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INDEPENDENT STATE AUDITOR'S REPORT ON ADMINISTRATIVE AND OPERATING EXPENDITURES FOR:

Massachusetts Teachers' Retirement Board
State Employees' Retirement Board
Massachusetts Turnpike Authority Retirement Board
Massachusetts Port Authority Retirement Board
Massachusetts Water Resources Authority Retirement Board
Massachusetts Housing Finance Agency Retirement Board
Pension Reserves Investment Management Board

OFFICIAL AUDIT REPORT

JANUARY 31, 2002

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There are 106 contributory retirement systems within the Commonwealth of Massachusetts. All systems, though operating independently, are bound together under one uniform retirement law. These systems have accepted the provisions of Chapter 32, Sections 1 through 28, of the Massachusetts General Laws, which establishes the benefits, contribution requirements, and accounting and funds structure for all systems. Each of these individual systems is governed by its own retirement board.

The scope of our audit was to review and analyze the internal controls over administrative and operating costs at the Massachusetts Teachers' Retirement Board (MTRB), State Employees' Retirement Board (SRB), Massachusetts Turnpike Authority Retirement Board (MTARB), Massachusetts Port Authority Retirement Board (MPARB), Massachusetts Water Resources Authority Retirement Board (MWRARB), Massachusetts Housing Finance Agency Retirement Board (MHFARB), and Pension Reserves Investment Management Board (PRIM). Our audit included a review of administrative costs such as travel, conference, credit card, and consultant expenses, to determine whether these costs were appropriate, reasonable, allowable, and in compliance with applicable laws, rules, and regulations.

Our audit disclosed that MPARB, MHFARB and SRB did not have written travel policies and procedures that include travel authorization and arrangement procedures, credit card usage if applicable, transportation, meals and lodging allowances, documentation of expenses, authorization for third-party reimbursement for travel or other expenses and a statement that personal expenses are not allowable, authorized and will not be reimbursed. Also, MTARB, MPARB, MWRARB and MHFARB did not have documented internal control plans. These Boards should develop internal control plans consistent with the spirit and guidelines established for Chapter 647 of the Acts of 1989, which defines the minimum level of quality acceptable for internal control systems. Our review of vacant Board member positions disclosed that MTRB, PRIM and MTARB did not fill vacant positions in a timely manner.

Our review disclosed that improvements were needed regarding the internal controls over the expenditure of funds for operating and administrative expenses. Specifically, we determined that MTRB's internal control plan was incomplete and not fully documented, payment documents tested did not always have adequate supporting documentation, and authorization for expenditures was not always documented. In addition, expenses totaling $481,940 were misclassified. For example, $134,591 of equipment which should have been classified as information technology equipment was classified as office and administrative supplies. Also, there were no written policies, procedures and guidelines regarding the nature, extent, classification and allowability of certain expenditures.

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INTRODUCTION

Background

There are 106 contributory retirement systems within the Commonwealth of Massachusetts. All systems, though operating independently, are bound together under one uniform retirement law. These systems have accepted the provisions of Chapter 32, Sections 1 through 28, of the Massachusetts General Laws which establishes the benefits, contribution requirements, and accounting and funds structure for all systems. Benefit payments are based upon a member's age, length of creditable service, level of compensation and group classification. Retirement allowance benefits can be up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. Contributions to the system are determined by a member's employment date. Employees who became members prior to January 1, 1975 contribute 5% of their regular compensation through payroll deductions. Employees whose membership commenced on or after January 1, 1975 but prior to January 1, 1984 contribute 7%. Those employees whose membership began on or after January 1, 1984 contribute 8% and employees hired on or after July 1, 1996 contribute 9% of their regular compensation. All employees hired after December 31, 1978 contribute an additional 2% of their base pay over $30,000. Costs are an actuarial determination of benefits earned during each year by such employees based on the most recent actuarial valuation of the state retirement system, with the reimbursed amount deposited in the pension reserve fund of the state employees’ retirement system. Each of these individual systems is governed by its own retirement board. Retirement boards meet at least once a month and are required to keep records of all proceedings. Additionally, they are responsible for providing payments of retirement allowances and other benefits and have the power to take evidence, subpoena witnesses, administer oaths, and examine books and records relevant to a proceeding relating to a dispute. Further, they must annually submit to the appropriate authority an estimate of the expense of administration and the cost of the operation of the system for each fiscal year. The 106 retirement boards fall under one of five general categories: State Boards, Teachers' Board, County Boards, Municipal Boards, or Regional Boards. Detail on the State Board and the Teachers' Board are discussed elsewhere in this report. The remaining three Boards include: County Boards, which administer retirements for county employees and smaller towns and units within the county that do not have their own Boards; Municipal Boards, which administer retirements for individual cities and larger towns within the Commonwealth; and Regional Boards, including the Blue Hills Regional Vocational School, Greater Lawrence Sanitary District, and Minuteman Regional Vocational Technical School District, which are not part of this audit. Certain other boards, such as the Massachusetts Turnpike Authority, the Massachusetts Housing Finance Agency, the Massachusetts Port Authority, and the Massachusetts Water Resources Authority, have been included in this audit review.

In 1982, the Public Employee Retirement Administration (PERA) was created as a division within the Executive Office for Administration and Finance. PERA's responsibilities included the efficient administration of the public employee retirement systems; promulgation of rules and regulations governing administrative procedures, financial operations, records, and reports of the retirement boards; the performance of regular desk and field examinations of all the public retirement systems at least once every three years; reporting on disability benefits and the rehabilitation and reemployment of injured workers; providing training and legal and technical assistance to the retirement boards; and developing and maintaining reports, assets, and liabilities on all the retirement systems.

The Public Employee Retirement Administration Commission (PERAC) was established by Chapter 306 of the Acts of 1996 to oversee the guidance, monitoring, and regulation of the 106 retirement systems in the Commonwealth. PERAC assumed the duties of PERA which was created in 1982 as a division within the Executive Office for Administration and Finance.

Public pension assets in the Commonwealth, in most cases, are invested at the direction of the individual retirement boards. However, the Pension Reserves Investment Management Board (PRIM), through its investment vehicle, the Pension Reserves Investment Trust (PRIT) fund, is responsible for all of the assets and investments of the pension funds of the Massachusetts Teachers' Retirement Board (MTRB) and the State Employees’ Retirement Board (SRB). The assets of county, authority, district, and municipal retirement systems may be invested in the fund or independently as each system elects.

Our audit focused on the administrative and operating expenditures for the following seven boards:

Massachusetts Teachers' Retirement Board (MTRB)
State Employees' Retirement Board (SRB)
Massachusetts Turnpike Authority Retirement Board (MTARB)
Massachusetts Port Authority Retirement Board (MPARB)
Massachusetts Water Resources Authority Retirement Board (MWRARB)
Massachusetts Housing Finance Agency Retirement Board (MHFARB)
Pension Reserves Investment Management Board (PRIM)

1. **Massachusetts Teachers' Retirement Board (MTRB)**: The MTRB administers the Massachusetts Teachers' Retirement System (MTRS). The Board is composed of the following seven members chosen in accordance with the Massachusetts General Laws, Chapter 15, Section 16.

- Massachusetts State Treasurer or his/her designee.
- Auditor of the Commonwealth of Massachusetts or his/her designee.
- Two members elected by active and retired members of the system.
- One member (who must be a retired teacher) appointed by the Governor.
- One member chosen by the vote of the other four.
- The Chairperson (the Massachusetts Commissioner of Education) or his/her designee.

Each member serves a four-year term, except the State Treasurer and the State Auditor, who serve as long as they are in office. The Commissioner of Education's term depends on his/her term of office. The board, which is required to meet at least once a month:

- Votes on every disability retirement allowance,
- Investigates all claims for accidental and ordinary disabilities,
- Establishes the rules and regulations of the agency, and
- Oversees the dissemination of services and information to its membership of over 80,000 active educators and over 30,000 retirees and survivors.

MTRB maintains a staff of professionals located in Boston and Springfield to administer and implement the policies of the board. Included are an Executive Director, a Chief Financial Officer, a Deputy Executive Director, and a General Counsel, as well as the following organizational units:

Account Services
Administrative Services
Client Services
Compliance and Auditing
Benefit Services
Information Technology Services
Intergovernmental Relations

As of calendar year 2000, there were 57 full-time and 16 part-time employees servicing 82,242 active members, 10,052 inactive members (resigned members who leave their money in the system), and 31,746 retired members.

2. **State Employees' Retirement Board (SRB)**: The SRB is authorized under Chapter 10, Section 18, of the General Laws. The SRB is placed within the Department of the State Treasurer, although the administration of the SRB is authorized under Chapter 32, Section 20, and the supervision of SRB is under Chapter 32, Section 21, of the General Laws.

The members of the SRB serve without compensation, but can be reimbursed for expenses incurred through their service on the board. However, it is the current policy of the SRB not to reimburse board members for expenses.

All operating expenses incurred for administering the SRB must be approved by at least two members of the board. Funding for the operation of the SRB comes from net investment earnings.

As of calendar year 2000, there were 34 full-time employees servicing 87,118 active members, 43,915 inactive members, and 44,065 retired members.

3. **Massachusetts Turnpike Authority Retirement Board (MTARB)**: MTARB is a contributory-defined retirement plan, administered by the Massachusetts Turnpike Authority Employees' Retirement System. Instituted in 1968, MTARB is a member of the Massachusetts Contributory Retirement System and is governed by Chapter 32 of the General Laws. MTARB provides retirement, disability, and death benefits to plan members and beneficiaries, and issues a financial report available to the public that includes financial statements and required supplementary information. Rules and regulations governing administrative procedures, financial operations, records, and reports of the retirement board are issued

through the Public Employee Retirement Administration Commission (PERAC). Although MTARB was authorized in November 1996 to have five members, as of October 19, 2001 it has only four. Two members are elected by the membership, the Authority appoints one, and there is an ex-officio member, the Authority's Chief Financial Officer. These members together are given the task to appoint the fifth member. The elected members serve three-year terms on a staggered basis, the CFO remains a member for the duration of his/her employment, and the appointed member serves at the pleasure of the Authority. The fifth member, who cannot be an Authority employee, retiree, or member of the governmental unit, serves three years. Investment of system funds is done by the MTARB, with the advice of management and financial consultants. The custodial bank (State Street Bank and Trust) is charged with overseeing the accounts.

As of calendar year 2000, there were 3 full-time employees servicing 1,404 active members, 110 inactive members, and 595 retired members.

4. **Massachusetts Port Authority Retirement Board (MPARB)**: The MPARB is a contributory defined benefit plan to which the Massachusetts Port Authority (Massport) and its employees contribute such amounts as necessary to provide assets sufficient to meet benefits to be paid to plan participants. The MPARB Board administers the plan and determines investment objectives, strategies, policies, and general management. The Retirement Administration is accountable for MPARB operations and reports to and advises the five-member Board of Retirement.

Contributions to the plan are made by Massport based on amounts required to be funded as determined by annual actuarial valuations and are designed to fund the plan on a level-cost basis, as a percentage of pay, over the average remaining working lifetime of the active participants and to fund operating costs of the plan. No such contributions were required in 1999 and 2000 because the actuarially accrued liability became fully vested. Massport bears the risk that plan net assets might decline due to fluctuations in the market value of the plan's investments, at which point contributions by Massport would once again be necessary.

Investment of the system's funds is done by the Retirement Board with the advice of management and financial consultants and help of the custodial agents such as State Street Bank & Trust.

As of calendar year 2000 there were four full-time employees and one part-time employee servicing 1,177 active members, 67 inactive members, and 302 retired members.

5. **Massachusetts Water Resources Authority Retirement Board (MWRARB)**: The MWRARB was established by Chapter 372 of the Acts of 1984 to assume the duties and responsibilities of the Massachusetts District Commission's (MDC's) Water and Sewer Division. All MDC employees who were members of the State Retirement System have remained with the State Retirement System, while all new hires by MWRA are enrolled in MWRA's Retirement System.

The MWRA's Retirement System is an employee pension benefit plan established within Chapter 32 of the Massachusetts General Laws. The plan and its funds are administered by a Board of Trustees consisting of three members, an ex-officio member, an appointed member, and a member elected by the general membership of the retirement system. This defined benefit plan is maintained to provide retirement, disability, and/or death benefits, to participants in accordance with Chapter 32, MGL.

The trustees are charged by law with the responsibility for the investment of the assets of the MWRA Retirement System. To assist them in this function and to provide fiduciary relief, the trustees are authorized and permitted by PERAC to engage the services of advisors who possess the necessary specialized research facilities and skilled manpower to assure adherence to the "prudent expert rule" under such statutes as may now apply or in the future apply to investments of the plan. Policy guidelines are fixed annually by the trustees after consideration of the advice and recommendations of the investment advisors. All modifications of policy guidelines shall be in writing and signed by each of the acting board members.

As of calendar year 2000 there were three full-time employees and one part-time employee servicing 1,501 active members, 140 inactive members, and 94 retired members.

6. **Massachusetts Housing Finance Agency Retirement Board (MHFARB)**: In accordance with the provisions of Chapter 1003 of the Massachusetts Acts of 1973, the Housing Finance Agency became a

participant in the Massachusetts Housing Finance Agency Employees' Retirement System, a contributory system that is governed by Chapter 32 of the MGL. Membership in the system is mandatory for all full-time employees of the Massachusetts Housing Finance Agency deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity.

MHFARB is responsible for investing the system's funds and approving all retirement allowances. In addition, the board approves expenses incurred by the system at its monthly meetings.

As of calendar year 2000 there was one full-time and one part-time employee servicing 303 active members, 47 inactive members, and 55 retired members.

7. **Pension Reserves Investment Management Board (PRIM)**: PRIM is charged with the general supervision of the Pension Reserves Investment Trust (PRIT) Fund. The PRIT Fund is a pooled investment fund established to invest the assets of the Massachusetts State Teachers' and Employees' Retirement Systems, and the assets of county, Authority, district, and municipal retirement systems that choose to invest in the fund. The PRIT Fund consists of two investment funds: a Cash Fund that receives contributions and invests them on a temporary basis, and a Capital Fund that invests and reinvests on a long-term basis the amounts received monthly from the Cash Fund. The PRIT Fund was established by the Legislature in December 1983 (Chapter 661 of the Acts of 1983) with a mandate to accumulate assets through investment earnings and other revenue sources in order to reduce the Commonwealth's significant unfunded pension liability, and to assist local participating retirement systems in meeting their future pension obligations. The PRIT Fund merged with the Massachusetts State Teachers' and Employees' Retirement System (MASTERS) Trust on January 1, 1997, in accordance with Chapter 315 of the Acts of 1996. As of January 1, 2001, the assets of the PRIT Fund totaled $30.3 billion.

PRIM's mission is to maximize the return on investment within acceptable limits of risk by broadly diversifying its investment portfolio, capitalizing on economies of scale to achieve cost-effective operations, and providing access to high-quality, innovative investment management firms, all under the management of a professional staff of 15 individuals and nine board members.

PRIM manages the Fund by utilizing investment advisors and management consultants. Wilshire Associates currently serves as the board's overall pension investment advisor. Pathway Capital Management is the current investment advisor for alternative investments (special equities), and the Townsend Group and Morris & Morse Company are the board's advisors for real estate investment.

As of calendar year 2000 there were 15 full-time employees.

Audit Scope, Objectives, and Methodology

The scope of our audit was to review and analyze controls and procedures over the administrative and operating expenses of the following six public retirement boards as well as PRIM, which is charged with the general supervision of the PRIT fund:

- Massachusetts Teachers' Retirement Board
- State Employees' Retirement Board
- Massachusetts Turnpike Authority Retirement Board
- Massachusetts Port Authority Retirement Board
- Massachusetts Water Resources Authority Retirement Board
- Massachusetts Housing Finance Agency Retirement Board

Our audit was conducted in accordance with applicable generally accepted government auditing standards issued by the Comptroller General of the United States and included such procedures and tests considered necessary by the Office of the State Auditor (OSA) to meet these standards.

Our audit objectives consisted of the following:

- Review and analysis of the internal controls over administrative and operating costs.

- Sample testing of various administrative and operating expenditures, including travel, conferences, use of credit cards, and consultants, to determine whether these costs were appropriate, reasonable, and allowable.

- A review of attendance records in comparison with conference attendance records and a determination of whether conferences were paid for by the agency or by consultants.

- A review of compliance with all applicable laws, rules, and regulations for the areas audited.

In order to achieve our audit objectives, we determined how each of the seven agencies are funded and the methods and procedures each agency utilizes to process expenditures. We then obtained listings of all administrative and operating expenditures either through the State Comptroller or the agency's internal system, from which a judgmental sample for testing was selected for fiscal year 2001 or calendar year 2000, whichever was available. Based upon preliminary testing, we determined the extent of additional testing necessary at each agency.

For each agency audited, we also obtained profile data that is presented in this report as supplemental data to compare the size and activity of the agencies being audited (See Appendix).

Our review indicated that, except as noted in the Audit Results section of our report, the boards had adequate internal controls over administrative and operating costs and complied with applicable laws, rules, and regulations for the areas audited.

AUDIT RESULTS

1. Improvements Needed in the Administrative, Operating, and Internal Control Policies and Procedures and Compliance with Certain Applicable Laws, Rules, and Regulations at Boards of Retirement

We reviewed the administrative and operating expense policies and procedures, internal controls, travel policies and procedures, credit card use, and compliance with applicable laws, rules and regulations. We determined that, for the most part, the boards had adequate internal controls and policies and procedures in place and complied with applicable laws, rules, and regulations.

Our review also disclosed, however, that improvements are needed in the following areas:

a. Internal Control Policies and Procedures: MTRB, PRIM, and SRB are required to comply with Chapter 647 of the Acts of 1989, an Act Relative To Improving the Internal Controls Within State Agencies. Chapter 647 defines the minimum level of quality acceptable for internal control systems, the criteria against which internal control systems will be evaluated, and requires that internal control systems are to be clearly documented and readily available for examination. In accordance with Chapter 647, MTRB, PRIM and SRB have documented internal control plans.

However, MTARB, MPARB, MWRARB, and MHFARB, although not subject to Chapter 647, do not have internal control plans. An internal control plan is an essential element in any financial operation that helps identify areas of financial and operational risk that should be addressed in the board's financial and operational policies and procedures. Even though these boards are not subject to Chapter 647, it can be used as a model in assessing risk and developing an internal control plan.

Recommendation: MTARB, MPARB, MWRARB and the MHFARB should develop an internal control plan consistent with the spirit and guidelines established in Chapter 647. Moreover, Public Employee Retirement Administration Commission (PERAC) should likewise consider requiring each board to develop an internal control plan, consistent with the spirit of the law and the State Comptroller's implementation guidelines.

b. Credit Card Usage: Our review disclosed that MTRB utilized corporate credit cards and that there were no policies and procedures governing the use of such credit cards. The Executive Director cancelled the corporate American Express account in February 2001. (See Audit Result No. 3 for further information on MTRB's use of corporate credit cards.)

c. Travel Policies and Procedures: Our review disclosed that the MTARB, MWRARB and PRIM had developed written travel policies and procedures and during the course of our audit, the MTRB implemented official travel policies on May 24, 2001. (See Audit Result Nos. 2 and 3.) The other Boards either follow their agency's policies or indicated that an informal policy is followed.

Each Board should have written policies and procedures for in-state travel and out-of-state travel that are appropriate for fulfilling the Board's mission. These policies and procedures should include but not be limited to the travel authorization and arrangement procedures, credit card usage if applicable, transportation, meals and lodging allowances, documentation of expenses, authorization for third party reimbursement for travel or other expenses and a statement that personal expenses are not allowable and not authorized as reimbursable.

We found that the MHFARB follows the MHFA travel policies. Our testing found two undocumented expenditures at MHFARB for conferences totaling $2,170. Both of these expenditures were incurred and paid in 1998, one for $1,390 and a second for $780 and were approved for payment in calendar year 1998 by the Board. In 2000, the accountant discovered during a reconciliation procedure that the expenditures had not been recorded in the disbursement journal and therefore recorded the payments therein.

In reviewing travel expenses at the MTRB we were told that prior to implementing their own travel policies in May 24, 2001, they generally followed the state travel rules included in the Rules Governing Paid Leave and Other Benefits referred to as the "Red Book" which is issued by the Personnel Administrator in accordance with MGL, Chapter 7, Section 28.

Our review of travel expenses further indicated that the amounts expended on travel by retirement boards varies greatly. As indicated in this report, the Executive Director of the MTRB, by virtue of being a member and officer of other related associations, travels more frequently. The Executive Director of the MTRB indicated that his Board was aware of his travel and was supportive of his involvement and active participation in organizations such as the National Council on Teachers' Retirement (NCTR), the National Pre-Retirement Education Association (NPEA), the Conference of Large Public Pension Plans and the Coalition to Preserve Retirement Security (CPRS). The CPRS is involved with keeping governmental retirement systems outside of the Social Security System. This issue is important to all public retirement systems including the SRB which has not been involved in this effort. Also, the Executive Director is actively involved in these organizations and as such his duties required extensive travel. For example, the Executive Director was the President-Elect and is currently the President of the NCTR and for the past 4 years he has been the National Chairman of the CPRS. There is no statewide policy pertaining to public retirement board travel and involvement in various organizations. The absence of statewide criteria makes it difficult to assess what is reasonable and necessary travel. Each retirement board acting independently determines what travel is allowed.

Recommendation: MPARB, MHFARB, and SRB should develop comprehensive written travel policies and procedures that include travel authorization and arrangement procedures, credit card usage if applicable, transportation, meals and lodging allowances, documentation of expenses, authorization for related organization membership and reimbursement for travel or other expenses, and a statement that personal expenses are not allowable, authorized and will not be reimbursed. Further, a statewide policy should be developed by PERAC to coordinate efforts on retirement issues that affect all public retirement board systems. A statewide policy would serve to maximize the state's involvement and potential impact on a statewide or national issue, would prevent duplication of effort, and would more evenly allocate expenses to all of the boards involved.

d. Board Membership: The Board of Directors for each public retirement agency is the primary organizational body that that is responsible for ensuring the agency meets its operational objectives in an effective and efficient manner. Board members normally perform a variety of key functions, including overseeing the overall operations of the agency, setting policies and procedures to ensure that agency objectives are met, and hiring the agency's top executive.

Our review indicated that three of the seven agencies had vacancies on their boards during our audit period. Specifically:

- The MTRB had a vacancy in August 2000 due to the death of a board member which was filled on November 20, 2000.
- The PRIM Board had a vacancy in April 1998 that wasn't filled until May 18, 2001.
- The MTARB has had a vacancy on its board since November 1996. Although the MTARB has reviewed seven candidates it has been unable to agree on a person to appoint as the fifth member. The fifth member is to be appointed by the four sitting members and the votes taken to date have resulted in ties. There is no provision in the retirement law, Chapter 32 that would prevent or break a tie in the selection of the fifth board member.

Recommendation: Since the individual retirement boards are responsible for overseeing the functions and mission of their system, it is important that all board vacancies are filled in a timely manner. Legislation should be introduced amending Chapter 32, MGL that prevents a tie vote and breaks a tie vote in order to resolve a position being vacant for an indefinite period of time.

2. Improvements Needed at MTRB Regarding Internal Controls and Procedures over Administrative and Operating Expenditures

Our review disclosed that improvements were needed regarding MTRB's internal controls over the expenditure of funds for operating and administrative expenses. Specifically, our review of administrative and operating expenditures and internal controls indicated that:

- MTRB's internal control plan was incomplete and not fully documented,
- Some of the payment documents tested did not have adequate supporting documentation,
- Authorization for transactions was not always documented,
- Access to resources was not adequately controlled and safeguarded, and
- Internal control risk assessments were not conducted to identify inherent risks in the structure;
- Some expenditures were misclassified.

The deficiencies identified during our review were the result of MTRB's not instituting a comprehensive internal control plan as required by the Office of the State Comptroller (OSC). Although MTRB did have an internal control policy, which was established July 1, 2000, the plan did not contain the level of detail needed for adequate internal controls. For example, MTRB did not have a documented organization-wide comprehensive plan of controls supported by detailed policies and procedures that would communicate responsibilities and expectations for subordinate staff within the organization. Moreover, MTRB’s internal control plan did not address the identification and analysis of risks or express clear lines of authorization and approval for the purchase of goods and services and the payment thereof; outline supervisory personnel and responsibilities for processing or classifying transactions, or establish maintenance and accountability for equipment furniture and fixture inventories. In addition, MTRB's internal control plan was not supported with a set of written subsidiary policies and procedures outlining particular control activities, policies, and procedures for use by staff at lower levels of responsibility.

The OSC's Memorandum No. 2001-28, Departmental Internal Control Plan, states the following:

> A departmental internal control plan is a high level summarization, on a department-wide basis, of the department’s risks (as a result of a risk assessment) and of the controls used by the department to mitigate those risks. This high level summary must be supported by lower level detail, i.e. departmental policies and procedures. We would expect this summary to be from ten to fifty pages, depending on the size and complexity of the department.

Contrary to the OSC’s guidelines, MTRB did not establish an adequate internal control plan covering all the criteria and concepts appropriate for its operations, the proper accountability for funds and property, and compliance with the laws and regulations of the Commonwealth. Although MTRB’s organizational structure and budgeting process are different from other entities within the Commonwealth, the OSC requires that fundamental policies, practices, and procedures be incorporated into an overall internal control structure. Organizationally, MTRB is managed by an Executive Director who reports to a seven-member board that, while an entity within the Executive Office of Administration and Finance (EOAF), is not subject to its control. Its operations are funded by income derived from retirement investments, rather than from state appropriations, and its funds are invested and managed not by MTRB but by the Pension Reserves Investment Management (PRIM) Board, which holds the funds in trust. The OSC’s Internal Control Guide for Departments has included standards that are based on Chapter 647 of the Acts of 1989 and other basic key concepts that are a necessary part of an effective internal control system, regardless of the organizational or funding structure of an entity.

For our review of expenditure transactions, we sampled payment vouchers (PVs) for fiscal years 2000 and 2001 through April 14, 2001 representing at least 10% of the total number processed for each object code category. For fiscal year 2000 we selected 143 PVs for a total of $589,129 out of a total 1,117 PVs representing $4,021,044 in expenditures for the year. For fiscal year 2001 we selected 127 PVs for a total of $480,056 out of a total 914 PVs representing $3,054,579 in expenditures for the audit period. The selection was based on both dollar value and type of expenditure in order to test a cross section of expenditures that would readily indicate how administrative and operating costs are incurred and processed for payment. In addition, we reviewed all American Express invoices because of allegations concerning the misuse of corporate credit cards at the MTRB. As discussed below, our audit disclosed the lack of adequate expenditure policies, procedures, and guidelines, misclassified expenditures, and certain inadequately and undocumented expenses.

a. Lack of Adequate Expenditures, Policies, Procedures and Guidelines: The MTRB did not have written policies, procedures, or guidelines regarding the nature, extent, classification and allowability of certain MTRB expenditures. As a result, certain expenditures we tested may not be directly related to the operation or administrative activities of the board. For example, our test of fiscal year 2000 and 2001 expenses disclosed that the MTRB incurred sales tax and meals tax totaling $177, telephone late charges totaling $110, and other miscellaneous expenses such as pizza for staff and sympathy flowers totaling $146. The sales tax, meals tax, and telephone late charges were paid in error, and MTRB officials agreed that the expenses should not be paid from MTRB funds. The flowers were purchased following a death in the family of a board member and were sent as a gesture of goodwill, and the pizza was purchased quarterly to promote employee morale. The Executive Director stated that this practice was a positive management tool at a minimal cost. There is no policy pertaining to the use of MTRB funds for the purchase of these types of items.

MTRB does not have a policy for cellular phone use, but MTRB officials told us that there is a need for cellular phones to conduct business. Our review of 3-months cellular phone invoices totaling $1,264 for 4 phones did not disclose any non-business use of those phones.

b. Misclassification of Expenditures in MTRB and OSC Records: The OSC Expenditure Classification Handbook classifies all expenditure types that agencies use when submitting PVs for payment. The particular expenditure covered by a PV must be classified according to specific object codes designated by OSC as described in the Expenditure Classification Handbook. During our examination of PVs for both fiscal years, we found 85 PVs representing $481,943 in expenditures that were misclassified, representing 45% of the sample tested. For example, we found that a $5,582 computer was coded as a B01 expenditure, which is the out-of-state travel classification. In another instance we found that part-time employees (retired teachers) were charged to the Contracted Student Interns account, object code C05. MTRB staff indicated that there was no code for these particular expense classifications. The majority of misclassifications occurred in the E01 category - Office and Administrative Supplies - where 97% of the items tested were miscoded. Large expenditure items such as computer equipment and software supplies were coded to this category when they should have been coded as K01, which is Information Technology (IT) equipment. Our testing indicated the following expenditure classifications to be incorrectly coded:

Fiscal Year 2000

B01	Out-of-state travel	$ 8,488
B02	In-state travel	1,965
C05	Contracted student interns	1,469
E01	Office and administrative supplies	251,025
E06	Postage	42,988
E08	Telephone Service	16,316
		$322,251

Fiscal Year 2001 through February 14, 2001

B02	In-state travel	$ 294
B10	Exigent job-related expenses	196
C05	Contracted student interns	3,785
E01	Office and administrative supplies	155,414
		$159,689

In the foregoing analysis, the expenditures classified as E01 - Office and Administrative Supplies in fiscal years 2000 and 2001 totaled $406,439. Of that total amount, we found $134,591 or (33%) should have been classified as Information Technology Equipment K01. Also, in the case of the contracted student intern classification there was $5,254 charged to this classification for part time employees (Retired Teachers). The reason these employees were charged to this classification was because the system did not have a classification for these employees that would allow hourly wages to be paid without fringe benefits being deducted.

MTRB officials stated that the OSC requires PVs to be coded in order to pay bills and that the OSC has never complained about their coding methodology. Furthermore, they stated that the particular codes are not relevant to MTRB because they are not used in their internal budgeting, accounting, or reporting processes for expenditures. They added that in their opinion, they should not be cited in this area because the OSC has never pressed for correct coding and, since MTRB's funding is derived from teachers' retirement investment income rather than a legislative appropriation, their system on MMARS does not have the standard subsidiary account numbers ascribed to their accounts, and as a result, expenditure classification may not have the same significance as that of other agencies. However, as a result of these misclassifications, various expenditures for MTRB were inaccurately reported on the Massachusetts Management Accounting and Recording System (MMARS) and do not reflect those reported by MTRB in financial statements or budgets. Nevertheless, since MTRB is using the MMARS system, it is required to comply with the OSC's policies, procedures, rules, regulations and laws. The OSC is the official recordkeeper of the Commonwealth and therefore all expenditures must be classified and summarized in accordance with the Expenditure Classification Handbook promulgated by the Comptroller. Even if funds are appropriated as "00" subsidiary (no particular subsidiary classifications for budgetary purposes), when the funds are expended they should be classified and summarized properly so that the OSC's records and the financial reports and statements of the Commonwealth are useful, meaningful, and accurate. Also, if MTRB is not classifying and summarizing its expenditures in a consistent manner for each fiscal year, it does not have complete and accurate data for use as a management tool to base its budget each year, or to provide a consistent year end accounting.

c. Inadequately Documented and Undocumented Expenses: Our test of expenditures revealed that MTRB had not adequately instituted internal control procedures over travel expenses and the purchase, receipt, or safeguarding of goods and services, including an inventory of equipment, furniture and fixtures. Specifically, we found that documentation supporting some expenditures was not sufficient to indicate that purchases and travel expenditures were properly authorized, properly executed, or actually received, or that utilization of the assets purchased was properly monitored and safeguarded. Our tests revealed the following:

- MTRB did not have a travel policy covering reimbursement for travel related expenses incurred by board and staff members during the course of business. However, we noted that a policy was being developed while we were on-site. Our review of travel reimbursement payments revealed that MTRB did not maintain adequate control over payments for travel related expenses. In general, we found that there was a lack of authorization and/or pre-approval provided in advance of travel trips or conferences, as well as a lack of documentation supporting the travel expenses incurred by MTRB staff.

  We reviewed a sample of 31 PVs totaling $27,791 for travel related expenses covering fiscal years 2000 and 2001. The PVs covered reimbursements to board and staff members primarily for business-related mileage attributable to privately-owned automobiles, parking fees, tolls, meals and gratuities. For the most part, other types of transportation, such as airfare and expenses for lodging, were paid with American Express credit cards. The results of our review of 31 PVs are provided below:

  - 10 of the 31 travel payments or 32% totaling $4,387 did not have sufficient supporting documentation including receipts for travel related expenditures and detail for trips taken such as business purpose, origin or locations of travel. For example, we reviewed a memo requesting travel reimbursement from MTRB's Director of Client Services that listed 5 cities with various travel dates. However, the business purpose and places where travel originated were not documented on the request.

  - In two instances travel reimbursement was requested via e-mail without supporting documentation indicating business purpose or locations traveled.

  - Two requests included reimbursement for photos totaling $49 without sufficient documentation.

  - Two requests were submitted and in some cases paid with prior year funds, which is not in compliance with the Comptroller's policies and procedures. One request for $666 was submitted for reimbursement on September 27, 2000, which was for travel expenses incurred in May and June. These expenses were submitted 4 to 5 months late and were paid with prior year funds. Another request was submitted on December 4, 2000 for travel expenses incurred from May to November. Some of these expenses were submitted as late as 7 months and paid with prior year funds.

MTRB officials stated that compliance with the new travel policy approved May 24, 2001 by the Board would be enforced. We reviewed MTRB's new travel policy, which requires the following including pre-approvals:

> A Travel Authorization Form must be completed on behalf of all MTRB staff before incurring air travel, car rental, or overnight accommodation expenses. With the exception of meetings conducted by the National Council on Teacher Retirement (NCTR), the Board must pre-approve by vote all out-of-state travel by board members. Board members should present a brief report to the board at the next meeting after the travel was completed.
>
> The respective Unit Manager must pre-approve all in-state staff travel that requires overnight accommodations. The Executive Director must pre-approve all out-of-state staff travel. The Chairman of the Board must pre-approve all out-of-state travel by the Executive Director.
>
> The Director of Administrative Services must receive a copy of the approved Travel Authorization Form before arranging airline, auto rental, or hotel reservations for business travel.
>
> The original signed Travel Authorization Form must be submitted to the Chief Financial Officer for proper filing of travel expense documentation.
>
> Staff members may be required to give a report to the board at the next board meeting following authorized travel.

The new travel policy requires that expense reports be submitted by board and staff members within 60 days after the month of travel and be properly approved after incurring any business travel. Original receipts must be submitted for all expenses including travel, lodging, meals and other travel-related expenses. No reimbursement will be made for undocumented business expenses over $10. The Chief Financial Officer must approve expenses reports for payment.

The above policy is a significant improvement and should be sufficient; however, we recommend that the full board review and approve all pre-approved travel for the Executive Director by the Chairman. In addition, MTRB should require that expense reports be submitted within 30 days rather than 60 days to allow for proper verification and ensure that expenses are accounted for in a timely manner, especially in light of fiscal year end accountability.

- Computers and other IT equipment costing $71,786 were not properly documented in MTRB’s fixed asset inventory. Our testing could not identify the equipment on the PV to the MTRB inventory listing because the computer inventory listing that MTRB officials provided to us was incomplete. Specifically, the listing did not include all the computers that MTRB had purchased during our audit period and did not include a value for the computers. Also, none of the computers that we inspected had an MTRB identification tag affixed. Furthermore, MTRB did not have an inventory listing of other computer equipment such as printers or monitors or of its other fixed assets such as furniture and equipment. MTRB officials agreed that their fixed asset inventory needed to be brought up to date. Based on our review, MTRB could not demonstrate the value of all of its fixed assets or the whereabouts of some of these assets. For furniture such as office chairs and modular units that were part of the sample and for which there was inadequate documentation to indicate that they were received, we were able to physically identify these items, although there were no inventory tags.

- For the most part, we found that quotes or bids for equipment purchases were being solicited; however, we found two instances in which only two bids were sought for each purchase, and in another instance, we found that bids were not obtained. Moreover, some large purchases from vendors may not have been obtained at the lowest price through a Request For Proposals (RFP) or through a Commonwealth “blanket” contract that has gone through the RFP process. The particular invoice we questioned covers a project for $5,865. MTRB officials stated that in some cases there were not suitable vendors from which to solicit bids, and that the one vendor which MTRB engages to do large projects involving processing and mailing is one with whom they have always had a very positive experience. According to MTRB officials, MTRB does not always solicit bids, but gives the projects to this vendor, whom they indicated is a “minority-owned” vendor.

As a result of MTRB’s inadequate control over its expenditures, travel documentation, procurement practices, and inventory controls, it could not be demonstrated that all funds were appropriately expended and that assets were properly safeguarded from the risk of being lost or stolen.

MTRB officials stated that, although internal controls were not always completely documented, control activities were informally exercised, (e.g., verbal authorization for purchases was provided by the Executive Director), that purchases of goods and services are verified for receipt prior to payment, and that packing slips are reviewed for completeness and filed. Nevertheless, because of the lack of documentation, MTRB could not substantiate the adequacy of its internal controls. These officials further stated that, for the most part, the board does not authorize individual purchases. The CFO added that, theoretically, the board approves purchases via the annual budget, which is prepared for each fiscal year. However, the board does not review or approve monthly expenditures. Such theoretical approval does not qualify or meet the standards set by the State Comptroller in compliance with Chapter 647. Chapter 647 requires that "all transactions and other significant events are to be promptly recorded, clearly documented and properly classified. Documentation of a transaction or event should include the entire process or life cycle of the transaction or event, including (1) the initiation or authorization of the transaction or event, (2) all aspects of the transaction while in process and (3) the final classification in summary records."

Recommendation: The MTRB should:

- Establish and implement effective organization-wide internal controls and operating policies and procedures to ensure that all expenditures are properly documented, allowable, and classified in accordance with OSC policies.

- Work with the State Comptroller to establish object codes to accommodate the classification of unique situations, such as part time retired teacher employees.

- Communicate the internal control plan, policies and procedures, management and staff responsibilities to all employees within the organization.

- Continue to implement and use its new travel policy to ensure that:

  a. The Executive Director pre-approves all out-of-state staff travel.

  b. All staff travel arrangements are made through the MTRB's Director of Administrative Services.

  c. Personal travel charges will not be reimbursed.

  d. Reimbursement for travel expenses will only be made after submitting an Expense Report and all receipts to the Chief Financial Officer.

  e. Original receipts are submitted for all expenses including travel, lodging, meals and other travel related expenses.

  f. Expense reports detailing travel expenses are completed by board and staff members and are properly approved.

- Adjust its new travel policy to require that the board pre-approve all travel for the Executive Director and board members and that expense reports be submitted within 30 days rather than 60 days. Although the board feels that some of the questioned expenses were justified, it should institute policies and procedures that ensure only the documented and justified business portion of these expenses is paid.

- Develop expenditure policies, procedures and guidelines that define the type of expenditures that are reasonable, allowable and reimbursable.

- Develop a cellular telephone use policy that includes the approval of cell phone use in order to ensure business usage and reimbursement.

3. Inadequate Internal Controls over the Use of Corporate Credit Cards at MTRB

Our audit disclosed that $53.92 in personal expenses and $60.70 due to an underpayment in accounting for funds to the Board should be reimbursed to the board, and that $1,742.34 in expenses need further explanation and documentation to substantiate the specific business purpose for the expense. MTRB had no written regulations, policies, procedures, or internal controls governing the use of these cards by the Executive Director and senior staff. As a result, MTRB's Executive Director used the credit card for personal expenses and in some cases was reimbursed for these expenses. Also, the Executive Director submitted two reports to the Board to account for personal expenses totaling $6,362.95 that were reimbursed by the Board from January of 1995 to April 30, 2001. In his report, the Executive Director also accounted for offsetting business-related expenses totaling $3,349.68 that he never submitted for reimbursement.

MTRB authorized the use of American Express corporate cards in January 1995 for the Executive Director and sometime later for the senior staff, including the Deputy Director, General Counsel, Chief Financial Officer, and Director of Client Services, for a total of five corporate credit cards (credit cards were not distributed to board members as was originally planned.) From January 1995 through March 2001, the period during which the corporate cards were in use, the total amount expended was $208,353.49. We reviewed the trips that the Executive Director made on behalf of the MTRB in calendar year 1999 and calendar year 2000.

When asked whether any of the organizations he belonged to subsidized travel charges he incurred, the Executive Director stated that this was common practice and that the board was fully aware of it. This is especially true when the Executive Director is an officer of other related organizations. He further indicated that the travel must serve a legitimate public, business purpose that benefits MTRB and that the organization making the payment must be a non-profit entity.

On February 23, 2001, the Executive Director of MTRB submitted a special report to the board pertaining to travel expenses and his use of a corporate credit card for calendar years 1999 and 2000 (In his report, the Executive Director indicated that he would prepare a similar report dating back to January 1, 1995.) This report was the result of allegations that the Executive Director engaged in excessive spending, some of which was for personal items and family member expenses. In his report, the Executive Director provided a listing of credit card charges and a reconciliation of his personal expenses, business-related expenses and unsubmitted business-related travel expenses covering calendar years 1999 and 2000. He further provided explanations to certain allegations and/or inferences that appeared in newspaper articles, including the charges for personal expenses on his corporate card. On this issue, he indicated in his report the following:

> I nevertheless must acknowledge to you and to myself that I made a serious mistake in the management of my personal travel expense reporting. In addition to the expenses charged directly to the American Express card, in the normal course of business I am entitled to reimbursement for a number of other out-of-pocket expenses (i.e. meals, taxi fares, gratuities, and mileage). Since we obtained the American Express card, with one exception in early 1995, I have not filed a request for any other travel reimbursement.
>
> Knowing that these eligible, but unsubmitted travel reimbursements represented hundreds of dollars, I periodically used the American Express card for personal expenses. I always anticipated that any personal expense would be covered by the eligible reimbursements and that we would produce a complete reconciliation at some point. In order to do so, I maintained detailed receipts for nearly every expense. I never intended to allow the personal expenses to exceed those funds to which I was rightfully entitled.

In the report, the Executive Director calculated the amount he owed to MTRB from his use of the corporate card for personal expenses. His calculation indicated that for calendar years 1999 and 2000, he had personal expenses of $4,766.16. From this amount he deducted $2,165.48 of what he considered to be eligible business expense items that he had not submitted for reimbursement. For the two calendar years, the Executive Director calculated that he owed $2,600.68 for personal expenses. He further indicated that he had already submitted payments totaling $884, and that an additional payment of $1,716.68 would be provided. Further, he indicated that if additional amounts were found after a final accounting, he would reimburse these amounts. The Executive Director made payments of $894 on February 13, 2001 and $1,716.68 on February 26, 2001, which was $10 more than what his report indicated. Both of these payments were deposited by MTRB as an expenditure refund on March 2, 2001.

On May 10, 2001, the Executive Director provided us with his second report to document reimbursable but previously unsubmitted business-related expenses and to ensure that any outstanding non-business related personal expenses, credit card charges, be fully reimbursed. The report covered the period from January 1995 through April 2001, when the final credit card invoice was paid. In the report the Executive Director documents for the 7-year period personal expenses of $1,596.79 that were charged to the credit card and were paid by the MTRB, as well as business related expenses of $1,184.20 that he had not submitted to the Board for reimbursement, resulting in the Executive Director owing the MTRB a net amount of $412.59. The Executive Director then calculated interest on the gross amount he owed at a rate equal to the rate of investment income that was earned by the PRIT fund for each full year through calendar year 2000. His interest calculations were based on 14.9% for 1998, 23.2% for 1999 and a (1.2%) for calendar year 2000. He added the total interest for three-years of $504.50 to the net payment of $412.59 for a total owed to MTRB of $917.09. Based upon these calculations, the Executive Director submitted a check on May 10, 2001 in the amount of $917.09 to the MTRB as full payment for personal expenses charged on his corporate card. This check was deposited on June 13, 2001 as an expenditure refund.

We reviewed 100% of the detail for charges on the Executive Director's corporate credit card covering the period January 1998 through March 2001 when the cards were discontinued. We reviewed the Executive Director's credit card charges, including the American Express invoices and the expense reports and supporting documentation, as well as the special reports to the Board dated February 23, 2001 and May 10, 2001 to account for and address allegations regarding improper use of the credit card for personal expenses charged to the MTRB. Our review disclosed that the Executive Director charged the credit card for travel expenses to attend meetings and conferences, business-related expenses and personal expenses. For the most part, the travel and business-related expenses were supported by an expense report that categorized expenses as airfare, hotel, meals, etc., and included supporting credit card slips, hotel bills, airfare tickets, restaurant receipts, etc. However, in some cases the documentation was not adequate to support the charges. Our review of the Executive Director's credit card charges and uses disclosed the following:

- On the December 1999 credit card statement there was a restaurant charge for $580.27 which included a tip for $96. The Executive Director had a notation on the bill to "assume 25% as personal to cover the bar bill." The 25% ($145.06) was deducted as a personal expense in the Executive Directors February 23, 2001 report to the Board. There was no documentation indicating the business purpose of the meal or who was at the meeting. The Executive Director indicated that the dinner was for a year-end appreciation dinner for members of the MTRB management staff and there were no guests.

- The Executive Director's special report to the Board dated February 23, 2001 identified miscellaneous expenses of $4,450.45 that did not have detail as to what the expenditure was for or why it was included on the MTRB credit card. We reviewed expenses categorized by the Executive Director as miscellaneous for calendar years 1999 and 2000 in his report to the Board.

Our review of the items listed as miscellaneous disclosed that $3,168.27 was for a business related purpose and adequately documented. However, $1,307.13 may not be business related, as there are no MTRB guidelines as to the allowability of these expenses. Also, $755 of expenditures did not have supporting documentation. The expenses are as follows:

Description	Adequately Documented	No Supporting Documentation	Total
Quarterly employee lunches, working lunches with staff and consultants, appreciation lunches with staff, etc.	$ 397.63	$ 93.15	$490.78
Get well wishes and sympathy condolences, flowers for staff and board members	154.50	289.25	443.75
Internet Subscription	-	199.60	199.60
Staff Parking	-	23.00	23.00
NCTR Fee	-	150.00	150.00
	$552.13	$755.00	$1,307.13

- We found $21,972.67 in charges on the Executive Director’s corporate credit card that were attributable to 17 staff members' expenses. In addition to the Executive Director, four staff members had their own MTRB corporate credit cards. We determined that $7,687.27 in staff member charges on the Executive Director's card were for these four staff members. These charges are categorized in the following table:

Details	Amount
Air Travel and Related Travel Fees	$ 5,843.14
Conference Costs	425.00
Hotel Charges	358.86
Various Food Charges	65.27
Tuition Costs	995.00
Total	$7,687.27

The charges to the Executive Director's corporate credit card were for the four staff members who had their own MTRB credit cards for business-related expenses. However, the charging of these expenses on the Executive Director's credit card confuses the intended purpose of having individual corporate credit cards as stated in the February 23, 2001 report that the credit card account was opened to facilitate the arrangement and execution of approved Board and staff travel, to establish a comprehensive and accurate record of such activity and to minimize the need for significant Board and staff reimbursement.

- Our analysis of documentation supporting the Executive Director's credit card expenditures for calendar years 1999, 2000 and 2001 indicated that an additional $53.92 were for charges that were personal and were not listed as personal expenses in his two reports to the Board.

- We also reviewed the Executive Director's analysis of "Eligible Reimbursements - Not Submitted" on his two special reports which totaled $3,349.68. He developed this information from internal expense reports that he maintains, detailing expenses less the amounts reimbursed and, if applicable, a balance due to him. Our analysis indicated that:

a. There is no MTRB policy or guidelines indicating what are reasonable and allowable expenses for reimbursement on which to base an assessment and no policy setting a reasonable time period for submission of expenses for reimbursement. Thus there is no criteria upon which to determine if these expenses should be allowable for reimbursement by the MTRB. The Executive Director indicated that the "Red Book" is used for reimbursement criteria.

b. There is no documentation indicating either a request by the Executive Director or an approval from the Board to allow for submission of reimbursed expenses to be used to offset personal expenses included on the MTRB corporate credit card.

c. There is no pre-approval process for expenses.

d. The report presented to the board for calendar year 2000 contained a mathematical error in which the Executive Director underpaid the Board $60.70.

The Executive Director's February 23, 2001 report to the board provided a detailed analysis of every charge made to his American Express corporate card from January 1999 through December 2000. To verify the charges delineated in this analysis, specifically as they apply to travel, we reviewed and compared them against copies of all American Express bills, all expense reports submitted by the Executive Director, and all of the Executive Director's Calendar Log/Day Minders maintained by him and/or his executive assistant, for the same period. Our review of his analysis and relevant supporting documentation indicates the following with regard to the 55 trips taken by the Executive Director during calendar years 1999 and 2000:

- Eight instances in which a normally expected expense for meals was not included in expenses for travel. MTRB did not have supporting documentation to determine the true cost of the travel, raising the possibility that costs were paid for by related associations for which the Executive Director is a member/officer.

- Five instances in which a normally expected expense for airline tickets was not included in expenses for travel. MTRB did not have supporting documentation to determine the cost of the travel.

- Six instances in which a normally expected expense for lodging was not included in expenses for travel. MTRB did not have supporting documentation to determine the cost of the travel.

- Six instances in which AMEX charges and the Daily Log notations did not agree. MTRB did not have supporting documentation to verify when travel took place.

- Instances in which more than one person was registered at lodging paid for by MTRB, but the individuals could not be identified to determine whether duplicate expenses were made.

The above analysis indicates that there were instances where food, airline tickets, and lodging charges were not included as expenses as part of the trip, thus raising questions regarding these expenses. At the time of these expenses, the Board did not have a policy regarding the payment of expenses for conferences, meetings, etc., by related organizations. The Board's new travel policy outlines under what circumstances this type of reimbursement is allowable, and the Chairman of the Board makes the determinations regarding third-party reimbursements involving the Executive Director. The new policy is as follows:

(11) Authorization for Third-Party Reimbursement of Travel or Other Expenses

> MTRB employees may accept and participate in travel and events for which private sources may pay part or all of the costs. The Executive Director must make a determination that the travel or event serves a legitimate public purpose and that the benefit to MTRB of the employee's participation in the travel or event outweighs any special non-work related benefit to the employee or the private sponsor. The Executive Director must determine whether the proposed travel or event serves a legitimate purpose, which is not outweighed by any actual or apparent special benefit to the public employee or private sponsor, or any actual or apparent conflict of interest. In those instances where a third-party reimbursement involves expenses of the Executive Director, the determinations required above shall be made by the Chairman of the Board.

In February 2001, the Executive Director cancelled the corporate American Express Account.

Recommendation: The MTRB should:

- Continue to implement and use its new travel policy to ensure that:
  a. Personal credit card charges will not be reimbursed.
  b. Credit charges will only be reimbursed after submitting expense reports and all relevant receipts to the Chief Financial Officer.
  c. The Chairman of the Board pre-approve all out-of-state travel by the Executive Director.
  d. That travel expense reports are submitted on a timely basis.
- Adjust the new travel policy to require pre-approval by the Board for travel by the Executive Director and Board Members.
- Adjust the new travel policy for those instances where there is third party reimbursement for the Executive Director requiring pre-approval of the expenses by the Chairman of the Board and subsequently by the Board.
- The Board should determine whether it needs a policy regarding offsetting business expenses versus personal expenses.

- The Board should review the $1,742.34 in expenses that need further explanation and documentation and determine if the expenses are allowable business related expenses. Any amounts that are determined not to be business related should be reimbursed to the Board.

- The Executive Director should reimburse the MTRB $114.62; $53.92 for charges that were personal and not listed as personal in his report to the Board and $60.70 for the underpayment as a result of a mathematical error in his accounting for funds to the Board.

APPENDIX

Retirement Board Profile

	MPARB	MWRA	MHFA	SBR	MTA	MTRB	PRIM
Board Members							
Authorized	5	5	5	5	5	7	9
Filled	5	3	5	5	4	7	9
Minutes of Board Meeting Maintained	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Annual Expenditures							
Period (Calendar Year/Fiscal Year)	FY 2000	CY 2000	CY 2000	FY 2000	FY 2000	FY 2000	FY 2000
Expenditures	$1,072,500	$1,126,227	$642,627	$2,297,753	$242,225	$4,021,044	$2,229,931
Systems Membership							
Active Employees	1,177	1,501	303	87,118	1,404	82,242	Not Applicable
Inactive Employees	67	140	47	43,915	110	10,052	Not Applicable
Retired Employees	302	94	55	44,065	595	31,746	Not Applicable
Number of Collection Locations	1	1	1	1	1	415	Not Applicable
System Investments	$277,643,201	$124,530,431	$43,289,627	$14,385,683,843	$188,891,543	$14,920,610,206	$30,300,000,000
Agency Staffing							
Full-Time Positions	4	3	1	34	3	57	15
Part-Time Poistions	1	1	1	0	0	16	0
High Annual Salary	$72,015	$82,087	$94,999	$79,000	$82,000	$107,823	$149,350
Low Annual Salary	$37,412	$47,369	N/A	$34,000	$40,000	$23,467	$36,050
Agency Responsibilities							
Retirement Withholdings	Yes	Yes	Yes	Yes	Yes	Yes	Not Applicable
Enrollment	Yes	Yes	Yes	Yes	Yes	Yes	Not Applicable
Benefit Determination	Yes	Yes	Yes	Yes	Yes	Yes	Not Applicable
Pension Payment	Yes	Yes	Yes	Yes	Yes	Yes	Not Applicable
Fund Investment	Yes	Yes	Yes	No	Yes	No	Yes

Legend:
- MPARB = Massachusetts Port Authority Retirement Board
- MWRA = Massachusetts Water Resources Authority Retirement Board
- MHFA = Massachusetts Housing Finance Agency Retirement Board
- SBR = State Employees' Retirement Board
- MTA = Massachusetts Turnpike Authority Retirement Board
- MTRB = Massachusetts Teachers' Retirement Board
- PRIM = Pension Reserve Investment Management Board