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**INDEPENDENT STATE AUDITOR'S REPORT ON
PAYROLL ACTIVITIES OF THE OFFICE OF
CONSUMER AFFAIRS AND BUSINESS
REGULATIONS
JULY 1, 2008 TO MARCH 31, 2009**

**OFFICIAL AUDIT
REPORT
AUGUST 10, 2009**

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The Massachusetts Office of Consumer Affairs and Business Regulation (OCABR), within the Executive Office of Housing and Economic Development, was established by Chapter 24A, Section 1, of the Massachusetts General Laws. The Office is headed by a director who is appointed by and serves at the pleasure of the governor. The OCABR's mission is to inform, protect, and advocate for consumers and assure fair and sound regulation of business and professionals while continually working to strike a balance between the needs of business and professionals. OCABR staffs various consumer hotlines; investigates consumer problems; publishes educational brochures, alerts, and reports; conducts surveys of consumer needs; establishes programs and services to assist consumers in understanding their rights and responsibilities in consumer transactions; recommends and implements consumer protection policies; and monitors the marketplace to promote fair and honest competition. The Office has six regulatory agencies under its supervision. These agencies are the Division of Banks, the Division of Insurance, the Department of Telecommunications and Cable, the Division of Professional Licensure, the Division of Standards, and the State Racing Commission.

OCABR had 22 employees with payroll costs of \$1,414,433.41 during the audit period.

We conducted an audit of OCABR payroll expenditures for the period July 1, 2008 through March 31, 2009 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 OCABR 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) OCABR personnel were complying with OCABR internal policies and procedures.

Our review determined that, during the period July 1, 2008 through March 31, 2009, the OCABR maintained its payroll records according to prescribed requirements and complied with applicable laws, rules, and regulations for those areas reviewed.

INTRODUCTION

Background

The Massachusetts Office of Consumer Affairs and Business Regulation (OCABR), within the Executive Office of Housing and Economic Development, was established under the authority of Chapter 24A, Section 1, of the Massachusetts General Laws. The OCABR's mission is to inform, protect, and advocate for consumers and assure fair and sound regulation of business and professionals while continually working to strike a balance between the needs of business and professionals. OCABR staffs various consumer hotlines; investigates consumer problems; publishes educational brochures, alerts, and reports; conducts surveys of consumer needs; establishes programs and services to assist consumers in understanding their rights and responsibilities in consumer transactions; recommends and implements consumer protection policies; and monitors the marketplace to promote fair and honest competition. The Office has six regulatory agencies under its supervision. These agencies are the Division of Banks, the Division of Insurance, the Department of Telecommunications and Cable, the Division of Professional Licensure, the Division of Standards, and the State Racing Commission.

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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 regulations. The OSC manages the Commonwealth's payroll system, and 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 OCABR payroll expenditures for the period July 1, 2008 through March 31, 2009. The purpose of our audit was to examine the OCABR processing of personnel and payroll transactions to determine whether transactions were properly managed, documented, reported, and recorded, and that the OCABR 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. In order to plan our audit tests, we met with and interviewed 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 properly authorized, paid in a timely manner, complied with rules and regulations, and were appropriately recorded, reconciled, and within budget; (2) determine whether the OCABR was complying with procedures established in the OSC's Payroll Policies and Procedures Manual and applicable laws and regulations; and (3) determine whether OCABR personnel were complying with OCABR internal policies and procedures.

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

- Interviewed OCABR officials and staff to determine the OCABR's personnel and payroll policies and procedures;
- Tested transactions for time and attendance, the hiring and termination of staff, salary increases, 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 that leave taken was authorized and recorded in cumulative records;
- Verified that overtime and compensatory time were authorized;
- Reviewed contracts of contract employees to determine appropriate personal information for tax reporting, scope of work, length of contract, maximum obligation, and that payments were for time spent on contract work and complied with contract terms.

Our review revealed that during the period July 1, 2008 through March 31, 2009, the OCABR 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 payrolls were appropriately supported and complied with contract terms.