



The Commonwealth of Massachusetts

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**INDEPENDENT STATE AUDITOR'S REPORT ON
THE DEPARTMENT OF FISH AND GAME'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
MAY 15, 2009**

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 Department of Fish and Game (DFG) 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, DFG has complied with specific year-end procedures as set forth in the OSC's FY 2008 Closing and FY 2009 Opening Instructions for the handling of cash receipts and the reporting of state revenue. Our review determined that DFG properly recorded, deposited, and reported all cash receipts on hand and due the Commonwealth, totaling \$1,950¹ as fiscal year 2008 revenue. However, notwithstanding our previous reviews, the DFG did not ensure that: (1) Division of Marine Fisheries (DMF) cash receipts are deposited within one business day, (2) a cost-analysis comparison of current electronic payment processing services² to the OSC-sponsored statewide contract resulted in lower cost or a more cost-effective or better value than the Commonwealth's statewide contract, and (3) sale receipts from authorized licensing agents were remitted in accordance with payment requirements set forth in state law³ and that related pending accounts receivables represent a reasonable estimate of earned licensing revenues as of June 30, 2008. Management's reporting of underestimated pending accounts receivables has resulted in at least \$145,727 in FY 2008 assets and revenues being recorded and recognized in FY 2009.

Our prior reviews noted that DMF did not ensure that its cash receipts were deposited within one business day of receipt. For this reason, DFG was not in compliance with 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 [Office of the State Treasurer] location, within one business day of receipt." During our follow-up review of DFG, we determined that, although the Division of Fisheries and Wildlife (DFW) made daily cash deposits, DMF did not always deposit its cash receipts within one business day. For example, our tests of DMF deposits carried out in November 2007 disclosed that, of the 17 days with licensing cash receipts totaling \$12,602, 11 days (65%) with licensing receipts totaling \$2,190 (17%) were held for two to seven business days before being deposited. Even though DMF deposits completed during the last week

¹ DFG cash receipts on hand as of June 30, 2008 and deposited by the OSC deadline and reported as FY 2008 revenue included only \$1,950 from DMF. DFW did not have any cash receipts on hand as of June 30th.

² The Massachusetts Environmental Police, through its State Point of Sale Recreational Transaction Internet application, accepts, controls, and processes customer electronic payment transaction-via credit cards-on behalf of DFG.

³ Chapter 131, Section 18, of the Massachusetts General Laws.

of FY 2008 and the first week of FY 2009 complied with OSC's prescribed policy, the deposit of cash receipts within one business day should be consistently adhered to throughout the fiscal year. Exceptions to the daily remittance of cash receipts are provided if the Executive Office for Administration and Finance (EOAF) and TRE determine it is in the interest of the Commonwealth to allow payments to be made weekly.⁴ Accordingly, unless expressly authorized, DMF should be depositing cash receipts within one business day. Further, if revenues are not properly safeguarded, not depositing cash receipts within one business day increases the risk that revenues may be misplaced, lost, stolen or misused. Also, funds that are not deposited timely decrease potential investment income and deprive the Commonwealth of funds collected on its behalf. Given that DFW conducted timely deposits, through more involvement by management, it is reasonable that the DMF could also.

Additionally, our prior reviews noted that customer electronic transactions for DFG were accepted, processed, and controlled by the Massachusetts Environmental Police (MEP)—through its State Point of Sale Recreational Transactions (SPORT) Internet application—even though MEP was no longer an office within DFG. As a result of this arrangement, DFG could not be assured that: (1) electronic payment processing fees were correctly allocated between DFG and MEP, (2) Internet sales revenues were timely reported to DFG, and (3) shipping and handling revenues were properly deposited with TRE and processed through MMARS. Our follow-up review disclosed that MEP continues to administer and control, (through the SPORT Internet application) DFG Internet sales revenues generated from online credit card payment transactions. Furthermore, our review disclosed that DFG has yet to perform a meaningful cost-analysis comparison of electronic payment processing fees associated with SPORT to credit card services and other electronic payment options available under the OSC sponsored Statewide Contract for Electronic Payment Processing Services.⁵ Moreover, because MEP retains all source documentation related to DFG-processed transactions, DFG's reliance on MEP interferes with prudent business practices regarding proper internal controls and segregation of duties. Also, had DFG opted to use the Statewide Contract, it would have improved operational efficiencies and made easier its reconciliation of Internet sales revenues and determination of processing fees charged. Similarly, under the Statewide Contract, usages by

⁴ Chapter 30, Section 27, of the General Laws.

⁵ Last DFG cost analysis based on FY 2006 licensing sales data and did not take into consideration potential cost savings from the Automated Clearing House (ACH) payment option. The ACH payment option allows customers to enter bank account and routing numbers to their checking account and carries an appreciably lower transaction fee in comparison to credit cards.

departments are combined for purposes of volume discounts; consequently, as more departments participate in the Statewide Contract, the opportunity for fee reductions increases. For these reasons, we continue to question whether the SPORT e-payment alternative results in a lower cost or a more cost-effective or better value than the Commonwealth's Statewide Contract. Accordingly, we encourage DFG to seek OSC assistance to help review, determine, and ensure that its e-payment plan is cost effective, takes advantage of existing cost saving options,⁶ and is sufficiently funded. In addition, DFG must ensure that review results and appropriate supporting documentation are retained for audit purposes.

Our prior reviews also noted that license sales receipts collected by DFW-authorized agents⁷ were not being remitted to DFW in accordance with statutory payment requirements. Moreover, because license sales receipts represented earned revenues (goods and services provided but payments not yet received), it was necessary for DFG to post pending accounts receivables (estimates of license sales) on its year-end generally accepted accounting principles (GAAP) report package⁸ submitted to the OSC to ensure that assets and revenues are recognized and recorded in the period to which they apply. Our follow-up review disclosed that authorized agents continue to remit license sales receipts to DFW beyond the statutory required payment due date and that DFG did not take the necessary action to ensure that related pending accounts receivable information reported to OSC was accurate and complete.

More specifically, pursuant to Chapter 131, Section 18, of the General Laws, DFW-authorized agents are required to remit monthly sales receipts to DFW by the first Monday of the following month. Nevertheless, our analysis of license sales receipts collected by authorized agents during the period March 2008 through June 30, 2008, totaling \$2,551,638.08, showed that only \$106,307.60, or 4.2%, was remitted to DFW in accordance with the above statute. Our analysis disclosed that DFW has done little to ensure the timely remittance of license sales receipts and authorized agent compliance with applicable state law, and accordingly, must recognize the need for enhanced

⁶ The Commonwealth's Statewide Contract for Electronic Payment Processing Services provides departments with the ability to offer customers the options of paying obligations by means of credit cards, debit cards and the Automated Clearing House. Payments can be made over the Internet, over the phone via Interactive Voice Response, or in person using point-of-sale terminals.

⁷ During FY 2008 approximately 400 authorized agents issued sporting, hunting, fishing and trapping licenses on behalf of DFW. These agents include: town/city clerks, national chains, and small businesses.

⁸ 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.

revenue management controls to ensure funds collected on behalf of DFW are remitted by issuing agents in accordance with state law and that year-end cash receipts are properly accounted for and reported in the appropriate fiscal year.

As noted earlier, DFG reports fiscal year-end earned revenues (i.e., license sales receipts) collected by authorized agents but not yet remitted/received by DFW, as pending accounts receivables on GAAP information requested by OSC. Since FY 2005,⁹ DFG has reported pending accounts receivable information in this manner to ensure that DFW assets and revenues are recorded and recognized in the period to which they apply. To estimate pending accounts receivables as of June 30th, DFW calculates the historical average of June remittances from the past three years. Similarly, for the fiscal year ended June 30, 2008, DFW applied this same methodology and, in doing so, estimated and reported pending accounts receivables valued at \$603,450 to OSC. Additionally, even though GAAP instructions issued by OSC point out that departments will need to support year-end amounts with auditable details, no documentation was available for our review. Nonetheless, our analysis showed that DFW pending accounts receivables reported to OSC were significantly undervalued. Specifically, our analysis of earned revenues collected by authorized agents during March 2008 through June 2008 (FY 2008) disclosed that \$733,881.20¹⁰ in earned revenues was remitted to DFW after June 30, 2008, or a \$130,431.20 (17.8%) variance between reported (\$603,450) pending receivables. Moreover, we identified and contacted 30 authorized agents (26 of whom responded) with no record of license sales receipts being remitted during our review period and found an additional \$15,295.85 in FY 2008 earned revenues not remitted as of September 8, 2008. Consequently, our review recognized a variance of at least \$145,727.05 (24.1%) between reported (\$603,450) pending receivables. While DFW has made an effort to estimate pending receivables, our analysis shows that management's methodology lacks the precision needed to ensure that receivable information entered in MMARS is accurate and complete. For this reason, underestimated pending receivables has resulted in at least \$145,727.05 of FY 2008 assets and revenues being recorded and recognized in FY 2009. Accordingly, DFG needs to develop more effective internal control policies and procedures to ensure that all license services performed by authorized agents by June 30th (revenue earned but not yet received) are carefully examined and

⁹ 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 2005, Audit Report No. 2005-5002-16S, issued April 13, 2006.

¹⁰ The \$733,881.20 included license sale receipts for: March (\$3,398.75), April (\$95,043.55), May (\$182,612.80) and June (\$452,826.10).

reported as pending accounts receivables to the OSC at year-end. Furthermore, management should ensure that steps taken to identify pending receivables are coordinated with the OSC Accounting Bureau Revenue Unit for guidance and are properly supported with auditable detail.

The above matters came to our attention during our review and are presented as opportunities for strengthening DFG policies, procedures, and internal controls in order to comply with OSC prescribed policies and procedures and pertinent state laws. Accordingly, our report is intended for use by management in taking the necessary corrective action.