



The Commonwealth of Massachusetts

AUDITOR OF THE COMMONWEALTH

ONE ASHBURTON PLACE, ROOM 1819
BOSTON, MASSACHUSETTS 02108

A. JOSEPH DeNUCCI
AUDITOR

TEL. (617) 727-6200

NO. 2008-1052-3S

**INDEPENDENT STATE AUDITOR'S REPORT
ON PAYROLL ACTIVITIES OF THE
OFFICE OF THE INSPECTOR GENERAL
JULY 1, 2006 THROUGH NOVEMBER 30, 2007**

**OFFICIAL AUDIT
REPORT
MARCH 31, 2008**

TABLE OF CONTENTS/EXECUTIVE SUMMARY

INTRODUCTION

1

The Office of the Inspector General (OIG) was established by Chapter 12A of the Massachusetts General Laws in 1981 on the recommendation of the Special Commission on State and County Buildings, a special legislative commission that spent two years probing corruption in the construction of public buildings in Massachusetts.

The Office has a broad mandate to prevent and detect fraud, waste, and abuse in government. Chapter 12A provides the OIG with the power to subpoena records and people for investigations and management reviews, and to investigate both criminal and noncriminal violations of the law. The OIG is organized into five divisions.

We conducted an audit of OIG payroll expenditures for the period July 1, 2006 through November 30, 2007 to determine whether (1) payroll expenditures were properly authorized, paid in a timely manner, complied with rules and regulations, and were appropriately recorded, reconciled, and within budget; (2) the OIG was complying with procedures established in the Office of the State Comptroller's Payroll Policies and Procedures Manual and applicable laws and regulations; and (3) OIG personnel were complying with OIG internal policies and procedures.

Our review determined that, during the period July 1, 2006 through November 30, 2007, the OIG maintained its payroll records according to prescribed requirements and complied with applicable laws, rules, and regulations for those areas reviewed.

INTRODUCTION

Background

The Office of the Inspector General (OIG) was established by Chapter 12A of the Massachusetts General Laws in 1981 on the recommendation of the Special Commission on State and County Buildings, a special legislative commission that spent two years probing corruption in the construction of public buildings in Massachusetts.

The Office has a broad mandate to prevent and detect fraud, waste, and abuse in government. Chapter 12A provides the Office with the power to subpoena records and people for investigations and management reviews, and to investigate both criminal and noncriminal violations of the law. The Office is organized into the following five divisions:

- Legislative and Public Policy
- Management
- Legal Affairs
- Criminal Investigations
- Financial Investigations

The Legislative and Public Policy Division acts as a spokesperson to the press and liaison to the Legislature. The Division also reviews and drafts legislation to address issues identified in reports and investigations, and oversees the review and analysis of legislation and maintenance of the legislative tracking system.

The Management Division conducts reviews of publicly funded projects and programs that pose risks to the public interest; identifies areas of vulnerability to fraud, waste, or abuse; develops recommendations aimed at preventing future problems and promoting cost effective, ethical government operations and transactions; and prepares public reports and letters detailing findings and recommendations.

The Legal Affairs Division advises the Inspector General and staff on legal issues relating to the prevention and detection of fraud, waste, and abuse by state, county, and municipal entities of the Commonwealth. The Division oversees the issuance of subpoenas for documents and witnesses,

the conduct of subpoena hearings, and all legal analyses performed by the OIG. The Legal Affairs Division also coordinates prosecutions with the Attorney General, the U.S. Attorney, or District Attorneys, as appropriate.

The Criminal Investigations Division conducts and coordinates joint criminal investigations with outside law enforcement agencies and prosecutors. The Division also develops, evaluates and conducts individual investigative cases, reviews and complaints.

The Financial Investigations Division develops, evaluates, and conducts reviews and complaints relevant to financial matters to fulfill the Office's mandate to detect fraud, waste, and abuse by all state, county and municipal entities of the Commonwealth.

There is also an Inspector General Council consisting of eight members who meet with the Inspector General at least quarterly to provide consultation or assistance to the Inspector General with respect to the duties and responsibilities of the office.

The Inspector General is appointed for a term of five years by a majority vote of the Governor, Attorney General, and the State Auditor, and no person can be appointed for more than two terms.

The OIG had 36 employees with payroll costs of \$3,283,039 during the audit period.

Commonwealth Personnel/Payroll System

Pursuant to Chapter 7A of the General Laws, the Office of the State Comptroller (OSC) has the responsibility for establishing the Commonwealth's accounting system and has full authority to prescribe the requisite forms and books of account, including the classification and accounting of payroll expenditures. The OSC is authorized to approve any payroll system used in the Commonwealth to ensure that the statewide system is capable of recording, reporting, classifying, summarizing, and transmitting accurate and timely payroll data to the Commonwealth's accounting system, the Massachusetts Management Accounting and Reporting System (MMARS). Additionally, the payroll system approved by the OSC must meet all state and federal financial laws and regulations. The OSC manages the Commonwealth's payroll system, and the Office of the State Treasurer (OST) disburses all deductions and payments.

The Commonwealth's payroll system is the Human Resources Compensation Management System (HR/CMS), which incorporates human resource/personnel and time and attendance information. It is a biweekly payroll system that supports all employees in all branches of government. HR/CMS provides enhanced functionality for state human resources and payroll administrators and ensures conformity to state and federal financial and legal requirements. HR/CMS payroll interfaces biweekly with the Commonwealth's Labor Cost Management System (LCM) for funds availability, editing and labor distribution, and then updates the Commonwealth's accounting system, MMARS.

The HR/CMS system integrates all applicable human resource data and time and attendance information each time payroll and pay calculations are run. HR/CMS has a module that integrates and reports employees' accumulated leave balances.

The OSC has established payroll policies and procedures, and each department is required to develop specific internal controls for its payroll processing. These specific internal controls are a decentralized function that is carried out on an individual department basis with both the executive and non-executive branches. Such decentralized controls include, but are not limited to, the preparation of employee time sheets, segregation of duties, review and approval procedures, new hire/termination procedures, and specific security guidelines that ensure compliance with the OSC's policies and procedures. Furthermore, as specified in the Internal Control Act (Chapter 647 of the Acts of 1989), internal procedures should ensure safeguards, validity, completeness, timeliness, authorization, and accuracy of all information processed through the payroll systems. Departments are responsible for documenting and distributing internal procedures to their staff in order to ensure compliance with these policies within their Department. Furthermore, OSC has developed many reports within HR/CMS that can be accessed through the MMARS Warehouse (a database of accounting information) to assist departments in their preparation and certification of payroll data.

Audit Scope, Objectives, and Methodology

In accordance with Chapter 11, Section 12 of the General Laws, we conducted an audit of the Office of the Inspector General (OIG) payroll expenditures for the period July 1, 2006 through November 30, 2007. The purpose of our audit was to examine the OIG processing of personnel and payroll transactions to determine whether transactions were properly managed, documented, reported and recorded and that the OIG complied with applicable state laws, rules and regulations. Our audit included a review of policies and procedures over the processing of payroll transactions to

determine whether the expenditures for payroll were appropriate, including proper authorizations and records for personnel actions.

Our audit was conducted in accordance with applicable generally accepted government auditing standards and included such tests and procedures as we considered necessary to meet our audit objectives. In order to plan our audit tests, we met with and interviewed OIG officials to obtain and review personnel and payroll policies and procedures.

The objectives of our audit were to (1) ensure that payroll expenditures were a) properly authorized, paid in a timely manner, complied with rules and regulations, and were appropriately recorded, reconciled and within budget; (2) determine whether the OIG was complying with procedures established in the OSC's Payroll Policies and Procedures Manual and applicable laws and regulations; and (3) determine whether OIG personnel were complying with OIG internal policies and procedures.

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

- Interviewed OIG officials and staff to determine the OIG's personnel and payroll policies and procedures;
- Tested transactions for time and attendance, the hiring and termination of staff, salary increases, and overtime and compensatory time, and contract employees;
- Examined timesheets for evidence of time worked, employee and supervisory signatures;
- Reviewed new hire authorization forms for appropriate signatures and rates of pay;
- Confirmed start dates, names, social security numbers and tax withholding information;
- Confirmed deductions for union dues, Medicare, health insurance, deferred compensation and retirement;
- Verified pay increases, termination dates, last payment due, and removal of terminated employees from payroll;
- Verified leave taken was authorized and recorded in cumulative records;
- Verified that overtime and compensatory time were authorized;
- Reviewed the OIG's determination of the value of taxable fringe benefits and traced value to tax reporting records;

- Examined emergency advance account activity.

Our review disclosed that, during the period July 1, 2006 through November 30, 2007, the OIG maintained its payroll records according to the prescribed requirements, and complied with applicable laws, rules, and regulations for those areas reviewed and tested. Specifically, for the items tested, we noted that transactions for time and attendance, hiring of new staff, terminations, salary increases, and overtime and compensatory time were supported by evidence of time worked, were appropriately signed by employees and supervisors, dates appeared to be accurate, deductions were adequately supported and authorized, and leave was accurately recorded for tax reporting purposes. Additionally, the tested contract employee payrolls were appropriately supported and complied with contract terms. Moreover, our tests of the emergency advance account disclosed that the tested activity complied with the OSC's policies and those of the OIG.