



# The Commonwealth of Massachusetts

## AUDITOR OF THE COMMONWEALTH

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NO. 2008-1164-16S

**INDEPENDENT STATE AUDITOR'S REPORT ON  
THE BROOKLINE DIVISION OF THE DISTRICT  
COURT DEPARTMENT'S  
COMPLIANCE WITH THE OFFICE OF THE  
STATE COMPTROLLER'S YEAR-END CLOSING  
INSTRUCTIONS FOR CASH AND REVENUE  
MANAGEMENT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

**OFFICIAL AUDIT  
REPORT  
DECEMBER 11, 2008**

## INTRODUCTION

### ***Background***

As authorized by Chapter 11, Section 12, of the Massachusetts General Laws, the Office of the State Auditor examined the accounting records at certain state agencies for compliance with the Office of the State Comptroller's (OSC) fiscal year (FY) 2008 Closing and FY 2009 Opening Instructions, Section 10, Revenue Management and Cash Receipts. The Brookline Division of the District Court Department was one of the agencies selected for our review.

Chapter 29, Section 5C, of the Massachusetts General Laws 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 and timely data for these and other reports, the Commonwealth must close its books properly. Therefore, the Comptroller issues a set of closing and opening instructions to each agency prior to the close of each fiscal year, which ends on June 30.

Section 10 of the FY 2008 Closing and FY 2009 Opening Instructions contains specific procedures for handling cash receipts and reporting state revenue at year-end. To ensure that all revenue 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 (June 30) and enter all revenue data pertaining to these deposits into the Massachusetts Management Accounting and Reporting System (MMARS) by a prescribed date. Agency compliance with these procedures ensures 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 OSC FY 2008 Closing and FY 2009 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 1st.

- b. Tested the processing of “as-of” period transactions (cash period established to capture all activity after year end that should be appropriately recorded for the fiscal year closing) 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 OSC during the period July 1, 2008 through July 7, 2008 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, 2008 by the OST and OSC to ensure that receipts were recorded in the proper fiscal year and adequate documentation was submitted by state agencies.
- c. Conducted fiscal year-end observations at the Commonwealth’s authorized lockbox-banking facility for compliance with year-end lockbox 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 MMARS for all cash deposited with the OST.
- e. Identified those departments in our sample that engaged private debt-collection services to recover outstanding debts owed to the Commonwealth to determine whether:
- The Commonwealth’s Debt Collection Services Statewide Contract was used to procure debt collection services, and the collection agencies that were selected by these departments were included on the listing of qualified contractors under contract.
  - All outstanding debts recovered through June 30, 2008 were properly recorded and recognized as fiscal year 2008 revenue as required by the OSC’s closing instructions.
- f. Observed and reviewed the processing of credit card payments (point-of-sale transactions, telephone transactions, and Web-based electronic payments) through June 30, 2008 and determined whether the credit card payments were properly accounted for and recognized as fiscal year 2008 revenue.
- g. Followed up on prior audit issues noted during our fiscal year ended June 30, 2007 review.
- h. Reviewed, where applicable, agency internal control policies and procedures regarding revenue collection and retained revenue accounts to:
- Identify the retained revenue amounts, relevant appropriation numbers, and authorized ceiling limits.

- Document the last three deposits made to retained revenue accounts prior to June 30, 2008.
- Verify the first three deposits made to retained revenue accounts for fiscal year 2009 and ensure that the check dates and amounts were recorded in the proper fiscal year.

Based on our review, we have concluded that, for the areas tested, the Brookline Division of the District Court Department (BDC) did not comply with certain procedures for handling cash receipts and reporting state revenue at year-end as set forth in the OSC's FY 2008 Closing and FY 2009 Opening Instructions. Additionally, our audit determined that the BDC 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.

The accompanying Audit Results section summarizes the matters that came to our attention during our review which are presented as opportunities for strengthening BDC internal controls. Accordingly, our report is intended for use by management in taking corrective action where needed.

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## AUDIT RESULTS

### FISCAL YEAR 2008 REVENUE RECOGNIZED IN FISCAL YEAR 2009 AND IMPROVEMENTS NEEDED IN INTERNAL CONTROLS REGARDING DAILY DEPOSITS

To ensure that all revenues and cash are recognized in the proper fiscal year, the Office of the State Comptroller (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 FY 2008 Closing and FY 2009 Opening Instructions state, in part:

*Cash receipts on hand or on deposit as of June 30, 2008 are FY2008 assets and revenue of the Commonwealth and need to be reflected as such on the annual financial statements.*

*Final Deposits for June 30<sup>th</sup> collections must be posted by the bank by noon on Tuesday July 1, 2008. To ensure that all deposits reflected in clearing accounts are properly posted for the FY2008 closing, departments should enter CRs at the same time that the deposits are made for cash received through June 30<sup>th</sup>.*

Our review determined that, contrary to the above-mentioned instructions, the Brookline District Court (BDC) did not establish and implement special year-end cut-off procedures to ensure that cash receipts were accounted for in the appropriate fiscal year. Specifically, our analysis showed that the BDC did not properly close its electronic cash register (ECR) on June 30, 2008—the last business day for fiscal year 2008—and make a final deposit for June 30<sup>th</sup> collections; rather, the ECR remained open and July 1<sup>st</sup> receipts totaling \$120 and June 30<sup>th</sup> receipts totaling \$1,287.50 were combined (\$1,407.50) and deposited on July 1<sup>st</sup> after the noon deadline. As a result, \$1,287.50 in fiscal year 2008 receipts were improperly recorded and reported as fiscal year 2009 revenue. Although responsible BDC personnel explained that they were not aware of nor were they instructed about OSC's required year-end closing procedures, year-end training attendance records provided by the Administrative Office of the Trial Court (AOTC)<sup>1</sup> showed that two individuals from the Judge's Lobby of the BDC had participated in the training. For that reason, effective internal communication would have facilitated a clear understanding of relevant year-end financial reporting requirements and individual responsibilities and therefore would have brought the necessary attention to the OSC's year-end closing instructions.

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<sup>1</sup> The AOTC is the office through which the Chief Justice for Administration and Management manages and provides services to the Trial Courts of Massachusetts.

In addition, our examination disclosed that the BDC did not routinely make daily deposits of cash receipts as required by the OSC Cash Recognition and Reconciliation Policy (Revised November 1, 2006), which states, in part: “All cash receipts must be deposited within a designated and authorized TRE [Treasury] location, within one business day of receipt.” Our analysis of collection and deposit activity during the period June 25, 2008 through July 8, 2008 showed the following exceptions to the OSC policy.

***Brookline District Court Deposits  
June 25, 2008 to July 8, 2008***

| Date Funds Received | Amount Deposited   | Date Funds Deposited | Days Funds Held |
|---------------------|--------------------|----------------------|-----------------|
| 06/25/08            | \$ 810.00          | 06/26/08             | 1               |
| 06/26/08            | 100.00             | 06/26/08             | -               |
| 06/26/08            | 1,875.00           | 06/27/08             | 1               |
| 06/27/08            | 1,063.50           | 06/27/08             | -               |
| 06/27/08            | 1,435.00           | 06/30/08             | 1               |
| 06/30/08            | 195.00             | 06/30/08             | -               |
| 06/30/08            | 1,287.50           | 07/01/08             | 1               |
| 07/01/08            | 120.00             | 07/01/08             | -               |
| 07/01/08            | 2,599.00           | 07/03/08             | 2               |
| 07/02/08            | 2.50               | 07/03/08             | 1               |
| 07/02/08            | 150.00             | 07/03/08             | 1               |
| 07/02/08            | 600.00             | 07/03/08             | 1               |
| 07/03/08            | 410.00             | 07/03/08             | -               |
| 07/03/08            | 2,489.45           | 07/08/08             | 5               |
| 07/07/08            | 100.00             | 07/07/08             | -               |
| 07/07/08            | 417.50             | 07/08/08             | 1               |
|                     | <u>\$13,654.45</u> |                      |                 |

The above table shows that although cash receipts at times were deposited within one business day, this deposit practice was not consistently followed. Exceptions to the OSC policy are best illustrated during the periods July 1<sup>st</sup> through July 3<sup>rd</sup> (\$2,599) and July 3<sup>rd</sup> through July 8<sup>th</sup> (\$2,489), when cash receipts were deposited two to five days after being collected. In the event that revenues are not properly safeguarded, not depositing cash receipts within one business day increases the risk of revenues 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.

During our audit, we provided the OSC with pertinent information concerning the improper recording and reporting of fiscal year 2008 receipts totaling \$1,287.50 as fiscal year 2009 revenue. Accordingly, the OSC Quality Assurance Bureau asked the AOTC to prepare a Corrective Action Plan (CAP) summarizing procedures to prevent this shortcoming from occurring again.

Furthermore, a copy of the OSC notification letter and management's CAP will be placed in a Quality Assurance (QA) file and will be part of the next scheduled AOTC QA review.

***Recommendation***

The BDC should establish and implement the necessary controls to ensure compliance with the OSC's annual closing and opening instructions. At a minimum, the BDC must pay special attention to year-end closing instructions to account for all cash receipts in the appropriate fiscal year. In addition, each year BDC management should communicate year-end closing requirements with its staff to ensure a clear understanding of responsibilities. Moreover, to enhance oversight and compliance with year-end requirements, the AOTC should implement tracking controls that require responsible court officials to confirm the receipt, understanding, and communication of year-end requirements. In addition, BDC should ensure that all cash receipts are deposited within one business day, thereby ensuring compliance with governing policies and procedures issued by the OSC and applicable Massachusetts General Laws.