



Commonwealth of Massachusetts
Office of the State Auditor
Suzanne M. Bump

Making government work better

Official Audit Report – Issued January 5, 2017

Secretary of the Commonwealth

For the period July 1, 2013 through June 30, 2015





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Making government work better

January 5, 2017

The Honorable William F. Galvin, Secretary of the Commonwealth
McCormack Building, 17th Floor
One Ashburton Place
Boston, MA 02108

Dear Secretary Galvin:

I am pleased to provide this performance audit of the Secretary of the Commonwealth. This report details the audit objectives, scope, methodology, findings, and recommendations for the audit period, July 1, 2013 through June 30, 2015. My audit staff discussed the contents of this report with management of the agency, whose comments are reflected in this report.

I would also like to express my appreciation to the Secretary of the Commonwealth for the cooperation and assistance provided to my staff during the audit.

Sincerely,

A handwritten signature in blue ink, appearing to read "SMBump".

Suzanne M. Bump
Auditor of the Commonwealth

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LIST OF ABBREVIATIONS

ASD	Administrative Services Division
GAAP	generally accepted accounting principles
ICP	internal control plan
ICQ	Internal Control Questionnaire
MMARS	Massachusetts Management Accounting and Reporting System
OSA	Office of the State Auditor
OSC	Office of the State Comptroller
OSD	Operational Services Division
ROD	Registry of Deeds
SOC	Secretary of the Commonwealth

EXECUTIVE SUMMARY

The Secretary of the Commonwealth (SOC), an elected constitutional officer of the Commonwealth, was established in 1780 and is the principal public information officer for the state government, with direct control over 15 divisions.

In accordance with Section 12 of Chapter 11 of the Massachusetts General Laws, the Office of the State Auditor has conducted an audit of certain activities of SOC for the period July 1, 2013 through June 30, 2015. The purpose of our audit was to review certain of SOC's operations to determine whether it had established adequate internal controls and complied with applicable laws, rules, and regulations for the areas reviewed.

Below is a summary of our findings and recommendations, with links to each page listed.

Finding 1 Page <u>7</u>	The Massachusetts Archives Division has not properly identified and classified works of art, historical treasures, and other assets; performed annual inventories; entered complete information in its inventory records; or recorded assets in the Massachusetts Management Accounting and Reporting System (MMARS).
Recommendations Page <u>9</u>	<ol style="list-style-type: none">1. SOC should establish and implement the controls necessary to ensure that its Archives Division performs an annual physical inventory of all its works of art, historical treasures, and similar assets, the results of which are reconciled to its inventory records; that all capital assets are properly identified and accounted for; that any such assets acquired or donated after July 1, 2001 are recorded in MMARS regardless of cost; and that inventory records include dates of acquisition or donation and historical costs or appraised values.2. SOC and Archives Division management should implement procedures to comply with the Office of the State Comptroller's (OSC's) Fixed Assets—Acquisition Policy; ensure that staff members are properly trained on OSC's capital-asset requirements; and, if necessary, seek guidance from OSC.3. In addition to the security cameras outside the vault area, management should consider installing surveillance cameras in the vaults to reduce the risk of historical items being misplaced, lost, or stolen.

Finding 2 Page 12	The six Registries of Deeds (RODs) we visited did not always properly segregate the duties of employees who processed cash transactions. Further, SOC did not perform monthly reconciliations of the ROD revenue it recorded in MMARS.
Recommendations Page 13	<ol style="list-style-type: none">1. SOC should work with RODs to develop and implement detailed policies related to recording, reconciling, depositing, and reporting all revenue received. The policies should clearly detail lines of responsibilities and independent supervision to ensure that there is adequate segregation of duties among employees who collect, record, deposit, report, and reconcile revenue.2. SOC should work with RODs to ensure that ROD supervisors review, document, and approve the daily revenue reconciliations and deposit slips to ensure the accuracy of all revenue collected before the daily bank deposits.3. SOC should strengthen its internal control plan (ICP) to include policies that require all revenue information recorded in MMARS by its Administrative Services Division to be reviewed and reconciled.
Finding 3 Page 15	The six RODs we reviewed did not perform annual inventories or record all required inventory information, but SOC reported to OSC in 2014 and 2015 that annual physical inventories had been performed.
Recommendations Page 17	<ol style="list-style-type: none">1. SOC should ensure that RODs perform, review, and document annual physical inventories and reconciliations of fixed assets against their accounting records.2. SOC should provide more oversight and guidance to RODs regarding fixed-asset management and inventory controls, including written policies and procedures, and summarize the policies in its ICP.3. SOC should adhere to OSC's requirements for accurately reporting information about its annual physical inventory on the Internal Control Questionnaires it submits to OSC.

Post-Audit Action

SOC management stated that they had secured the services of an independent accounting firm to conduct an audit of the inventory process at the Archives Division. The firm will review policies and procedures, review existing internal controls over inventory, test inventory, and provide recommendations.

OVERVIEW OF AUDITED ENTITY

The Secretary of the Commonwealth (SOC) operates under the authority of Chapter 9 of the Massachusetts General Laws and various statutes related to corporations, securities, and elections. SOC is the principal public information office for state government and is organized into 15 major divisions: the Executive Office, the Elections Division, the Corporations Division, the Securities Division, the Massachusetts Historical Commission, the Public Records Division, the Massachusetts Archives Division, the State Records Center, the Commonwealth Museum, the Citizen Information Service, the State Publications and Regulations Division, the State House Tours and Government Education Division, the Administrative Services Division, the Lobbyist Division, and the Registry of Deeds Division. This last division has oversight responsibility for 13 Registries of Deeds that are formally administered by counties that have been abolished by the Commonwealth, as discussed in Appendix A. A description of each division is provided in Appendix A. Total appropriations for SOC operations in fiscal years 2014 and 2015 were \$36,317,457 and \$45,159,861, respectively, as shown in Appendix B.

AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY

In accordance with Section 12 of Chapter 11 of the Massachusetts General Laws, the Office of the State Auditor (OSA) has conducted a performance audit of selected financial activities, functions, and related internal control systems of the Secretary of the Commonwealth (SOC) for the period July 1, 2013 to June 30, 2015.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Below is a list of our audit objectives, indicating each question we intended our audit to answer; the conclusion we reached regarding each objective; and, if applicable, where each objective is discussed in the audit findings.

Objective	Conclusion
1. Did the Corporations Division have a process in place to collect revenue for annual filing fees, and did it segregate duties related to the collection of revenue?	Yes
2. Does the Massachusetts Archives Division have adequate internal controls in place to account for, and properly safeguard, historical treasures under its care?	No; see Finding 1
3. Are there adequate internal controls in place over the handling of revenue and the administration and safeguarding of capital fixed assets by Registries of Deeds (RODs)?	No; see Findings 2 and 3

To achieve our objectives, we gained an understanding of the internal controls we deemed significant to our audit objectives and evaluated the design and effectiveness of those controls. We determined that internal controls over the following areas were relevant to our audit objectives: proper recording of annual filing fees for corporations, limited liability corporations, limited partnerships, and trusts; and controls over the collection, monitoring, and recording of fees at selected RODs.

In addition, we performed the following audit procedures:

- We reviewed prior audit reports and various SOC internal documents, including its current internal control plan, risk assessments, organizational charts, financial statements, personnel policy and procedure manual, and various documents supporting the operations of its divisions.
- We interviewed SOC’s director of Operations, chief financial officer, first deputy, and registers of deeds; the executive director of the Archives Division; and other staff members to gain an understanding of the current operations and associated risks. We reviewed relevant documents, statutes, and regulations as well as SOC’s policies, procedures, and accounting records.
- We performed an analysis of the Corporations Division’s annual revenue from filing fees for the audit period and reviewed internal documents, as well as documents from the state’s Massachusetts Management Accounting and Reporting System (MMARS), that supported the revenue. Through observation and query, we gained an understanding of SOC’s Cashier’s Office process in place to collect, reconcile, approve, deposit, and record revenue. We inspected locked cash drawers and the Cashier’s Office safe where cash and checks were stored before being picked up and deposited in the bank.
- We judgmentally selected 6 of the 13 RODs under SOC’s jurisdiction to conduct risk assessments and assess the control environments for daily fee collections, revenue reconciliations, and bank deposits. We also selected four months of daily bank deposit receipts from our audit period to determine whether ROD supervisors reviewed, and signed off on, the daily revenue reconciliations and cash deposit slips. We examined a total of 451 deposit slips from the audit period.
- We obtained fixed-asset inventory records at the six RODs tested during our audit. We used audit command language software to randomly select 320 items from 6,695 items on the fixed-asset lists to determine whether the items could be located and whether they were in service. Further, we selected an additional 39 items from the lists that were assigned high dollar values and confirmed that these items existed and were at the locations indicated on the lists. Last, we selected 46 items from their locations and traced them back to the inventory lists to ensure that they were on the lists.
- We reviewed the fiscal year 2014 and 2015 Internal Control Questionnaires (ICQs)¹ and selected questions pertaining to capital-asset inventory (generally accepted accounting principles [GAAP] and non-GAAP), and accordingly, we selected the following ICQ question: “Does the department take an annual physical inventory of tangible and intangible capital assets, including additions, disposals, and assets no longer in service?”
- At the Archives Division, we inspected locked vaults and observed the employees who were responsible for the safekeeping of documents and artifacts while they were examined by the

1. Each year, the Office of the State Comptroller issues a memorandum (Fiscal Year Update) to internal control officers, single audit liaisons, and chief fiscal officers instructing departments to complete an ICQ designed to provide an indication of the effectiveness of the Commonwealth’s internal controls. In the Representations section of the questionnaire, the department head, chief fiscal officer, and internal control officer confirm that the information entered on the questionnaire is accurate and approved.

public. We also obtained the inventory system of records for all historical treasures, artifacts, and agency documents.

- We obtained a copy of the Archives Division inventory record dated August 26, 2015. From the 4,091 items on the inventory record, we selected a random, nonstatistical sample of 60 items to determine whether the documents existed. In addition, we selected 8 items from the floor and traced them back to the inventory list to determine whether they were on the list.

Our samples were judgmentally selected; therefore, we did not project the sample results to the total population. We used judgmental samples because we believed that that method was a better way to assess the relative significance of various items and to evaluate the relative risks that some of these items might not comply with existing regulations.

To assess the reliability of data, we performed a data-reliability assessment of the ACS 20/20 and BROWntech point-of-sale application systems at RODs. The testing we performed on these applications included a review of SOC's system access controls over programs, data files, and program changes. We determined that the data were sufficiently reliable for the purposes of our report.

Based on OSA's most recent data-reliability assessment of MMARS² and our current comparison of source documentation with MMARS information, we determined that the information obtained from MMARS for our audit period was also sufficiently reliable for the purposes of our audit work.

2. In 2014, OSA performed a data-reliability assessment of MMARS. As part of this assessment, we tested general information-technology controls for system design and effectiveness. We tested for accessibility of programs and data, as well as system change management policies and procedures for applications, configurations, jobs, and infrastructure.

DETAILED AUDIT FINDINGS WITH AUDITEE'S RESPONSE

1. The Secretary of the Commonwealth's Archives Division needs to improve its controls over the identification, inventory, and security of works of art and historical treasures.

The Massachusetts Archives Division within the office of the Secretary of the Commonwealth (SOC) did not properly identify, and classify as capital assets, works of art, historical treasures, and similar assets it acquired; perform annual physical inventories of these assets; enter required information (e.g., acquisition or donation dates, detailed descriptions, and costs or appraised values) for any of these assets in its own inventory records; or record the assets in the Massachusetts Management Accounting and Reporting System (MMARS).

In addition, the physical security measures in the Archives Division's vaults, where these assets are typically stored, could be improved. Specifically, there were no surveillance cameras to monitor and record activity inside the vaults. Although public access to these areas is limited (the public can only access these vaults with authorized Archives Division personnel on prearranged visits), it is still important to have security controls over high-risk areas like these to reduce the opportunity of theft or misuse of these assets by employees or others who have access to these areas.

As a result of these issues, these capital assets are at a higher risk of loss, theft, or misuse and may not be properly accounted for in MMARS.

Authoritative Guidance

The joint Office of the State Comptroller (OSC) and Operational Services Division (OSD) Fixed Assets—Accounting and Management Policy dated November 1, 2006 states,

*There shall be an **annual inventory** taken of fixed assets owned by every Department. This inventory shall include, at a minimum, a verification of the existence and location of fixed assets owned by a Department. This inventory shall be done on or about June 30th of each year for GAAP [generally accepted accounting principles] and non-GAAP assets.*

OSC's Fixed Assets—Acquisition Policy dated November 1, 2006 requires that the following GAAP fixed assets be recorded in MMARS:³

All works of art and historical treasures, regardless of cost, acquired or donated to a department after July 1, 2001. The cost at which it is entered is either the historical acquisition cost or the appraised value at date of donation. . . .

There shall be a reconciliation of the fixed asset inventory against the books and records maintained by the Department, either on the Fixed Asset Subsystem [in the Commonwealth's accounting system] or other documented methods. This reconciliation is to be done, at a minimum, on an annual basis. . . .

This inventory can be either electronic or on paper, as long as it records the date of purchase, amount, description, location and disposition of an item. Non-GAAP Fixed Assets Inventory are subject to review in the audit process by the State Auditor's Office or the Commonwealth's independent auditors.

In addition, generally accepted business practices include appropriate physical security controls to properly monitor areas considered to be high risk.

Reasons for Noncompliance

The Archives Division did not have detailed procedures for its staff to follow that adhered to OSC's Fixed Assets—Acquisition Policy. Also, according to Archives Division management, there were insufficient resources to perform an annual physical inventory. The Archives Division's recordkeeping system does not capture key information such as acquisition dates, donation dates, historical costs, or appraised values as required by OSC guidelines. In addition, through our interviews, we determined that both the SOC and Archives Division management were unaware of the Fixed Assets—Acquisition Policy requiring annual inventories and of the descriptive information that was needed in the accounting records.

Regarding the lack of security cameras in the vault area, management considered its existing controls, including limiting access to the vault area to authorized staff members and using combination-locked doors to access the vaults, sufficient to reduce the risk of unauthorized access and of items being lost, stolen, or misplaced.

3. According to OSC officials, this requirement was implemented as a result of requirements established by the Governmental Accounting Standards Board, the independent private-sector organization that establishes accounting and financial reporting standards for US state and local governments that follow GAAP.

Recommendations

1. SOC should establish and implement the controls necessary to ensure that its Archives Division performs an annual physical inventory of all its works of art, historical treasures, and similar assets, the results of which are reconciled to its inventory records; that all capital assets are properly identified and accounted for; that any such assets acquired or donated after July 1, 2001 are recorded in MMARS regardless of cost; and that inventory records include dates of acquisition or donation and historical costs or appraised values.
2. SOC and Archives Division management should implement procedures to comply with OSC's Fixed Assets—Acquisition Policy; ensure that staff members are properly trained on OSC's capital-asset requirements; and, if necessary, seek guidance from OSC.
3. In addition to the security cameras outside the vault area, management should consider installing surveillance cameras in the vaults to reduce the risk of historical items being misplaced, lost, or stolen.

Auditee's Response

The . . . report conclusions are based on faulty analysis predicated on a fundamental misunderstanding of Archival standards, principles and best practices. The Massachusetts Archives maintains adequate controls in the management of its collections and provides the following detailed responses to findings contained in the . . . report. . . .

Public records collections held by the Archives are not tangible assets that can be capitalized. They are permanent, non-current, records of state administration, the transfer of which occurs only after their administrative use ceases. The organization and content of the records is not altered by the Archives once we become the custodial agent. If the authoritative guidance (OSC and OSD Fixed Assets Accounting and Management Policy) mandates such a practice, we would respectfully inquire as to why this inclusion is not conducted prior to their transfer to the Archives by the agencies responsible for their creation and functional management, and why such an oversight on the part of the agencies has not been corrected.

The fixed assets within our building are accounted as a separate activity with a fixed asset software tracking system. . . .

The collections of the Massachusetts Archives are organic (i.e. they grow in accordance with the activities of their creators) and cataloged on an aggregate level using series-level description. Detailed and frequently updated documentation (both in analog and electronic form) attends them at all points from approval for transfer by the Records Conservation Board to accession, custodial care and management, and public access. A singular, annual inventory ignores the variable nature and construct of our holdings, and would be an ineffective method of oversight.

Beyond the well-established professional precedent for an approach such as we employ, an annual inventory as suggested by the . . . Report would be enormously prohibitive from the perspective of both time and expense. . . .

The charge that we do not record acquisition dates and detailed descriptions into our internal inventory system is patently false. Auditors were provided with copious documentation in this

regard (shelf-list inventory, cataloging records, finding aids, transfer/de-accession forms, box/folder lists, summary descriptions, request/use forms, etc.).

Appraised commercial valuation is not sought or recorded. The collections of the Massachusetts Archives are public records without a definable legal market value. They are by definition irreplaceable public documents and artifacts, and, as the Commonwealth is self-insured, appraisal serves no replacement compensation benefit. . . .

The MMARS is an accounting management system designed to support the financial functions of the Commonwealth. It is not a collections management system, and is not designed to be employed as such. . . .

There are security cameras in place to monitor access and egress activity to each vault. Based on consultation with security specialists it was determined that, given the obstructed lines of sight and [blind] spots resultant from shelving configuration necessary to accommodate collections, the number of cameras required to provide adequate surveillance within the vaults rendered such an approach impractical. Recording all entry and exit traffic to vault storage areas was determined to be the more effective safeguard.

The Archives management and staff continually consider methods to better safeguard collections. The placement of additional cameras within interior spaces of the vaults, while identified as a less effective approach by specialists with whom we have consulted, would do no harm in our view, and could be installed as an additional safeguard.

Auditor's Reply

Our audit findings and related conclusions are based on applicable inventory requirements established by both OSC and OSD that apply to the operation of SOC's Archives Division; our audit testing, which was performed in accordance with generally accepted government auditing standards; and our discussions with OSC and SOC staff. We do not dispute SOC's assertion that most public-record collections held at the Archives are not capital assets that need to be recorded in MMARS. Similarly, we do not take exception with the Archives Division's method of cataloging on an aggregate level using series-level descriptions; we acknowledge that this method is commonly applied to large collections. Rather, our audit focused on the inventorying of, and proper accounting for, historically and culturally significant items in the Archives Division's possession, such as treaties signed by Native Americans, coins, paintings, historical maps, and silverware dating back to pre-Revolutionary times. These assets could be designated as works of art or historical treasures and therefore are viewed by OSC as capital assets that should be recorded in MMARS, regardless of cost, at their historical acquisition costs or appraised values at the time of donation, if they were received after July 1, 2001.

An annual inventory of fixed assets is the most commonly accepted method of ensuring that assets are properly safeguarded and accounted for and that any missing items are detected in a timely manner. This is one of the primary reasons OSC requires annual fixed-asset inventories for all state agencies. We found that annual inventories were an internal control practice implemented by other museums and other state archives across the country. Although SOC contends that an annual inventory would be cost- and time-prohibitive, it is required by OSC policy.

Regarding SOC's statement that acquisition dates and detailed descriptions are maintained in the Archives Division's inventory system, again, we do not take exception to the division's use of series-level descriptions. Our concern is that potential works of art and historical treasures have not been clearly identified as such in the division's inventory system. Further, although we acknowledge that the Archives Division identifies and catalogs collection groups by provenance, division management could not provide us with any documentation of donation or acquisition dates for any of its assets that might be considered historical treasures or works of art. Without this information, we could not determine whether the Archives Division received any potential works of art or historical treasures after July 1, 2001 that should have been recorded in the MMARS Fixed Asset Subsystem in compliance with OSC's fixed-asset policy.

Similarly, according to OSC's Fixed Assets—Acquisition Policy, appraised commercial values should be sought for any historical items received after July 1, 2001. Accordingly, to comply with OSC's policy, the Archives Division needs to assign values to such assets. It should be noted that in the past, the Archives Division has sought appraised values for items that were acquired or donated before July 1, 2001, when these items were either sent to an outside vendor for preservation work or loaned to another institution for display purposes.

Based on its response, the Archives Division is considering taking additional measures to address the safeguarding and monitoring concerns discussed in this finding. It is further recommended that SOC seek additional guidance from OSC in order to ensure compliance with OSC policy.

2. The Registries of Deeds need to improve segregation of duties of employees who process cash transactions, and SOC did not reconcile revenue to MMARS.

The six Registries of Deeds (RODs) we visited did not always properly segregate the duties of employees who processed cash transactions. For example, at three RODs, we observed instances where the same person collected, recorded, deposited, reported, and reconciled daily cash revenue. At the other three RODs, although we did not observe such instances, management told us that they sometimes happened. Without proper segregation of duties, including an independent review before a deposit is made, there is an increased risk that not all revenue will be properly recorded, deposited, and reported.

Further, SOC did not perform monthly reconciliations of the ROD revenue it recorded in MMARS. Without reconciliations in MMARS, revenue could be recorded in the wrong period and/or possibly to the wrong ROD's revenue account without the error being detected.

Each ROD sometimes had one employee who performed the daily reconciliations of the amount of revenue/cash received and the amount deposited in the bank; deposited the cash in the bank; and compiled daily revenue and reported it to SOC's Administrative Services Division (ASD). These employees also sometimes collected fees from customers. Also, the supervisors responsible for monitoring the revenue process did not consistently document that they had reviewed and approved the reconciliations and deposits before the funds were deposited in the bank. Our audit test of 451 deposit slips showed that only 24 had supervisor signatures indicating that the deposit and the revenue reconciliation were accurate and complete. Finally, the internal controls SOC had established for the RODs were not sufficient to ensure that all collected funds had been deposited; they require a monthly bank-statement reconciliation performed by someone who is not responsible for daily bank deposits, but they do not require this to happen until the funds are already deposited, which does not allow any errors or other irregularities to be detected or prevented in a timely manner.

If the same person collects revenue, records the amount collected, deposits the money, and verifies that the records are accurate, any mishandling of revenue can go undetected.

In addition, RODs report revenue amounts monthly to ASD, which then records them in MMARS, but reconciliations were not performed to ensure that ASD had properly recorded the amounts.

Authoritative Guidance

OSC's Internal Control Guide addresses the segregation of duties. The current version states,

Management should divide or segregate key duties and responsibilities among different people to reduce the risk of error, misuse, or fraud. This includes separating the responsibilities for:

- *authorizing transactions,*
- *processing and recording them,*
- *reviewing the transactions, and*
- *handling any related assets or process so that no one individual controls all key aspects of a transaction or event.*

With regard to supervisory approval, the guide requires "approving work at critical points to ensure that work flows as intended."

It further states,

The purpose of periodic comparison/reconciliation is to verify that the processing or recording of transactions is valid, properly authorized and recorded on a timely basis. Integral parts of the reconciliation process include identifying and investigating discrepancies from established standards, and taking corrective action when necessary.

Reasons for Noncompliance

SOC's internal control plan (ICP) does not provide sufficient guidance for RODs regarding segregating duties related to the collection and processing of revenue. It also does not provide adequate instructions for ROD supervisors to properly monitor and approve daily revenue reconciliations and deposit slips. In addition, SOC's operating procedures do not ensure that ROD revenue it enters in MMARS is reconciled.

ROD policies and procedures did not clearly assign oversight responsibilities and independent verification of the cash process before the daily deposits of revenue. RODs have not developed detailed written policies requiring adequate segregation of duties related to revenue reconciliations and deposits. Also, there were no policies in place requiring supervisors to review revenue reconciliations and then sign off on deposit slips before making revenue deposits at the bank.

Recommendations

1. SOC should work with RODs to develop and implement detailed policies related to recording, reconciling, depositing, and reporting all revenue received. The policies should clearly detail lines of

responsibilities and independent supervision to ensure that there is adequate segregation of duties among employees who collect, record, deposit, report, and reconcile revenue.

2. SOC should work with RODs to ensure that ROD supervisors review, document, and approve the daily revenue reconciliations and deposit slips to ensure the accuracy of all revenue collected before the daily bank deposits.
3. SOC should strengthen its ICP to include policies that require all revenue information recorded in MMARS by ASD to be reviewed and reconciled.

Auditee's Response

The RODs, in accordance with the requirements of the [SOC] Internal Control Plan, have in place adequate and effective revenue collection procedures that provide for clear lines of duties, responsibilities and authority, as well as supervisory oversight and the segregation of duties.

Actual revenue collection procedures may vary slightly among Registries, however, clerks handle processing of daily transactions and collections, a head clerk reviews and reconciles the daily collection activity, which includes checks, electronic fund transfers and cash. Cash is deposited by the head clerk or accounting officer depending on the Registry. A bank deposit receipt is maintained to verify and document the deposit. All checks are deposited on-site through the [online] bank application, while electronic deposits are routed directly to the bank. Importantly, a separate supervisor validates all deposits by daily collection activity report collections through reconciliation with the bank. The accounting supervisor prepares and submits revenue reports to the [SOC] utilizing these reports. We do acknowledge that head clerks or other supervisory personnel may temporarily fill in for other employees, but because of the overall internal controls that are in place, there is no adverse impact.

An integral part of the revenue collection internal control environment is the automated, point-of-sale computer applications that are utilized. These applications help ensure the validity, completeness and accuracy of all transactions, generating daily collection activity reports for every clerk, summaries of all revenue collected and the appropriate distribution of fees. These reports are utilized for accountability, reporting and managerial oversight, and again, are an important component of our internal controls. It should be noted that [earlier in the report] you opined in your data-reliability assessment of these applications that they are sufficiently reliable.

Relative to your recommendation . . . that two individuals sign the deposit slip, the recommendation has been implemented. However, we do believe that adequate controls are presently in place to insure that cash deposits are accurate and deposited. Automated, daily activity reports provide cash collection totals which are reviewed, reconciled and approved by a supervisor for accuracy and validity. Cash deposit receipts are kept on file and independent bank reconciliations confirm all cash deposits.

It is worthy to note that the audit team did not find any errors in cash deposits at the RODs audited. It is also relevant to emphasize that of the \$303,524,162 in revenue collected by all 13 RODs in Fiscal Year 2016, cash collected represented approximately two tenths of one percent of total collections.

Concerning your finding that the [SOC] does not reconcile revenue to MMARS, we do not concur in that system reliability and internal and external oversight are adequate control mechanisms. There is a high level of confidence in the revenue collection data submitted by all RODs and in MMARS. . . . All ROD revenue receipt deposits and distributions are prepared by the [SOC] Revenue Supervisor and approved by the [SOC] Chief Financial Officer. Further, all Department of Revenue [DOR] deposits are validated by DOR utilizing ROD collection and distribution reports they receive. Finally, annual Office of the State Auditor audits, Determination of Whether Net State Revenues Exceeded Allowable State Tax Revenues, have included on-site audits of [SOC]/ROD revenue collection controls. Your audits have confirmed the reliability of our revenue collection and reporting activities.

Auditor's Reply

Notwithstanding SOC's understanding of the procedures that RODs should be following, for the RODs we visited, we determined that daily revenue review and reconciliation activities were not always carried out as described in SOC's ICP and its response. Specifically, in three instances we observed that reconciliations were not performed by "an individual not responsible for bank deposit activity," as SOC's ICP requires, or by someone who was not responsible for receiving cash. Further, ROD management for the other three RODs we visited acknowledged to us that these duties were not always segregated.

Additionally, even though SOC told us that individual RODs reviewed revenue amounts they had entered in MMARS, the RODs we visited stated that they did not perform these reviews and had not been told to do so. Monthly reconciliations assist in keeping track of transactions and noting errors that can easily occur. By not performing such reconciliations, SOC cannot be sure that ROD revenue it enters in MMARS is properly classified and correctly allocated to appropriate RODs.

Based on its response, we believe that SOC is taking appropriate measures to address the issues we identified regarding ROD supervisory review, documentation, and approval of daily revenue reconciliation and deposit slips.

3. RODs did not properly maintain, reconcile, and perform annual inventories of fixed assets.

The six RODs we reviewed during our audit did not perform annual inventories of their fixed assets or record all required information for those assets in their inventory records. Also, SOC's Internal Control Questionnaires (ICQs) for fiscal years 2014 and 2015 inaccurately reported that annual physical inventories were conducted. Without properly maintaining, performing, and reconciling annual physical inventories of their fixed assets, RODs cannot ensure that these assets are properly safeguarded against

loss, theft, and misuse. Further, inaccurate information on the ICQ prevents OSC from effectively assessing the adequacy of SOC's internal control system for the purpose of financial reporting.

Although 13 of the RODs were placed under SOC's authority between July 1, 1997 and November 16, 1999 (Appendix A), an inventory of RODs' fixed assets did not occur until fiscal year 2015. That inventory list did not meet OSC requirements, however, since our review of the list of 6,695 items found they did not document the asset acquisition dates and that, although the list indicated approximate values of items, it did not indicate their historical costs. Also, RODs did not have fixed-asset registers generated from their historical accounting records to compare the items identified in the project to their accounting records and determine whether all purchased assets were properly accounted for in their inventory records.

Finally, in the Capital Assets Inventory section of OSC's fiscal year 2014 and 2015 ICQs, departments were asked, "Does the Department take an annual physical inventory of tangible and/or intangible capital assets including additions, disposals and assets no longer in service?" On its ICQs, SOC answered "yes," but as detailed above, neither SOC nor the RODs visited could provide us with documentation to support this assertion.

Authoritative Guidance

In its Internal Control Guide, OSC requires state agencies, including RODs, to institute controls to "protect [their] equipment, information, documents, and other resources that could be wrongfully used, damaged, or stolen." In addition, OSC's Fixed Assets—Acquisition Policy requires that assets that originally cost \$1,000 or more be recorded in a department's perpetual inventory record, reconciled to the physical inventory at least annually, and included on the inventory list with the following identifiers at a minimum: date of purchase, cost, description, location, and disposal of an inventory item.

In addition, the OSC and OSD Fixed Assets—Accounting and Management Policy requires an annual inventory, as previously mentioned, and adds,

*There shall be a **reconciliation of the fixed asset inventory** against the books and records maintained by the Department, either on the Fixed Asset Subsystem [in the Commonwealth's accounting system] or other documented methods. This reconciliation is to be done, at a minimum, on an annual basis.*

Reasons for Noncompliance

Neither SOC nor the RODs we visited had developed written fixed-asset and inventory-control policies and procedures for staff to follow. Also, SOC lacked supervisory controls to ensure that RODs adhered to OSC inventory requirements.

SOC's ICP did not contain specific policies and procedures to require RODs to properly record and reconcile fixed assets and perform annual physical inventories.

SOC management told us they believed that the inventory project undertaken by the RODs was sufficient to meet OSC's requirement of an annual physical inventory and therefore answered affirmatively about this requirement on the 2014 and 2015 ICQs.

Recommendations

1. SOC should ensure that RODs perform, review, and document annual physical inventories and reconciliations of fixed assets against their accounting records.
2. SOC should provide more oversight and guidance to RODs regarding fixed-asset management and inventory controls, including written policies and procedures, and summarize the policies in its ICP.
3. SOC should adhere to OSC's requirements for accurately reporting information about its annual physical inventory on its ICQs.

Auditee's Response

The [SOC], including all RODs, does have an up to date, accurate inventory and has performed the required annual inventory in 2015, prior to the start of your audit. As you note in this finding, in late 2015, the [SOC] overhauled its inventory records by implementing an automated recording and reporting system to manage all [SOC] and ROD inventory. As a result, and confirmed by an agency-wide physical inventory of all assets, the [SOC], including all RODs, is in compliance with the State Comptroller's requirements, with one exception.

We do concur that there are certain inventory items that do not contain historical cost and acquisition dates. This condition exists due to the fact that the inventory records at RODs at time of the legislatively mandated transfer of these organizations to the [SOC] were incomplete or did not exist. Also purchasing records were not available to reconstruct the inventory.

Auditor's Reply

SOC should ensure that RODs are compliant with OSC's annual inventory guidelines. Specifically, it should ensure that a physical inspection of property and equipment actually took place, that the results were

compared to the detailed property lists, that any differences were investigated and reconciled, or that a physical inventory and reconciliation were reviewed by management.

APPENDIX A

Divisions within the Office of the Secretary of the Commonwealth

1. **Executive Office:** This office includes the Secretary's Office, the Communications Division, and the Legislative Affairs Division. Its staff coordinates the Secretary's schedule and provides various constituent services.
2. **Elections Division:** This division is responsible for administering all state elections and disseminating information on voting, as well as election supplies and materials, to the public, candidates, and government officials.
3. **Corporations Division:** This division maintains records for approximately 335,000 businesses, nonprofit corporations, and limited-liability entities registered to do business in Massachusetts. It also maintains records for trademarks and Uniform Commercial Code filings. Much of the corporate information is accessible to the public through the division's website.
4. **Securities Division:** This division administers and enforces the Massachusetts Uniform Securities Act and licenses people who offer and sell securities or who give investment advice. It reviews documentation related to high-risk stock offerings, investigates complaints, and implements enforcement and disciplinary actions as necessary.
5. **Massachusetts Historical Commission:** This commission oversees the Commonwealth's historical and archaeological resources. It administers state and federal preservation programs, including historical-preservation planning; reviews compliance; provides grant assistance; and conducts public-information activities.
6. **Public Records Division:** This division is responsible for maintaining and preserving government records and making them accessible. It also enforces disclosure laws and records all gubernatorial appointments and commissions.
7. **Massachusetts Archives Division:** This division ensures the preservation of historical treasures and the protection and accessibility of government records created by Massachusetts government entities.
8. **State Records Center:** This center provides record storage and retrieval services to state agencies.
9. **Commonwealth Museum:** This museum, located in the Archives Division, provides information on the Commonwealth's history through a series of permanent and traveling exhibits, outreach programs, and publications.
10. **Citizen Information Service:** This service gives citizens information related to state government, licenses, taxes, and various consumer issues through its toll-free information and referral service.
11. **State Publications and Regulations Division:** This division consists of the State Bookstore and the Regulations Division, which publishes state regulations, session laws, and bid notices of public contracts in the Central Register and the Goods and Services Bulletin.
12. **State House Tours and Government Education Division:** This division provides an architectural/historical tour, a legislative process tour, and brochures explaining State House history and the passage of legislation.

13. **Administrative Services Division:** This division includes the Secretary of the Commonwealth (SOC) Budget Office, Human Resources, Legal Counsel, and the Information Technology Division. It supports SOC's programs and services.
14. **Lobbyist Division:** This division administers the oversight and enforcement of lobbyist registration and disclosure reporting. Lobbyists are required to register with the division and fully disclose all information required by the Massachusetts Lobbying Law (Sections 39–50 of Chapter 3 of the Massachusetts General Laws).
15. **Registry of Deeds Division:** Thirteen of the 21 Registries of Deeds (RODs) in the Commonwealth are managed by SOC under Section 567 of Chapter 151 of the Acts of 1996; Chapter 48 of the Acts of 1997; Chapter 300 of the Acts of 1998; and Section 53 of Chapter 127 of the Acts of 1999, which abolished certain county governments and transferred the functions and employees of their RODs to SOC. The transfer dates are as follows:

Transfer Date	ROD
July 1, 1997	Franklin
July 11, 1997	Middlesex North
July 11, 1997	Middlesex South
July 1, 1998	Worcester North
July 1, 1998	Worcester South
July 1, 1998	Hampden
September 1, 1998	Hampshire
July 1, 1999	Essex North
July 1, 1999	Essex South
July 1, 1999	Suffolk
November 16, 1999	Berkshire North
November 16, 1999	Berkshire South
November 16, 1999	Berkshire Middle

SOC is required to prescribe uniform operating procedures for the registries and to determine their budgets. The ROD for each county maintains a permanent public record of all legal documents related to real estate, such as deeds, mortgages, and certificates of title. The following table details the gross revenue collected by RODs and their corresponding expenditures for fiscal years 2014 and 2015.

	2014		2015	
	Revenue	Expenses	Revenue	Expenses
Middlesex South	\$ 48,830,284	\$ 3,065,011	\$ 49,898,353	\$ 3,181,899
Suffolk	31,188,182	1,738,734	33,004,705	1,829,942
Essex South	18,860,127	2,755,717	20,402,008	2,842,295
Worcester South	18,513,547	2,151,308	19,009,803	2,217,609

	2014		2015	
	Revenue	Expenses	Revenue	Expenses
Hampden	9,160,235	1,677,022	9,396,751	1,766,930
Middlesex North	8,955,204	1,099,913	9,280,699	1,157,006
Essex North	5,294,649	1,058,206	5,618,462	1,190,716
Hampshire	3,658,556	463,739	3,532,170	495,172
Worcester North	2,465,484	662,368	2,515,097	686,480
Berkshire Middle	2,305,758	416,556	2,278,718	454,788
Franklin	1,632,110	590,635	1,715,458	632,332
Berkshire North	1,035,924	249,289	924,405	270,525
Berkshire South	700,232	204,955	628,449	226,618
Total	<u>\$152,600,292</u>	<u>\$16,133,453</u>	<u>\$158,205,078</u>	<u>\$16,952,312</u>

APPENDIX B

Appropriations for the Secretary of the Commonwealth

Account Name	Appropriation Code	Fiscal Year 2014 Budget	Fiscal Year 2015 Budget
Maintenance Appropriation			
Administration	0511-0000	\$ 5,970,365	\$ 6,214,549
State House Bookstore	0511-0001	15,000	15,000
Corporate Dissolution	0511-0002	353,076	353,076
Archives	0511-0200	360,196	365,557
State Records Center	0511-0230	35,000	35,660
Archives Facility	0511-0250	296,521	302,452
Commonwealth Museum	0511-0260	233,708	237,495
US Census Data	0511-0270	400,000	400,000
Address Confidentiality Program	0511-0420	130,000	133,301
Printing	0517-0000	500,000	504,505
Elections	0521-0000	5,380,914	9,881,600
Central Voter Registry	0521-0001	4,988,076	6,844,392
Information to Voters	0524-0000	563,729	1,926,006
Massachusetts Historical Commission	0526-0100	800,000	916,000
Ballot Law Commission	0527-0100	10,385	10,385
Records Conservation Board	0528-0100	34,056	35,092
Total Maintenance Appropriation		<u>\$20,071,026</u>	<u>\$28,175,070</u>
Registry of Deeds			
Essex North	0540-0900	\$ 1,064,925	\$ 1,200,574
Essex South	0540-1000	2,759,881	2,832,481
Franklin	0540-1100	599,768	634,275
Hampden	0540-1200	1,685,809	1,767,667
Hampshire	0540-1300	471,423	499,137
Middlesex North	0540-1400	1,118,352	1,154,842
Middlesex South	0540-1500	3,083,726	3,181,625
Berkshire North	0540-1600	253,679	271,216
Berkshire Middle	0540-1700	423,283	461,138
Berkshire South	0540-1800	213,546	230,681
Suffolk	0540-1900	1,742,713	1,833,536
Worcester North	0540-2000	667,845	684,523
Worcester	0540-2100	2,161,481	2,233,096
Total Registries of Deeds		<u>\$16,246,431</u>	<u>\$16,984,791</u>
Total Appropriations		<u>\$36,317,457</u>	<u>\$45,159,861</u>