



The Commonwealth of Massachusetts

AUDITOR OF THE COMMONWEALTH

ONE ASHBURTON PLACE, ROOM 1819
BOSTON, MASSACHUSETTS 02108

A. JOSEPH DeNUCCI
AUDITOR

TEL. (617) 727-6200

NO. 2008-0308-3S

INDEPENDENT STATE AUDITOR'S REPORT
ON PAYROLL ACTIVITIES OF THE
DEPARTMENT OF TELECOMMUNICATIONS
AND CABLE

JULY 1, 2007 THROUGH MARCH 31, 2008

OFFICIAL AUDIT
REPORT
OCTOBER 14, 2008

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The Massachusetts Department of Telecommunications and Cable (DTC) of the Office of Consumer Affairs and Business Regulation within the Executive Office of Housing and Economic Development (EOHED), was established under the authority of Chapter 25C, Section 1, of the Massachusetts General Laws.

The mission of the DTC is to regulate the telecommunications and cable industries in accordance with statutory obligations imposed by the Commonwealth of Massachusetts and the federal government; to promote competition and protect consumers consistent with the public interest, including investigating and responding to carrier and consumer inquiries and complaints related to telecommunications and cable services; and to provide expert input in the development of telecommunications related policies for the Commonwealth. The DTC's operations consist of four divisions: the administrative, competition, consumer and legal divisions.

The DTC had 40 employees with payroll costs of \$1,178,499 during our audit period.

We conducted an audit of DTC payroll expenditures for the period July 1, 2007 through March 31, 2008 to determine whether (1) payroll expenditures were properly authorized, paid in a timely manner, complied with rules and regulations, and were appropriately recorded, reconciled, and within budget; (2) the DTC was complying with procedures established in the Office of the State Comptroller's Payroll Policies and Procedures Manual and applicable laws and regulations; and (3) DTC personnel were complying with DTC internal policies and procedures.

Our review determined that, during the period July 1, 2007 through March 31, 2008, the DTC maintained its payroll records according to prescribed requirements and complied with applicable laws, rules, and regulations for those areas reviewed.

INTRODUCTION

Background

The Massachusetts Department of Telecommunications and Cable (DTC) of the Office of Consumer Affairs and Business Regulation within the Executive Office of Housing and Economic Development (EOHED), was established under the Authority of Chapter 25C, Section 1, of the Massachusetts General Laws.

The mission of the DTC is to regulate the telecommunications and cable industries in accordance with statutory obligations imposed by the Commonwealth of Massachusetts and the federal government; to promote competition and protect consumers consistent with the public interest, including investigating and responding to carrier and consumer inquiries and complaints related to telecommunications and cable services; and to provide expert input in the development of telecommunications related policies for the Commonwealth. The DTC's operations are organized into the following four divisions:

- Administrative
- Competition
- Consumer
- Legal

The Administrative Division provides administrative support to the DTC for purchasing, accounts receivable and payable, human resources, budget preparation and management, public relations, information technology and administrative services. The Division also serves as liaison to the Office of Consumer Affairs and Business Regulation, the Fiscal Affairs and the Human Resources Divisions in the Executive Office for Administration and Finance, and the Legislature.

The Competition Division provides technical support to the Commissioner of the DTC in the regulation of the telecommunications and cable industries in Massachusetts. The telecommunications industry over which the DTC has jurisdiction is made up of local exchange carriers, interexchange carriers, operator service providers, and pay-telephone companies. The cable

industry in Massachusetts is comprised of nine cable television providers serving over two million cable subscribers in 308 of the Commonwealth's 351 cities and towns.¹

The mission of the Competition Division is to ensure that telecommunications and cable companies provide their customers with the most reliable services at the lowest possible cost, in accordance with state and federal statutory obligations; to promote competition; and to protect consumers consistent with the public interest.

The Consumer Division manages telecommunications and cable complaints in addition to gas, electric, and water complaints for the Department of Public Utilities. The Division is responsible for enforcing and monitoring compliance with Massachusetts laws, DTC regulations, and policies protecting consumers of gas, electricity, telecommunications, water, and cable services.

The Legal Division staff serves as the chief legal and policy advisor to the Commissioner and provides legal support to all divisions of the Department. The Legal Division also serves as the Department's primary liaison with the Legislature, particularly the Joint Committee on Telecommunications, Utilities and Energy. The Legal Division's primary duty is presiding over adjudicatory proceedings conducted under the Massachusetts Administrative Procedures Act (G. L. c. 30A) and the Department's procedural regulations (220 C.M.R. § 1.00 et seq.).

The DTC had 40 employees with payroll costs of \$1,178,499 during our audit period.

Commonwealth Personnel/Payroll System

Pursuant to Chapter 7A of the General Laws, the Office of the State Comptroller (OSC) has the responsibility for establishing the Commonwealth's accounting system and has full authority to prescribe the requisite forms and books of account, including the classification and accounting of payroll expenditures. The OSC is authorized to approve any payroll system used in the Commonwealth to ensure that the statewide system is capable of recording, reporting, classifying, summarizing, and transmitting accurate and timely payroll data to the Commonwealth's accounting system, the Massachusetts Management Accounting and Reporting System (MMARS). Additionally, the payroll system approved by the OSC must meet all state and federal financial laws and

¹ Information was extracted from the Massachusetts Department of Telecommunications and Cable 2007 Annual Report.

regulations. The OSC manages the Commonwealth's payroll system, and the Office of the State Treasurer disburses all deductions and payments.

The Commonwealth's payroll system is the Human Resources Compensation Management System (HR/CMS), which incorporates human resource/personnel and time and attendance information. It is a biweekly payroll system that supports all employees in all branches of government. HR/CMS provides enhanced functionality for state human resources and payroll administrators and ensures conformity to state and federal financial and legal requirements. HR/CMS payroll interfaces biweekly with the Commonwealth's Labor Cost Management System (LCM) for funds availability, editing and labor distribution, and then updates the Commonwealth's accounting system, MMARS.

The HR/CMS system integrates all applicable human resource data and time and attendance information each time payroll and pay calculations are run. HR/CMS has a module that integrates and reports employees' accumulated leave balances.

The OSC has established payroll policies and procedures, and each department is required to develop specific internal controls for its payroll processing. These specific internal controls are a decentralized function that is carried out on an individual department basis with both the executive and non-executive branches. Such decentralized controls include, but are not limited to, the preparation of employee time sheets, segregation of duties, review and approval procedures, new hire/termination procedures, and specific security guidelines that ensure compliance with the OSC's policies and procedures. Furthermore, as specified in the Internal Control Act (Chapter 647 of the Acts of 1989), internal procedures should ensure safeguards, validity, completeness, timeliness, authorization, and accuracy of all information processed through the payroll systems. Departments are responsible for documenting and distributing internal procedures to their staff in order to ensure compliance with these policies within their Department. Furthermore, OSC has developed many reports within HR/CMS that can be accessed through the MMARS Warehouse (a database of accounting information) to assist departments in their preparation and certification of payroll data.

Audit Scope, Objectives, and Methodology

In accordance with Chapter 11, Section 12 of the General Laws, we conducted an audit of the Department of Telecommunications and Cable (DTC) payroll expenditures for the period July 1, 2007 through March 31, 2008. The purpose of our audit was to examine the DTC processing of

personnel and payroll transactions to determine whether transactions were properly managed, documented, reported and recorded and that the DTC complied with applicable state laws, rules and regulations. Our audit included a review of policies and procedures over the processing of payroll transactions to determine whether the expenditures for payroll were appropriate, including proper authorizations and records for personnel actions.

Our audit was conducted in accordance with applicable generally accepted government auditing standards and included tests and procedures we considered necessary to meet our audit objectives. The Office of Consumer Affairs and Business Regulation (OCABR), the oversight agency for DTC, administers DTC's payroll and personnel transactions and maintains all records for these functions. In order to plan our audit tests, we met with and interviewed DTC and OCABR officials to obtain and review personnel and payroll policies and procedures.

The objectives of our audit were to (1) ensure that payroll expenditures were a) properly authorized, paid in a timely manner, complied with rules and regulations, and were appropriately recorded, reconciled and within budget; (2) determine whether the DTC was complying with procedures established in the OSC's Payroll Policies and Procedures Manual and applicable laws and regulations; and (3) determine whether DTC personnel were complying with DTC internal policies and procedures.

To meet our objectives, our procedures consisted of the following:

- Interviewed DTC and OCABR officials and staff to determine the personnel and payroll policies and procedures;
- Tested transactions for time and attendance, the hiring and termination of staff, salary increases, and overtime and compensatory time, and contract employees;
- Examined timesheets for evidence of time worked, employee and supervisory signatures;
- Reviewed new hire authorization forms for appropriate signatures, and rates of pay;
- Confirmed start dates, names, social security numbers and tax withholding information;
- Confirmed deductions for union dues, Medicare, health insurance, deferred compensation and retirement;
- Verified pay increases, termination dates, last payment due, and removal of terminated employees from payroll;

- Verified leave taken was authorized and recorded in cumulative records;
- Verified that overtime and compensatory time were authorized;
- Reviewed the DTC's determination of the value of taxable fringe benefits and traced value to tax reporting records; and
- Examined emergency advance account activity.

Our review revealed that, during the period July 1, 2007 through March 31, 2008 the DTC maintained its payroll records according to the prescribed requirements, and complied with applicable laws, rules, and regulations for those areas reviewed and tested. Specifically, for the items tested we noted that transactions for time and attendance, hiring of new staff, terminations, salary increases, and overtime and compensatory time were supported by evidence of time worked, were appropriately signed by employees and supervisors, dates appeared to be accurate, deductions were adequately supported and authorized, and leave was accurately recorded for tax reporting purposes. Additionally, the tested contract employee payroll was appropriately supported and complied with contract terms. Moreover, our tests of the emergency advance account disclosed that the tested activity complied with the OSC's policies and those of DTC.