue from Internet credit card transactions. Although the MEP is no longer an office within the DFG, the DFG and the DMF continue to use the MEP Internet application and have their Internet credit card transactions processed by the MEP. The MEP contracted and set up its e-commerce system to accept on-line payments—via credit cards—for registration renewals regarding boats and recreational vehicles in January 2001. Accordingly, the MEP system was implemented prior to the Commonwealth's Statewide Contract being available to Commonwealth entities in May 2003. Nevertheless, prudent business practices would advocate that a comparison of processing fee structures in calculating processing service charges and other charges associated with these services be performed to determine if the MEP electronic payment processing services result in a lower cost or a more cost-effective or better value than the Commonwealth's Statewide Contract.

Since the DFG and the DMF do not administer revenues generated from Internet credit card payment transactions, they cannot be assured that all transaction and processing fees are valid, calculated accurately, and that all revenues are promptly and properly recorded in the appropriate accounting period. Moreover, under the terms of the Commonwealth's Statewide Contract each department is responsible for designating appropriated funds to pay for their obligations; therefore, contractors are required to contract separately with each individual department. Had the DFG opted to use the Statewide Contract it likely would have improved operational efficiencies and made easier the reconciliation of revenues and determination of processing fees charged. In addition, under the Statewide Contract, selected contractors—in their Requests for Response (RFR)—indicated a willingness to take into consideration annual volume discounts for either a certain number of transactions or total payments, on a Commonwealth-wide basis. Consequently, as more departments participate in the Statewide Contract, the opportunity for fee reductions increases. Further, the DFG and the DMF reliance on the MEP interferes with prudent business practices regarding internal controls and segregation of duties. Neither the DFG nor the DMF can retain the original documentation for a transaction, since the transaction is processed by the MEP.

Our review also showed that the MEP processes license revenues on a weekly basis, and shipping and handling revenues on a yearly basis. For the fiscal year ended June 30, 2006, the MEP processed \$52,454.29 in shipping and handling receipts for the DFG and processed

\$7,217.96 in shipping and handling receipts for the DMF. Further, our review showed that the MEP deducted electronic payment processing costs from shipping and handling receipts—due the DFG and the DMF—totaling \$33,405.46 and \$5,670.49, respectively. However, unless specifically authorized in general or special law, all revenues collected on behalf of the Commonwealth are required to be deposited into the General Fund and processed through the state's MMARS accounting system. For that reason, a department is prohibited from paying processing fees from revenues it collects. Moreover, if the DFG and the DMF had handled their own electronic payment processing services, they would have received these revenues when they were originally collected instead of at the end of the fiscal year.

Recommendation

Under the Commonwealth's Statewide Contract, pricing for each department is based on the electronic payment options each department chooses as well as volume generated; therefore, based on the contract pricing for the chosen e-payment options, total calculated fees for each department will differ. To that end, the DFG and the MEP should—with assistance from the OSC—evaluate, document, and determine whether or not current electronic payment processing services result in a lower cost or a more cost-effective or better value than the Commonwealth's Statewide Contract, as well as take advantage of all available cost saving and e-payment revenue enhancement opportunities. Furthermore, both the DFG and MEP must ensure that evaluation and determination documentation is retained in a procurement file for audit purposes. If the DFG and the MEP determined that the Commonwealth's Statewide Contract meets its needs and is more favorable, appropriate steps should be taken to contract separately and to handle their own revenue under the Commonwealth's Electronic Payment Processing Services Statewide Contract. Moreover, the DFG and the MEP should develop and implement the necessary internal controls to ensure that sufficient funds—from appropriated funds—are available to pay all electronic payment processing obligations, and that all revenues received on account of the Commonwealth are deposited in the Treasury and processed through MMARS.

APPENDIX I

Schedule of Agencies Reviewed During June 30, 2006 Closing of the Commonwealth's Books

Audit Sites	Cash on Hand as of June 30, 2006	
	Recorded as Fiscal Year 2006 Revenue	Recorded as Fiscal Year 2007 Revenue
<u>State Agencies, Universities, and Colleges:</u>		
Bridgewater State College	\$ 114,894.72	\$ 116.45
Bristol Community College	65,200.96	-
Cape Cod Community College	1,168.00	-
<u>Department of Conservation and Recreation:</u>		
Harold Parker State Forest	806.50	-
Scusset Beach Reservation	648.00	-
Wompatuck State Park	1,595.00	-
Department of Fish and Game	34,927.45	-
Department of Revenue*	26,260,845.52	-
Hampden Sheriff's Department	20,321.71	-
Hampshire Sheriff's Department	10.00	-
Massachusetts College of Liberal Arts	-	-
Massachusetts Environmental Police	59,355.00	-
<u>Massachusetts State Lottery Commission:</u>		
Braintree	1,619.00	-
Springfield	320.50	-
Worcester	916.00	-
Mount Wachusett Community College	13,464.22	399.85
Quinsigamond Community College	17,775.84	-
Springfield Technical College	22,375.18	-
University of Massachusetts – Lowell	27,394.20	1,695.04
Worcester Sheriff's Department	9,431.20	-
Worcester State College	55,919.74	-
<u>Registries of Deeds Offices:</u>		
Bristol Southern	62,939.40	-
Essex Southern	487,984.24	-
Norfolk County	644,783.88	-
Plymouth County	487,070.72	-
Suffolk County	612,506.21	-
Worcester	547,267.76	-
<u>Registries of Motor Vehicles Branch Offices:</u>		
Hadley	27,003.06	-
Lowell	101,299.63	-
Plymouth	65,611.16	-
Reading	456,012.94	-
Southbridge	30,194.50	-

APPENDIX I (CONTINUED)

Schedule of Agencies Reviewed During June 30, 2006 Closing of the Commonwealth's Books

Audit Sites	Cash on Hand June 30, 2006	
	Recorded as Fiscal Year 2006 Revenue	Recorded as Fiscal Year 2007 Revenue
<u>Trial Courts:</u>		
Barnstable Probate and Family Court	\$ 9,899.50	-
Cambridge District Court	6,070.50	-
Charlestown Municipal Court	11,981.13	-
Concord District Court	6,706.01	-
Dedham District Court	10,708.00	-
Essex Probate and Family Court	13,023.00	-
Fall River District Court	22,539.74	-
Framingham District Court	4,540.26	-
Haverhill District Court	8,151.00	-
Norfolk Superior Court	42,067.00	-
Palmer District Court	61,149.00	-
Plymouth District Court	22,497.87	-
Quincy District Court	14,816.00	-
Suffolk Superior Court	9,411.00	-
Westborough District Court	4,385.00	-
Grand Total	<u>\$30,479,607.25</u>	<u>\$2,211.34</u>

DOR Locations Reviewed:

Chelsea
Hurley Building, Boston
Lockbox

Retained Revenue Accounts Tested by Agency:

Department of Fish and Game
Hampden Sheriff's Office
Hampshire Sheriff's Office

Lockbox Locations and Agencies Reviewed:

Cash Management/Central Remit (CMCR) Lockbox
Department of Revenue

APPENDIX II

Chapter 647, Acts of 1989, An Act Relative to Improving the
Internal Controls within State Agencies

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Chapter 647

THE COMMONWEALTH OF MASSACHUSETTS

In the Year One Thousand Nine Hundred and Eighty-nine

AN ACT RELATIVE TO IMPROVING THE INTERNAL CONTROLS WITHIN STATE AGENCIES.

Be it enacted by the Senate and House of Representatives in General Court assembled, and by the authority of the same, as follows:

Notwithstanding any general or special law to the contrary, the following internal control standards shall define the minimum level of quality acceptable for internal control systems in operation throughout the various state agencies and departments and shall constitute the criteria against which such internal control systems will be evaluated. 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.

(A) Internal control systems of the agency are to be clearly documented and readily available for examination. Objectives for each of these standards are to be identified or developed for each agency activity and are to be logical, applicable and complete. Documentation of the agency's internal control systems should include (1) internal control procedures, (2) internal control accountability systems and (3), identification of the operating cycles. Documentation of the agency's internal control systems should appear in management directives, administrative policy, and accounting policies, procedures and manuals.

(B) All transactions and other significant events are to be promptly recorded, clearly documented and properly classified. Documentation of a transaction or event should include the entire process or life cycle of the transaction or event, including (1) the initiation or authorization of the transaction or event, (2) all aspects of the transaction while in process and (3), the final classification in summary records.

(C) Transactions and other significant events are to be authorized and executed only by persons acting within the scope of their authority. Authorizations should be clearly communicated to managers and employees and should

Chapter 647, Acts of 1989, An Act Relative to Improving the Internal Controls within State Agencies

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include the specific conditions and terms under which authorizations are to be made.

(D) Key duties and responsibilities including (1) authorizing, approving, and recording transactions, (2) issuing and receiving assets, (3) making payments and (4), reviewing or auditing transactions, should be assigned systematically to a number of individuals to ensure that effective checks and balances exist.

(E) Qualified and continuous supervision is to be provided to ensure that internal control objectives are achieved. The duties of the supervisor in carrying out this responsibility shall include (1) clearly communicating the duties, responsibilities and accountabilities assigned to each staff member, (2) systematically reviewing each member's work to the extent necessary and (3), approving work at critical points to ensure that work flows as intended.

(F) Access to resources and records is to be limited to authorized individuals as determined by the agency head. Restrictions on access to resources will depend upon the vulnerability of the resource and the perceived risk of loss, both of which shall be periodically assessed. The agency head shall be responsible for maintaining accountability for the custody and use of resources and shall assign qualified individuals for that purpose. Periodic comparison shall be made between the resources and the recorded accountability of the resources to reduce the risk of unauthorized use or loss and protect against waste and wrongful acts. The vulnerability and value of the agency resources shall determine the frequency of this comparison.

Within each agency there shall be an official, equivalent in title or rank to an assistant or deputy to the department head, whose responsibility, in addition to his regularly assigned duties, shall be to ensure that the agency has written documentation of its internal accounting and administrative control system on file. Said official shall, annually, or more often as conditions warrant, evaluate the effectiveness of the agency's internal control system and establish and implement changes necessary to ensure the continued integrity of the system. Said official shall in the performance of his duties ensure that: (1) the documentation of all internal control systems is readily available for examination by the comptroller, the secretary of administration and finance and the state auditor, (2) the results of audits and recommendations to improve departmental internal controls are promptly evaluated by the agency management, (3) timely and appropriate corrective actions are effected

Chapter 647, Acts of 1989, An Act Relative to Improving the Internal Controls within State Agencies

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by the agency management in response to an audit and (4), all actions determined by the agency management as necessary to correct or otherwise resolve matters will be addressed by the agency in their budgetary request to the general court.

All unaccounted for variances, losses, shortages or thefts of funds or property shall be immediately reported to the state auditor's office, who shall review the matter to determine the amount involved which shall be reported to appropriate management and law enforcement officials. Said auditor shall also determine the internal control weaknesses that contributed to or caused the condition. Said auditor shall then make recommendations to the agency official overseeing the internal control system and other appropriate management officials. The recommendations of said auditor shall address the correction of the conditions found and the necessary internal control policies and procedures that must be modified. The agency oversight official and the appropriate management officials shall immediately implement policies and procedures necessary to prevent a recurrence of the problems identified.

House of Representatives, December 21, 1989.

Passed to be enacted, *George Luvaan*, Speaker.

In Senate, December 22, 1989.

Passed to be enacted, *William W. Budge*, President.

January 3, 1990.

Approved, *Richard H. Kiah* Governor.

