



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

Making government work better

Official Audit Report – Issued September 28, 2020

Office of the Comptroller of the Commonwealth

For the period July 1, 2017 through June 30, 2019





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September 28, 2020

Mr. William McNamara, Comptroller of the Commonwealth
Office of the Comptroller of the Commonwealth
One Ashburton Place, Ninth Floor
Boston, MA 02108

Dear Comptroller McNamara:

I am pleased to provide this performance audit of the Office of the Comptroller of the Commonwealth. This report details the audit objectives, scope, and methodology for the audit period, July 1, 2017 through June 30, 2019. My audit staff discussed the contents of this report with management of the agency.

I would also like to express my appreciation to the Office of the Comptroller of the Commonwealth for the cooperation and assistance provided to my staff during the audit.

Sincerely,

A handwritten signature in blue ink, appearing to read "SMBump".

Suzanne M. Bump
Auditor of the Commonwealth

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LIST OF ABBREVIATIONS

CFO	chief financial officer
CMR	Code of Massachusetts Regulations
CTR	Office of the Comptroller of the Commonwealth
DRA	data reliability assessment
MMARS	Massachusetts Management Accounting and Reporting System
OSA	Office of the State Auditor
SSTA	Self-Service Time and Attendance

EXECUTIVE SUMMARY

In accordance with Section 12 of Chapter 11 of the Massachusetts General Laws, the Office of the State Auditor has conducted a performance audit of certain activities of the Office of the Comptroller of the Commonwealth (CTR) for the period July 1, 2017 through June 30, 2019. The purpose of our audit was to determine whether CTR had administered its employee payroll in accordance with the six-day timeframe established in Section 148 of Chapter 149 of the General Laws and its employee expense reimbursements in accordance with its *Employee Benefits & Policies Manual*. We also determined whether it had administered its non-payroll expenditures in accordance with its *Operations Guide* and Section 4.03(1)(e) of Title 815 of the Code of Massachusetts Regulations. This audit was performed at the request of the Comptroller who had been appointed February 18, 2019, Andrew Maylor. Comptroller Maylor resigned effective February 21, 2020. Subsequently, the Governor appointed William McNamara to the position of Comptroller effective February 21, 2020.

Our audit revealed no significant instances of noncompliance by CTR that must be reported under generally accepted government auditing standards.

OVERVIEW OF AUDITED ENTITY

The Office of the Comptroller of the Commonwealth (CTR) is an independent agency established by Section 1 of Chapter 7A of the Massachusetts General Laws. The Comptroller is the administrative and executive head of CTR and is appointed by the Governor for a term that runs concurrently with the Governor's.

Section 2 of Chapter 7A establishes an advisory board to the Comptroller:¹

There shall be an advisory board to the comptroller which shall consist of the attorney general, the treasurer, the secretary of administration and finance who shall be the chairman, the auditor, the court administrator of the trial court, and two persons who have experience in accounting, management, or public finance who shall be appointed by the governor. . . .

Said advisory board shall provide advice and counsel to the comptroller in the performance of his duties. The advisory board shall be responsible for reviewing any rules or regulations promulgated by the comptroller prior to their implementation. The advisory board shall also review prior to publication the annual financial report of the commonwealth published by the comptroller.

CTR's website states,

We promote accountability, integrity, and clarity in Commonwealth business, fiscal, and administrative enterprises. . . .

The Comptroller oversees the Commonwealth's . . . major audit functions promoting security, transparency, accountability, and service delivery across all branches of state government. . . .

We strive to be a model for good government and to protect public resources by mitigating the risk of fraud, waste, and abuse while promoting transparency.

CTR oversees more than \$60 billion in funding from governmental and other sources and 12 million business transactions annually. It received direct appropriations of \$8,834,952 and \$9,044,996 for fiscal years 2018 and 2019, respectively.² Its offices are located at 1 Ashburton Place in Boston.

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1. Generally accepted government auditing standards require that organizations be free from organizational impairments to independence with respect to the entities they audit. Pursuant to Section 1 of Chapter 7A of the General Laws, State Auditor Suzanne M. Bump serves on the seven-member advisory board to the Comptroller. This disclosure is made for informational purposes only, and this circumstance did not interfere with our ability to perform our audit work and report its results impartially.
 2. These amounts represent appropriations for account 1000-0001, which funds the general administration of CTR, including management of accounting, payroll, related financial systems, and annual financial reports.

Employee Payroll and Expense Reimbursement Processing

CTR employees use the Self-Service Time and Attendance (SSTA) system to report hours worked and are paid six days later, on the Friday after the end of the biweekly payroll period. SSTA is a component of the Human Resources Compensation Management System. This system captures payroll-related accounting entries, which are recorded in the Massachusetts Management Accounting and Reporting System (MMARS). Employees can also submit reimbursement requests for allowable job-related expenses by completing an online reimbursement form. The form is submitted along with a Portable Document Format file containing required supporting documentation (e.g., invoice, receipt, and mileage).

Employees log in to SSTA with their employee identification numbers and unique passwords and enter weekly hours worked by the required due date. Supervisors are responsible for reviewing and approving time submitted for further processing by payroll. Additionally, immediate supervisors review employee expense reimbursement requests, along with accompanying invoices and payment receipts, for compliance with employee benefit policies. Payroll and reimbursement records are maintained in SSTA.

At the beginning of each week, a group of CTR Operations Department employees known as the Payroll Administration Group runs preliminary management reports to identify missing or potentially inaccurate time and expense reimbursement submissions. For submissions identified as missing or inaccurate, the Payroll Administration Group contacts the employees and their supervisors to correct and resubmit the information. On the Monday after the biweekly payroll period ends, preliminary management reports are run again and provided to the CTR chief financial officer (CFO) to review. The CFO reviews the reports and initials and dates them to indicate his/her approval. On Tuesday, the Payroll Administration Group begins its preliminary payroll certification, compares the amounts reported for each employee in the preceding week's payroll records, and notes special circumstances (e.g., retirements or cost-of-living wage adjustments). On Wednesday, the Payroll Department forwards its final payroll certification to the CFO for approval. CTR employees are compensated on Friday via electronic funds transfer or, occasionally, printed checks.

If an error occurs during payroll processing that cannot be resolved before the payroll is finalized, an employee can be compensated using funds from a CTR advance checking account, DynaCash. CTR's CFO can use these funds by following policies from CTR and the State Treasurer that are in place for this purpose.

Non-payroll Expenditure Processing

The purchase of goods and services is administered through the MMARS accounts payable module. The process is initiated by the creation of a purchase order,³ which may be issued to preapproved Commonwealth vendors or to vendors that have been chosen at the end of a competitive bidding process. Approval for all purchases must be obtained in writing from the Comptroller, the First Deputy Comptroller, CTR's CFO, or another person with the requisite signatory authority. Once approved, purchase orders for goods and services are sent to a CTR Operations Department employee, who enters encumbrances⁴ for the purchases in MMARS and sets purchase orders' status as "held." The CFO or a designee performs another review to process each purchase order and set its status as "final." Vendors send invoices to CTR for payment as goods and services are provided. Most invoices are received through email, although some vendors mail hardcopy invoices. CTR stamps hardcopy invoices with the date received. According to CTR's *Operations Guide*,

Absent a prompt payment discount or avoidance of late penalties, or other factors that must be contemporaneously documented, payments must be scheduled 45 days from the date the invoice was received or the date performance was completed, whichever is later.

CTR's "Prompt Payment Discounts" policy states,

The Commonwealth's goal is to pay its bills through Electronic Funds Transfer (EFT) while maximizing the use of prompt payment discounts (PPD). EFT payments are required for all contracts and any Contractor seeking accelerated payments must provide a PPD.

Electronic Funds Transfer (EFT) forms and Prompt Payment Discount (PPD) terms should be initiated whenever a Contract is procured, and for current Contracts, whenever an amendment or renewal is negotiated. During procurements Bidders submit Responses identifying PPDs with the assumption that Departments will pay their bills more quickly in order to receive the PPD from the total price of an invoice. Having prompt payment discount options in contracts is advantageous to both Contractors and purchasing Departments.

Contractors benefit from PPD by increased, usable cash flow as a result of fast and efficient payments for commodities delivered or services rendered. Contractors must accept payments through Electronic Funds Transfer (EFT) which further maximizes this benefit by ensuring that funds are paid directly to the Contractor's designated accounts, eliminating the impact of check clearance policies and traditional mail lead time or delays.

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3. Purchase orders are documents that buyers use to document the intended purchase of goods and services from external suppliers, indicating specifications including types, quantities, and agreed-upon prices.
 4. Encumbrance is the process of reserving funds for specific goods or services to be purchased, ensuring the availability of funds for the expenditure.

The Commonwealth benefits because the Department's cost for products and services are reduced by taking advantage of the Prompt Payment Discount (PPD) and EFT and the Commonwealth saves the expense of processing, printing and mailing checks.

The designated CTR Operations Department employee distributes copies of invoices to departments for verification that the vendors have provided the goods or services. The departments review the invoices and acknowledge receipt by signing and dating the invoices and any related documentation (e.g., packing slips). They then send the invoices and any related documentation to a CTR Operations Department employee who is assigned accounts payable responsibilities. After receiving a signed and dated invoice, this employee processes the payment transaction in MMARS and sets the payment status as "pending." The CFO reviews all documentation and verifies that the goods and services have been provided and that all associated transactions are accurately recorded in MMARS. When the CFO is satisfied, s/he changes the payment status from "pending" to "final" to process the payment.

AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY

In accordance with Section 12 of Chapter 11 of the Massachusetts General Laws, the Office of the State Auditor (OSA) has conducted a performance audit of certain activities of the Office of the Comptroller of the Commonwealth (CTR) for the period July 1, 2017 through June 30, 2019.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Below is a list of our audit objectives, indicating each question we intended our audit to answer and the conclusion we reached regarding each objective.

Objective	Conclusion
1. Does CTR administer its employee payroll in accordance with the six-day timeframe established in Section 148 of Chapter 149 of the General Laws and its employee expense reimbursements in accordance with its <i>Employee Benefits & Policies Manual</i> ?	Yes
2. Does CTR administer its non-payroll expenditures in accordance with its <i>Operations Guide</i> and Section 4.03(1)(e) of Title 815 of the Code of Massachusetts Regulations (CMR)?	Yes

To achieve our objectives, we gained an understanding of CTR's internal control environment related to our audit objectives by reviewing agency policies and procedures, as well as conducting inquiries with CTR's staff and management. We reviewed and tested the operating effectiveness of internal controls regarding CTR's employee payroll, expense reimbursements, and non-payroll expenditures.

Additionally, we performed the procedures described below.

Employee Payroll and Expense Reimbursements

To determine whether CTR paid employees within six days of the end of the pay period in which wages were earned, as required by Section 148 of Chapter 149 of the General Laws, we obtained a list of all 11,516 payroll transactions recorded in the Massachusetts Management Accounting and Reporting System (MMARS) during the audit period, which totaled \$14,332,851. For each transaction, using

electronic spreadsheet functionality, we calculated the number of days from the end of the pay period to the biweekly paycheck date to determine whether the paychecks were issued within the required six-day timeframe.

To determine whether CTR reimbursed its employees for allowable employee expenses in accordance with Section 148 of Chapter 149 of the General Laws and CTR's *Employee Benefits & Policies Manual*, we obtained a list of all 214 weekly payroll expense reimbursement transactions recorded in MMARS during the audit period, which totaled \$22,548. We selected a judgmental, nonstatistical sample of 35 transactions and reviewed each one for receipts for employee out-of-pocket expenses, employee affidavits of expenses (e.g., public transportation fares), mileage logs or destination calculations, and travel authorization forms.

Non-payroll Expenditures

To determine whether CTR paid its vendors in accordance with its *Operations Guide* and 815 CMR 4.03(1)(e), we obtained a list of all 779 vendor payment transactions recorded in MMARS during the audit period, which totaled \$3,315,688. We selected a judgmental, nonstatistical sample of 40 (totaling \$887,715) of the 779 transactions and reviewed the vendor invoice for each one to verify that the correct vendor was paid the correct amount and that the expenditure was appropriately classified.

To determine whether CTR paid its vendors within 45 days for all 779 of these transactions, we used electronic spreadsheet functionality to calculate the number of days from the date CTR received the invoice or the date it received the goods or services, whichever occurred later, to the date of payment.

To determine whether CTR used prompt payment discounts when available, we reperformed CTR's query that identifies full discounts taken, partial discounts taken, and missed discounts. We recalculated full discounts taken, partial discounts taken, and missed discounts for all 779 of the transactions discussed above.

When sampling, we used a nonstatistical sampling method, whose results we could not project to the entire population.

Data Reliability

In 2018, OSA performed a data reliability assessment (DRA) for MMARS for the period April 1, 2017 through March 31, 2018. The DRA focused on reviewing selected system controls, including access,

security awareness, audit and accountability, configuration management, identification and authentication, and personnel security.

During this audit, we made inquiries with CTR management to identify and assess changes that occurred after our 2018 DRA. We requested confirmation that policies or procedures had not changed for areas where no issues were noted. For areas where issues were noted, we reviewed CTR's progress on resolving the issues.

To determine the reliability of CTR's list of MMARS payroll and employee expense reimbursement transactions, we interviewed agency officials who were knowledgeable about the data and reconciled the aggregate amount of CTR's payroll and employee expense reimbursements during our audit period to the Governor's budget website. We determined that the list of payroll and employee expense reimbursement transactions was sufficiently reliable for the purpose of this audit.

To determine the reliability of CTR's list of MMARS vendor payment transactions, we interviewed agency officials who were knowledgeable about the data and reconciled the aggregate amount of CTR's vendor payment transactions during our audit period to the Governor's budget website. We determined that the list of vendor payment transactions was sufficiently reliable for the purpose of this audit.

Conclusion

Our audit revealed no significant instances of noncompliance that must be reported under generally accepted government auditing standards.