



The Commonwealth of Massachusetts

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**INDEPENDENT STATE AUDITOR'S REPORT ON
THE MASSACHUSETTS ENVIRONMENTAL
POLICE'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 Massachusetts Environmental Police (MEP) 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

The scope of our review, which was conducted in accordance with applicable generally accepted government auditing standards, was limited to an evaluation of state agency compliance with Section 10 of the OSC FY 2008 Closing and FY 2009 Opening Instructions. To accomplish our objectives of determining whether all cash receipts were received, reported, and deposited by June 30, 2008, 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, MEP 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 the MEP properly recorded, deposited, and reported all cash receipts on hand and due the Commonwealth, totaling \$28,575,¹ as fiscal year 2008 revenue. However, notwithstanding our previous reviews, MEP did not ensure that: (1) branch office cash receipts are deposited daily; (2) a department-wide Internal Control Plan (ICP) was developed, documented, and made available in compliance with Chapter 647 of the Acts of 1989 and consistent with guidelines established by the OSC; and (3) a cost-analysis comparison of its electronic payment processing contract to the OSC-sponsored statewide contract for electronic payment processing service resulted in a lower cost or a more cost-effective or better value than the Commonwealth's statewide contract.

Our prior reviews noted that certain MEP branch offices did not ensure that its cash receipts were deposited within one business day of receipt. For this reason, MEP 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 review, we determined that three of the five MEP branch offices (Boston, Fall River, and Hyannis) made daily cash deposits, while its Springfield and Worcester offices deposited cash receipts three times a week. Exceptions to the daily remittance of cash receipts are provided if the Executive Office for Administration and Finance (EOAF) and the TRE determine it is in the interest of the Commonwealth to allow payments to be made weekly.² Accordingly, unless expressly authorized, MEP offices should be depositing its cash receipts within one business day. Our review showed that during the period June

¹ Massachusetts Environmental Police cash receipts on hand as of June 30, 2008 and deposited by the OSC deadline and reported as FY 2008 revenue include: Boston (\$9,795); Fall River (\$6,210); Hyannis (\$5,600); Springfield (\$3,975); and Worcester (\$2,995).

² Chapter 30, § 27, of the Massachusetts General Laws.

25, 2008 to July 3, 2008, cash deposits for the Springfield and Worcester offices ranged from \$2,145 to \$7,250 and \$2,995 to \$8,810, respectively. If revenues are not properly safeguarded, not depositing cash receipts within one business day increases the risk that revenues could be misplaced, lost, stolen, or misused. Moreover, funds that are not deposited timely decrease potential investment income and deprive the Commonwealth of funds collected on its behalf. Given that MEP's Boston, Fall River, and Hyannis offices conducted timely deposits, through more involvement by management, it is reasonable that its Springfield and Worcester offices could also.

Additionally, our prior reviews determined that MEP did not develop, document, and make available an ICP as required by Chapter 647 of the Acts of 1989 and internal control guidelines established by the OSC. Our follow-up review disclosed that MEP still does not have an ICP. Chapter 3 of the OSC Internal Control Guide (Revised September 13, 2007) defines an ICP as "a high level department-wide summarization of the department's risks and the controls used to mitigate those risks. This high level summary must be supported by lower level detail, i.e., departmental policies and procedures." Moreover, even though the OSC's revised Internal Control Guide continues to incorporate key concepts from original guides, the new guide integrates the principles of Enterprise Risk Management (ERM) with the following eight interrelated components: internal environment, objective setting, event identification, risk assessment, risk response, control activities, information and communication, and monitoring. Upon completion, an internal control officer should be designated to oversee the ICP. The ICP should be evaluated at least annually or when changes occur in the department (such as employee turnover) and updated accordingly. It is important for MEP to develop its own ICP—that includes references to detailed policies and procedures—to ensure that MEP achieves its goals and objectives efficiently, effectively, and in compliance with applicable laws and regulations and that assets are properly safeguarded against loss, theft, or misuse.

Further, our prior reviews noted that even though it was no longer an office within the DFG, MEP [though its State Point of Sale Recreational Transactions (SPORT) Internet application] continued to accept, process, and control customer electronic payment transactions on behalf of DFG. This arrangement has resulted in revenues (FY 2006 and FY 2007) not being deposited with the TRE and processed through MMARS, the untimely reporting of DFG internet sales revenues, and the risk that DFG and MEP electronic payment processing fees being incorrectly apportioned. Our follow-up review disclosed that MEP continues to administer and control (through its SPORT Internet application) DFG Internet sales revenues generated from online credit card payment transactions.

Furthermore, our review disclosed that MEP has yet to perform a meaningful cost-analysis comparison of electronic payment processing fees associated with its SPORT application contract to credit card services and other electronic payment options available with the Commonwealth's Statewide Contract for Electronic Payment Processing Services. For this reason, we question whether the MEP contracted e-payment alternative results in a lower cost or a more cost-effective or better value than the Commonwealth's statewide contract. Accordingly, MEP should—with assistance from the OSC—ensure its e-payment plan is cost effective and takes advantage of existing cost saving options,³ such as the Automated Clearing House, which carry significantly lower transaction fees in comparison to credit card fees. In addition, under the Statewide Contract, usage by departments will be combined for the purposes of volume discounts. As a result, as more Departments participate in the Statewide Contract, the opportunity for fee reductions increases.

The above matters came to our attention during our review and are presented as opportunities for strengthening MEP policies, procedures and internal controls in order to comply with OSC-prescribed policies and procedures and Chapter 647 of the Acts of 1989. Accordingly, our report is intended for use by management in taking the necessary corrective action.

³ The Commonwealth's Statewide Contract for Electronic Payment Processing Services provides departments with the ability to offer customers the option 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.