



A. JOSEPH DE NUCCI
AUDITOR

AUDITOR OF THE COMMONWEALTH
STATE HOUSE, BOSTON 02133

TEL (617) 727-6200
FAX (617) 727-5891

2007-5130-17S

June 9, 2008

The Honorable Timothy P. Cahill
Treasurer and Receiver General
State House, Room 227
Boston, Massachusetts 02133

Dear Treasurer Cahill:

In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, the Office of the State Auditor has conducted a review of the cancelled checks that had been processed by the Office of the State Treasurer (OST) for the period July 1, 2006 to May 31, 2007. Our audit was conducted in accordance with applicable generally accepted government auditing standards.

The objectives of our performance audit were to examine: (a) the checks for proper endorsement; (b) the length of time the checks were outstanding; (c) the adequacy of state agency payment practices regarding the utilization of electronic funds transfers (EFTs) rather than paper checks; and (d) the payment practices involving providers of goods and services to evaluate the use of EFTs rather than paper checks.

Our review focused on a database of checks that was prepared by the OST. The database included checks and EFTs that had been presented for payment and processed through the appropriate payee bank. The database contained 1.2 million transactions with a value exceeding \$19 billion consisting of 726,921 checks and 472,001 EFTs.

Our methodology included: (1) developing queries of the database to identify providers and state agencies with recurring payments, (2) developing queries of the database to identify providers with

numerous low-dollar payments, (3) reviewing a sample of checks for proper endorsement, (4) reviewing a sample of checks to determine the timeliness of deposits, and (5) developing queries of the database to identify providers and state agencies that had recurring rejections of EFTs by the recipient bank.

The use of paper checks rather than EFTs is more costly and inefficient, as noted by the U.S.

Department of the Treasury in Volume 70, Number 196, of the Federal Register:

Making payments by electronic funds transfer (EFT), rather than by paper check, benefits both recipients and the Government. Agency records indicate that recipients are 30 times less likely to have a problem with an electronic payment than with a paper check. Unlike check payments, electronic payments are not susceptible to being lost, stolen, or damaged in transit. Electronic payments are far less susceptible to forgery or alteration than checks. Further, EFT payments are less costly than checks. The Government saves approximately 62 cents for each payment made electronically, rather than by check.

Our sample review observed 36 entities that received payments totaling \$955,178,434 during the period of our review (see Attachment). The entities reviewed included both governmental entities and corporations. These entities received a total of 44,720 checks and EFTs.

Our review noted that six governmental entities received payments totaling \$586,211,584; the majority of which were by paper check rather than EFT, as follows:

	Total Received	Total Payments	Total Checks	Total EFTs
Commonwealth of Massachusetts	\$ 6,832,020	127	127	-
Massachusetts College of Art Trust Fund	1,198,924	65	65	-
Massachusetts Development Finance Agency	98,726,280	90	1	89
Massachusetts Turnpike Authority	26,228,268	376	376	-
Social Security Administration	174,201,613	127	127	-
University of Massachusetts	<u>279,024,479</u>	<u>1,193</u>	<u>693</u>	<u>500</u>
	<u>\$ 586,211,584</u>	<u>1,978</u>	<u>1,389</u>	<u>589</u>

Our review also found that corporate entities received 30,880 EFTs and 11,862 checks totaling \$368,966,850. Included in this group of payments were 6,759 payments of \$100 or less. This group included 3,424 checks of \$20 or less and 3,335 checks of \$100 or less. These payments included checks

to supermarkets, drug stores, the United States Postal Service, United Parcel Service, and home improvement stores.

In conclusion, except for the matters noted previously, we determined that (a) the checks reviewed had proper endorsements, (b) the length of time checks were outstanding was reasonable, (c) the majority of state agencies reviewed successfully and effectively utilized EFTs rather than paper checks during their payment process; and (d) a significant number of the providers of goods and services with recurring billing activities effectively utilize EFTs rather than paper checks.

We recommend that the OST continue to encourage governmental entities and corporations that receive a significant number of payments to utilize EFTs as a less costly and more efficient payment option than paper checks. Also, the OST should explore alternative payment methods that could be used to make small, frequent purchases.

We appreciate the assistance and cooperation we received during our review. If you have any questions or concerns or need further assistance, please contact Howard Olsher, Director of State Audits, at (617) 727-6200.

Sincerely,

A handwritten signature in black ink, reading "A. Joseph DeNucci". The signature is written in a cursive, flowing style.

A. JOSEPH DeNUCCI
Auditor of the Commonwealth

Schedule of Entities Included in Review

July 1, 2006 to May 31, 2007

Entity	Total Amount	Total Transactions	Number of Check Transactions	Number of EFT Transactions
Aramark Services	\$ 4,564,383	50	10	40
AT&T Corporation	338,621	1,654	1,654	-
Bank of America NA	32,457,699	555	237	318
Big Y Food	1,355,559	1,812	1	1,811
Brain Injury Association of Massachusetts	1,094,558	134	104	30
Comcast of Massachusetts	263,483	1,087	7	1,080
Commonwealth of Massachusetts	6,832,020	127	127	-
EDS Corporation	10,987,112	80	-	80
Fontaine Brothers	26,298,884	30	1	29
Fort Point Place LLC	1,334,233	21	21	-
Home Depot	1,987,637	2,174	2,174	-
Massachusetts College of Art Trust Fund	1,198,924	65	65	-
Massachusetts Dev. Finance Agency	98,726,280	90	1	89
Massachusetts Turnpike Authority	26,228,268	376	376	-
Maxi Drug	48,267,201	8,738	12	8,726
MIG Corporation	12,234,581	72	7	65
MITC Building Management Fund	5,644,442	15	15	-
Mystic Center Garage	26,228,268	10	-	10
PMG Physicians	808,725	75	75	-
Project Bread	927,980	15	-	15
Radio Shack	10,712	54	54	-
Scientific Games	22,117,947	43	4	39
Shaw's	3,306,658	2,029	102	1,927
Shetland Properties	1,584,818	17	17	-
Social Security Administration	174,201,613	127	127	-
State Street Bank	86,166,223	46	4	42
Stop & Shop Supermarket	11,968,686	5,074	38	5,036
Travis Associates	652,113	172	1	171
Travis Corporation	287,122	42	42	-
University of Massachusetts	279,024,479	1,193	693	500
United Parcel Service, Inc.	2,062,185	2,117	2,076	41
United States Postal Service	1,323,606	446	446	-
Verizon of New England	45,408,537	8,554	548	8,006
Verizon Wireless	2,418,174	4,138	4,138	-
Walgreen Stores	13,677,872	1,205	55	1,150
Wal-Mart	3,188,831	2,283	19	2,264
	<u>\$ 955,178,434</u>	<u>44,720</u>	<u>13,251</u>	<u>31,469</u>