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**INDEPENDENT STATE AUDITOR'S REPORT
ON CERTAIN ACTIVITIES OF THE
MASSACHUSETTS TECHNOLOGY PARK CORPORATION
JULY 1, 1998 TO MAY 31, 2000**

**OFFICIAL AUDIT
REPORT
FEBRUARY 5, 2001**

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INTRODUCTION

Background

The Massachusetts Technology Park Corporation (MTPC) is a quasi-public instrumentality of the Commonwealth of Massachusetts created pursuant to Chapter 40J of the Massachusetts General Laws. MTPC falls under the Department of Economic Development but is not subject to the supervision or control of any state agency except as provided in its enabling statute. Chapter 405 of the Acts of 1984 provided for the transfer of a parcel of land in the town of Westborough, commonly referred to as the Lyman School for Boys, to MTPC for the purposes of the Massachusetts Microelectronics Center, a collaborative effort of industry, university, and government. In 1994, MTPC formed the Massachusetts Technology Collaborative (MTC), replacing the Microelectronics Center as its operating entity in order to foster economic growth within the Commonwealth.

MTPC's activities are directed by a 23 member Board of Directors, representing senior officials from public and private colleges and universities, technology companies, and state government. In accordance with Chapter 40J, Section 3, of the General Laws, the board consists of the Director of the Department of Economic Development, the Secretary of the Executive Office for Administration and Finance, the Chancellor of the Board of Higher Education, two members appointed from a list of persons nominated by the President of the Senate, two persons appointed from a list of persons nominated by the Speaker of the House of Representatives, and 16 persons appointed by the Governor.

MTPC sponsors a portfolio of projects that range from sponsored research on emerging economic trends to collaborative activities with specific industry clusters and regional aggregations. As a general rule, MTPC does not seek to advance the interests or respond to the specific concerns of individual firms or organizations. Currently, MTPC is administering the following programs:

- Nine cluster initiatives funded by the Commonwealth of Massachusetts via the Department of Economic Development to enhance related industry growth within Massachusetts.
- Massachusetts Renewable Energy Trust Fund and the Waste to Energy Trust Fund to oversee the collection of mandatory charges to consumers and the disbursement of these funds to promote renewable energy projects in compliance with Chapter 40J, Section 4E, of the General Laws.

- Overseeing and administering the Massachusetts Technology Park, including, but not limited to the leasing of the Integrated Circuit Fabrication Facility (ICFF) on its Westborough grounds to the Kopin Corporation.

Total revenues and expenditures for the three MTPC programs for the fiscal year ended June 30, 1999 and the 11 months ended May 31, 2000 are as follows:

	<u>Fiscal Year Ended June 30, 1999</u>	<u>11 Months Ended May 31, 2000</u>
<u>Receipts:</u>		
<u>Cluster Initiative:</u>		
State Appropriations	\$ 1,200,000	\$ 1,100,000
Berkshire Connect (IT Bonds)	100,000	-
I-495 Technology Corridor Initiative	30,000	30,000
Other	3,322	1,952
 <u>Massachusetts Technology Park:</u>		
Kopin Lease	959,993	903,738
Interest	278,521	182,381
Classroom Rentals and Other	50,185	46,719
 <u>Renewable Energy Trust Fund:</u>		
Renewable Energy Initiative	26,117,867	34,680,087
Waste to Energy	10,480,548	10,067,368
Interest	<u>1,018,267</u>	<u>3,148,887</u>
 <u>Total Receipts</u>	 <u>\$40,238,703</u>	 <u>\$50,161,132</u>
 <u>Expenditures:</u>		
Management and Support (includes both the Massachusetts Technology Park and the Cluster Initiative)	\$ 2,556,732	\$ 2,385,894
Campus Development (includes the design and demolition of two buildings on campus)	485,326	(2,544)
Renewable Energy Initiative	<u>3,029,460</u>	<u>2,432,742</u>
 <u>Total Expenditures</u>	 <u>\$ 6,071,518</u>	 <u>\$ 4,816,092</u>
 <u>Excess of Receipts over Expenditures</u>	 <u>\$34,167,185</u>	 <u>\$45,345,040</u>

Cluster Initiative: The funds used to develop and administer economic cluster initiative projects during our audit period were funded by the annual state appropriation of \$1,200,000 received via the Department of Economic Development, the balance of an IT bond for Berkshire Connect carried over from fiscal year 1998 of \$100,000, and \$30,000 annually received from the Metropolitan Area Planning Council for the I-495 Technology Corridor Initiative. MTPC used these revenues to maintain and develop the following nine cluster projects:

- (1) FED Tech Program: This program spurs the development and commercialization of existing new technologies in Massachusetts by helping the research community secure funding from the federal government and by assisting in the formation of the strategic relationship essential to bring new technology to market.
- (2) Berkshire Connect: This creates an action plan for improving the telecommunication infrastructure for Berkshire County.
- (3) Cape Cod Connect: This discusses the issue of telecom capacity with an emphasis on ways to provide adequate service to the growing number of software and other technology-based firms on Cape Cod.
- (4) The I-495 Technology Corridor Initiative: This addresses severe fiscal, traffic, and environmental pressure on area towns in the corridor between Route 3 to the north and Franklin/Milford to the south, which has become the fastest-growing region of the state measured by both population increase and job creation. The purpose is the need for regional action to balance growth with quality of life at an affordable cost to taxpayers.
- (5) Optics/Photonics: The collaboration of several state agencies and the Massachusetts Association for the Optical Industry (MAOI) ascertain what steps, if any, Massachusetts photonics companies and the Commonwealth should take, separately or together, to enhance the state's leadership role in photonics.
- (6) Plastics: MTPC has begun a project to explore the creation of a statewide organization, or "alliance" of the existing plastics industry groups in the state and the scores of unaffiliated plastics companies throughout the Commonwealth. This emerging statewide organization is tentatively called the Massachusetts Alliance.
- (7) Mass Medic: This was created in 1996 enabling the members of the cluster, which comprise more than 250 medical device manufacturers in Massachusetts that employ more than 15,000 high-wage earners, to leverage its strong presence in the Commonwealth to influence federal policy issues, to develop valuable strategic alliances with in-state suppliers and service providers, and to establish breakthrough working relationships with the state's premier teaching hospitals on research and clinical trials.
- (8) Electronic Commerce (EC): The introduction of the World Wide Web has had a tremendous impact on the development potential of new EC channels. Developments over the next five

years in supporting hardware and software, at the application level, will support highly interactive, real-time, high-volume EC in a secure and reliable environment.

- (9) Massachusetts Hot Technology Sectors: The basic aim of MTPC's Cluster Initiative is to create and maintain more favorable environments for technology in Massachusetts through intensive enterprises by addressing the needs of important industry and geographic clusters. Projections continue to indicate a strong regional economy, with all sectors predicting employment growth at or above the national projections for their industries. Massachusetts continues to outperform most of the other leading technology states.

In addition, the state appropriation partially supports the Innovation Economy Initiative, which seeks to raise awareness and promote greater understanding of innovation as an economic priority. The keystone of this initiative is the Index of the Massachusetts Innovation Economy. Published each fall, the index measures and monitors the innovation process that translates resources into competitive economic outcomes. It also organizes conferences, forums, and other collaborative opportunities for research and dialogue. MTPC initially funds the preparation of this index from the state appropriation but partially recovers this cost by selling the index to interested parties.

Massachusetts Technology Park Corporation: MTPC currently owns, operates, and develops a 36-acre campus located in Westborough, Massachusetts. It was acquired in 1984 from the Commonwealth of Massachusetts, which used the site for the Massachusetts Microelectronics Center. The MTPC campus originally contained 12 buildings, of which three are currently utilized (the Innovation Center, the Karl Weiss Education and Conference Center, and the George Kariotis Center). MTPC leases the ICFF; it demolished two buildings in 1999 and the remaining six units are vacant. MTPC is currently exploring options for selective renovations, demolition, and/or preservation of the vacant buildings. The entire site is listed in the National Register of Historic Places, and some of the original masonry cottages are still standing.

MTPC uses the Innovation Center as a Central Massachusetts hub for nonprofit educational and economic development institutions as well as to house the FED Tech Program and the Massachusetts Renewable Energy Initiatives. The Karl Weiss Education and Conference Center is used by the University of Massachusetts for its Center for Professional Education and by the Westborough Public

Schools as an off-site meeting center for teachers and parents. The George Kariotis Center serves as MTPC's administrative headquarters. Campus funding comes from the ICFE office lease, classroom rentals, and interest income.

The 70,000-square-foot ICFE originally allowed Massachusetts engineering students to design, fabricate, and test their own computer chips. Due to an economic downturn in the Massachusetts high technology industry in the early 1990s, MTPC closed this facility in 1993. Shortly thereafter, Kopin Corporation signed a long-term lease and occupied the ICFE in 1994.

Renewable Energy Trust Fund: Pursuant to Chapter 25, Section 20(a), of the General Laws, the Department of Public Utilities was authorized and directed, beginning on March 1, 1998, to require a mandatory charge per kilowatt-hour (kwh) for all electricity consumers of the Commonwealth, except those consumers served by a municipal lighting plant that does not supply generation service outside its own service territory or does not open its service territory to competition at the retail level, to support the development and promotion of renewable energy initiative (REI) projects in accordance with the provisions of Chapter 40J, Section 4E, of the General Laws. The mandatory charge pursuant to Chapter 25, Section 20(a) is as follows:

Renewable Energy Initiative (REI) Charges

<u>Calendar Year</u>	<u>Rate</u>
1998	\$.00075/kwh
1999	\$.001/kwh
2000	\$.00125/kwh
2001	\$.001/kwh
2002	\$.00075/kwh
Thereafter	\$.0005/kwh

Chapter 25, Section 20(a) further requires that, in calendar years 1998 through calendar year 2002, the revenue derived from one-quarter of one mill (\$.00025) of the renewable energy charge in each year be set aside and expended pursuant to implementing the provisions of Chapter 40J, Section 4E, which is

known as waste to energy (WTE). The one-quarter of one mill of the renewable energy charge translates as follows:

<u>Waste to Energy (WTE)</u>	
<u>Calendar Year</u>	<u>Percentage of REI Revenue</u>
1998	33.33%
1999	25%
2000	20%
2001	25%
2002	33.33%

MTPC was selected to administer the REI charges and under Chapter 40J, Section 4E (a), of the General Laws was authorized and directed to establish a separate trust fund named the Massachusetts Renewable Energy Trust Fund. This trust fund is to be credited with all amounts collected from the renewable energy charges and any income derived from the investment of these amounts. Further, MTPC is required to calculate and segregate the derived WTE funds from the REI revenues pursuant to Chapter 25, Section 20, of the General Laws.

MTPC was selected to lead this important REI initiative because of its innovative approach to economic development and its record of success, especially in working with technology-based clusters. It is now creating the infrastructure of talent, investment, and information that will sustain the development and transformation of the renewable energy market. The strategic and operational plans for the initiatives are being developed, and an advisory committee is being assembled.

The Massachusetts legislature has given MTPC the mission of designing a program that will:

- Increase the use and generation of renewable energy in the state and region, and
- Enable Massachusetts companies to capture a greater share of the market for renewable energy technologies.

A class action lawsuit seeking declaratory relief under Chapter 231A of the General Laws was initially filed in the Supreme Judicial Court for Suffolk County on March 2, 1998. In substance, the

claimant alleged that two independent sections of the Electric Industry Restructuring Act of 1997 (Act) violated the federal and state constitution because they required customers of investor-owned utility companies (IOUs) to pay statutorily mandated surcharges that customers of municipal lighting plants are not required to pay.

The plaintiffs in this case (collectively referred to as “Shea”) were retail customers of one of the eight IOUs with service territories in Massachusetts. Shea’s complaint originally named as defendants two state agencies charged with administering the Act (i.e., the Department of Telecommunications and Energy and the Division of Energy Resources). In addition, MTPC was named as a defendant as the administrator and distributor of the renewable energy trust created by Chapter 25, Section 20, of the General Laws, as well as the investor-owned utility companies.

Because of the pending litigation, MTPC has not embarked on any large-scale use of these funds. On April 19, 2000, the Supreme Judicial Court for the Commonwealth of Massachusetts dismissed the case.

Audit Scope, Objectives, and Methodology

The scope of our audit was to examine various administrative and operational activities of MTPC during the period July 1, 1998 to May 31, 2000. Our objectives were to determine the efficiency and effectiveness of MTPC’s operations, including its internal controls over revenues and expenditures; analyze the internal controls over receipts and expenditures from the Massachusetts Renewable Energy Trust Fund; and assess MTPC’s compliance with its enabling legislation of Chapter 40J and Chapter 25, Section 20, of the General Laws.

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

- A determination of whether MTPC had implemented effective management controls, including policies and procedures, to ensure that resource usage is consistent with laws and regulations and is being efficiently used.
- A study and evaluation of the management controls and the flow of transactions through the MTPC administrative and accounting systems. Because MTPC uses a private accounting firm to perform financial and compliance audits of its financial statements, our audit included a review of the accounting firm’s work papers and reports.

- An examination of selected MTPC transactions pertaining to revenues, expenditures, payroll, equipment, and consultant payments to evaluate their completeness, reasonableness, and compliance with applicable laws and regulations.
- An assessment of MTPC's administrative procedures used to monitor the receipts and expenditures of the Massachusetts Renewable Energy Trust Fund.
- Interviews with selected MTPC officials and personnel.

During the course of our audit, to the extent practicable, we discussed with responsible MTPC staff areas of our review and issues that came to our attention that were reportable conditions. Also, in accordance with Chapter 11, Section 12, in audit reports with adverse or critical audit results, written responses may be required, within fifteen days of disclosure, to be forwarded to the Office of the State Auditor, the appropriate secretariat, the secretary of administration and finance, the cognizant executive board and the house and senate ways and means committees.

Based upon our review we have determined that, except for the matters discussed in the Audit Results section of this report, during the 23-month period ended May 31, 2000, MTPC maintained its accounting records in accordance with prescribed requirements, maintained an internal control structure that is suitably designed and implemented to adhere to the control objectives, and complied with applicable laws, rules, and regulations for those areas reviewed.

AUDIT RESULTS

1. Inadequate Internal Controls over Consultant Payments

In our review for the period July 1, 1998 to May 31, 2000, we found that the Massachusetts Technology Park Corporation (MTPC) did not establish adequate controls over payments made to 32 consultants totaling over \$2,668,514. Specifically, MTPC had not established any policies and procedures relative to its procurement of consultants or their payments. When contracts were utilized, MTPC did not maintain up-to-date signed contracts for several of its consultants. In other cases, purchase orders instead of contracts were used to procure services. Purchase orders do not clearly specify the scope of services, terms of remuneration, and the length of time over which the services are to be provided. Additionally, purchase orders do not legally obligate the consultant to provide the requested services at an agreed upon rate.

We selected 12 payments totaling \$451,868 made to 12 different consultants during our review period. Our review revealed that MTPC did not maintain adequate documentation to validate six consultant payments totaling \$31,693. These consultant payments were made based upon an oral agreement; an expired contract or MTPC purchase orders that did not clearly define the scope of services to be provided, the dollar amount, or the length of time that services would be rendered; or without a contract or purchase order. Specifically, for the six questioned payments we found the following:

- Payments Made under Oral Agreements: We noted that on January 22, 1999, MTPC made a payment of \$3,000 without having adequate documentation to substantiate the consultant's invoice, which requested the \$3,000 as a monthly retainer for consulting services performed during December 1998. MTPC could not locate a contract or a written consulting arrangement for this consultant, who was paid \$3,000 each month during the test period, for a total of \$69,000. However, MTPC was able to provide us with a copy of an unsigned contract with an expiration date of October 31, 1996. According to MTPC officials, this consultant reports directly to MTPC's Executive Vice President/General Counsel under an oral agreement.
- Payments Made under Expired Contracts: We found that MTPC made a payment on September 18, 1998 of \$2,000 to a consultant supported merely by the consultant's invoice, which requested payment for consulting services performed during August 1998. MTPC could not provide a contract or purchase order to substantiate this payment nor was there any evidence to support services provided. However, MTPC was able to locate a prior contract with this consultant, which expired on May 31, 1997. MTPC indicated that this consultant was providing services

outlined in the expired contract at the same rate. For our review period ended May 31, 2000, this consultant was paid \$46,000.

- Payments Made Based on Unspecified Purchase Orders: Based upon our test sample results, MTPC made two payments totaling \$4,940 to consultants without sufficient evidence to substantiate the services provided, the payment terms, or the duration for which the services were to be provided. Moreover, MTPC did not enter into a contract with these consultants but rather used a vendor purchase order that briefly described the nature of the ordered services and set a limit for which the total payments could not exceed.

For example, our review of a MTPC purchase order dated June 30, 1998 disclosed that MTPC ordered consulting services related to the Berkshire Connect Initiative, not to exceed \$20,000. Our test sample payment indicated that on January 29, 1999, MTPC made a \$1,837 payment to this consultant for 36.75 hours at \$50 per hour. While the consultant's invoice contained a listing of various services provided, the basis for whether the hourly rate of compensation was mutually agreed upon is unclear. In addition, we found that this consultant was paid \$52,245 during the period July 1998 through May 2000.

In another example, on February 12, 1998, MTPC procured consulting services not to exceed \$43,025 via a purchase order. Once again, the MTPC purchase order briefly described the requested consulting services for Berkshire Connect Initiative. In our test sample, we found that MTPC made a payment on August 21, 1998 of \$3,103 based upon the submitted invoice of the consultant. The consultant's invoice requested payment for direct salary costs of \$1,264, indirect costs of \$1,750, and reimbursable costs of \$89. Because MTPC failed to clearly define the terms of compensation, this payment could not be substantiated as being proper. During the period July 1998 to May 2000, MTPC paid this consultant \$41,553.

- Unsigned Contract: In our review we found that a consultant was paid \$9,600, which MTPC substantiated with an unsigned contract. While the \$9,600 payment made to the consultant agreed to the contract terms, the failure to obtain the necessary signatures on the contract is a control deficiency.
- Payments Made with No Contract or Purchase Order: On October 9, 1998, MTPC made a consultant payment of \$12,153, which could not be substantiated with a contract or purchase order. This consultant provided adequate documentation to support the consulting services rendered as well as business-related personal expenses (i.e., hotel, meal, fuel, parking, toll receipts, etc.) incurred for the month of September 1998. However, without documentation that would support the consultant's hourly rate of compensation of \$125 per hour and that business-related incidentals are reimbursable, the payment made is questionable. During the period July 1998 to May 2000, MTPC paid this consultant \$166,881.

According to standards published by the American Institute of Certified Public Accountants (AICPA), it is management's responsibility to establish and maintain an effective internal control structure over an entity's operations, which would include ensuring that consultant arrangements are evidenced by a written document (i.e., contract) between management and the consultant. Moreover, the contract should contain a clear statement of the approved scope of services, a clear statement of the

approved terms of remuneration, and the length of time over which these services are to be provided. Both an MTPC official and the consultant should sign the contract and, prior to payment, MTPC management should ensure that the consultant provides documentation to support the amount of services billed and that the amount billed agrees to the terms specified in the contract.

MTPC acknowledged that its filing system for contracts and internal controls over consultant procurement and payment needs to be addressed. MTPC indicated that staffing constraints coupled with the pending "Shea" lawsuit (see Introduction) allowed these deficiencies to occur. During our review, MTPC was in the process of implementing controls over the procurement of consultants and their payments.

Recommendation: MTPC should implement adequate internal control procedures over the procurement and payment of consultants by establishing policies to ensure that consultant arrangements are substantiated by a written and executed contract. The contract should be signed by both MTPC and the consultant and be kept current. In addition, MTPC should use only purchase orders to procure limited services and should clearly establish the rate of compensation and the time period in which the services are to be provided.

2. Questionable Payments

Our review noted that, during the period July 1, 1998 to May 31, 2000, MTPC expended over \$364,814 to employees for annual performance, holiday, and other types of bonuses. We also noted that MTPC made payments to employees for a buy-back of earned time. However, MTPC does not have up-to-date approved employee policies and procedures detailing such benefits and employment policies and practices.

We were informed that the Employee Handbook, dated June 26, 1996, was not updated to correspond with employees' benefits currently offered by MTPC. Therefore, we were provided with a revised one-page employee benefit summary reflecting the current benefits offered by MTPC to its employees. However, we noted that payments made for bonuses and purchases of earned time are not mentioned in

either the handbook or the updated one-page benefit summary sheet. As a result, the following payments made to MTPC employees during the period July 1, 1998 to May 31, 2000 are questionable:

- Performance Bonus: MTPC expended \$305,000 on employees' annual performance bonuses, which ranged from \$1,000 to \$45,000 per employee. As guidelines for employees' annual performance bonuses are not mentioned in the entity's personnel policies or revised employee benefit summary, MTPC provided us with the following process used by MTPC regarding bonus payments. MTPC has an annual review process in the November to December time frame in which employees prepare Employee Input forms and managers assess their employees on performance appraisal forms. Annual bonuses and/or increases are based on the review process. The executive office personnel determine the amounts of the bonus and/or increase for each employee. The Board of Directors' Chairperson and Vice Chairperson determine the amount of any bonus and/or increase for the Executive Director. All bonuses are not recorded in the minutes of the board meetings but are approved as part of the annual operating budget. While evidence was made available to us that the Chairperson of MTPC's Board of Directors approved both the December 1998 and 1999 bonuses (\$40,000 and \$45,000, respectively) paid to the Executive Director, it is unclear how the other amounts were determined. Further, based upon our review of these performance bonuses, we noted that MTPC awards these bonuses in December. However, certain employees can defer payment of the bonus until January for personal tax purposes.
- Holiday Bonus: MTPC made holiday bonus payments to employees totaling \$20,550, ranging from \$500 to \$2,030 per employee. This bonus is given in December to recently hired and part-time employees who are not entitled to an annual performance bonus.
- Other Bonuses: In our review of other payments made to MTPC employees, we noted a five-year anniversary bonus of \$5,000 made to the Executive Director. MTPC officials stated that the Board of Directors verbally approved this bonus. We also noted that a \$7,800 one-time signing bonus was made to the Director of Federal Programs-Cluster Initiatives.
- Employee Buy-Back of Earned Time: Our review also disclosed that MTPC expended \$26,464 for accumulated buy-back of earned vacation, sick, and personal time to two employees; the Executive Director and Executive Vice President/General Counsel. In February 1999, the MTPC's Chief Financial Officer wrote a memorandum to the Executive Director and Executive Vice President/General Counsel, suggesting that certain MTPC employees be allowed to purchase unused earned time exceeding 120 hours (i.e., three weeks or one year's accrual). Without formalized approved personnel policies that clearly stipulate how an employee may purchase back unused earned time, there is no assurance that these payments are proper or necessary.

MTPC is in the process of updating its Employee Handbook, which will include personnel policies and practices covering annual performance as well as other types of bonuses and the buy-back of earned time. MTPC maintains that these employee payments are necessary in order to compete with the leading high technology firms in the area. However, we question whether these expenditures are necessary to

accomplish the mission of MTPC as defined in Chapter 40J, Section 1A, of the Massachusetts General Laws, which states, in part:

It is found in the public interest of the commonwealth to promote the prosperity and general welfare of its citizens, a public purpose for which public money may be expended, to amend the enabling act and certain related statutes of the corporation to authorize the corporation to foster the expansion of industrial and commercial activity and employment opportunities in the commonwealth by employing its resources, to the extent consistent with its educational activities to advance additional, more direct economic development initiatives which support firms to maintain, expand and locate their business activities within the commonwealth and thereby create and retain increased and more rewarding employment opportunities for our citizens.

Recommendation: MTPC should update its Employee Handbook to include all employee benefits. Moreover, MTPC's Board of Directors should approve all employee benefits identified in the Employee Handbook and ensure that employee benefit payments, such as bonuses and buy-backs of earned time, are consistent with MTPC's mission as outlined in Chapter 40J, Section 1A, of the General Laws.

3. Inadequate Controls over MTPC Travel Expenditures

According to standards published by the AICPA, it is management's responsibility to establish and maintain an effective internal control structure over an entity's operations, which includes developing policies to control and ensure that travel expenditures are made in a generally approved manner. However, MTPC has not taken the necessary steps to ensure the adequate and proper administration of travel expenditures. As a result, \$15,812 in credit card charges are questionable because they were inadequately documented and/or did not clearly denote a business-related purpose.

Six administrative staff members of MTPC have American Express or Diners Club corporate credit cards. According to MTPC personnel, these credit cards are to be used for costs incurred on business-related travel, including, but not limited to, airfare, hotel lodgings, and meal charges. During the period July 1, 1998 to May 31, 2000, MTPC made credit card payments totaling over \$137,743. For our review, we examined \$23,280 of these credit card expenditures and found that MTPC had not established and implemented adequate internal controls over the use of its credit cards. Specifically, we found that \$15,812, or 68%, of the expenditures reviewed was not adequately supported because MTPC does not

require individuals who have corporate credit cards to submit original receipts to substantiate the validity of their expenditures.

MTPC's Business Manager performs an extensive review of all charges listed on the monthly credit card invoices prior to payment. Upon receipt of the monthly bill from American Express and Diners Club, the Business Manager contacts the credit card holder to inquire about the nature of each charge, then makes a notation next to each one of the charges appearing on the bill. However, the notation does not adequately describe the nature of the charge nor does it adequately substantiate the charge's validity.

Our sample review of credit card charges identified a variety of questionable charges, including various airline charges totaling \$7,418, for which there were no original airline ticket receipts to support these expenditures. While the notations provided on the credit card invoices indicated the names of the individuals for whom the tickets were purchased, they did not provide adequate documentation that the trips were actually taken. Moreover, although the business purpose (i.e., conference or meeting) of the flights were noted by the MTPC Business Manager on the credit card invoices, without supporting documentation relative to the conference or meeting attended, there is inadequate assurance that the airfare expenditure was business related. In another example, a hotel bill did not support a hotel charge for \$992 for lodging in Venice, Italy. Rather, MTPC noted on the credit card invoice that the nature of the charge was for a "Photovoltaic Conference." Further, restaurant charges totaling \$1,472, including a charge of \$846 to the Harvard Club, were not supported by original receipts, nor were MTPC notations adequate to ensure the validity of such charges. Also, an \$80 credit card purchase was made from Vermont Teddy Bear for a gift to an employee's daughter.

MTPC stated that, although it is sometimes difficult to maintain original receipts, it has developed an employee expense form that requires original receipts. This employee expense form is primarily used to reimburse an employee for such out-of-pocket expenses incurred as mileage, hotels, meals, parking, and tolls. However, our review of five employee expense reports totaling \$1,540 revealed that \$535 of these employee reimbursements was not supported by original receipts. As a result of this inadequacy, MTPC

cannot substantiate the necessity of these costs. Further, because an MTPC employee who has a credit card may also be reimbursed for out-of-pocket expenses, the same travel costs could be paid twice, once on the credit card and again on the employee expense report. Regarding this internal control deficiency, we were informed that the Business Manager reviews the employee expense reports and compares them to the employee's credit card charges upon receipt of the invoice. In cases when this occurs, the Business Manager deducts the duplicate claimed expense from the employee's expense report.

In our review of other travel-related expenditures, we found that in late May 1999, MTPC incurred costs totaling \$9,683 for an overnight staff retreat for 28 employees at the Ocean Edge Resort in Brewster, Massachusetts. The total costs were supported by original hotel invoices, which itemized the room, meal, and lounge charges. However, the necessity of conducting an off-site staff retreat at an exclusive ocean front resort on the Cape Cod, particularly in the absence of established travel policies and guidelines, was not demonstrated.

Recommendation: MTPC should establish and implement effective internal controls over the use of corporate credit cards as well as the employee expense reports used by administrative staff members. At a minimum, these controls should require that staff members using credit cards or submitting employee expense reports sign truth and accuracy forms subject to penalties and submit original receipts. In addition, for each expense listed on the employee expense report, staff members should submit relative documentation to support that the expense was an appropriate business-related charge. Moreover, MTPC should develop and implement formal travel policies and guidelines, which would set standards and enable MTPC to appropriately manage travel costs. Such travel policies and guidelines, which should be approved by MTPC's Board of Directors, should include proper documentation for all airfares, hotels, meals, and other business-related expenditures and address the justification for staff retreats at off-site locations.

4. Improvements Needed in Investment Practices

As of May 1, 2000, the MTPC had \$84,163,006 in cash invested in two financial institutions. Approximately \$84,057,620 was invested with the Massachusetts Municipal Depository Trust (MMDT), a money market investment vehicle of the Commonwealth, in multiple accounts, all of which were earning interest of 6.18%. The remaining \$105,386 was deposited in a non-interest-bearing checking account with Fleet Bank. Although MTPC has significant cash availability, it has not established an investment policy to ensure that all cash is adequately invested to maximize its total return. As a result MTPC lost the opportunity to earn potential annual interest of approximately \$274,080.

We calculated that, for the month of May 2000, MTPC lost the opportunity to earn potential interest income of over \$22,840, which when annualized totals \$274,080. To calculate this amount, we used a 90-day CD rate of 6.5% (available at three FDIC-insured banks in the Commonwealth) and multiplied MTPC's average daily balance during the month of May 2000 for all MTPC cash accounts on deposit with MMDT and Fleet Bank. We then compared the actual interest earned for the month of May 2000 and ascertained that, had MTPC chosen a slightly more aggressive yet FDIC-insured investment option, additional interest income would have been earned.

MTPC receives over 90% of its annual revenue from three sources. Approximately \$45 million is received from various investor-owned utility (IOU) companies, representing renewable energy surcharges assessed to IOU ratepayers as mandated by Chapter 25, Section 20, and Chapter 40J, Section 4E, of the General Laws. On a monthly basis, the IOUs wire transfer these renewable energy surcharges to a moderate interest bearing checking account (MMDT Trust Account), for which MTPC is the custodian. MTPC receives annual rental income of \$1,000,000 in lease payments from Kopin Corporation. MTPC deposits the monthly lease payment of \$83,333 into the Fleet Bank account. Lastly, MTPC receives \$1.2 million annually in state appropriations through the Department of Economic Development, which is deposited into the MMDT account.

On August 21, 1998, MTPC's private accountants disclosed in their management letter to the MTPC's Board of Directors that alternative investment vehicles should be explored with the expected activity related to the renewable energy and the likelihood that MTPC will have large amounts of cash on hand for periods of time. However, MTPC management did not address this issue. According to MTPC officials, because of the uncertainty of the outcome of the lawsuit relating to renewable energy surcharges, MTPC invested its funds almost exclusively with MMDT because these funds were completely liquid, invested with the Commonwealth, and earning moderate interest. Nevertheless, MTPC never developed an investment policy, which ideally would explore alternative investment vehicles to maximize its total return. On April 19, 2000, the pending lawsuit relating to the renewable energy surcharges was concluded in favor of MTPC. With the lawsuit concluded, as of August 2000 MTPC began exploring alternative investment options to maximize its total return. However, an investment policy had not been developed.

Recommendation: MTPC should develop an investment policy to ensure that all cash is adequately invested to maximize its interest income and explore alternative high-yield investment vehicles.

SUPPLEMENTARY INFORMATION

In fiscal year 1997, MTPC received \$7 million in accordance with an approved capital appropriation from the Commonwealth. In fiscal year 1998, based upon an agreement with the Commonwealth, MTPC entered into a separate agreement with the U.S. Secretary of Transportation acting by and through the Maritime Administrator and deposited \$6.6 million of the capital appropriation with the Secretary of Transportation. Such funds were used to guarantee certain original obligations, as defined, with a scheduled maturity date of 2022, issued by a third party in connection with the reactivation and modernization of the Fore River Shipyard located in Quincy, Massachusetts. Should the third party default on the original obligations, MTPC may lose all or part of its initial \$6.6 million deposit. Should the Secretary of Transportation's guaranty of the original obligations expire without a default by the third party, the Secretary of Transportation agrees to return the initial \$6.6 million deposit plus interest, estimated to be 5.6% per annum thereon to MTPC.