



The Commonwealth of Massachusetts

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**INDEPENDENT STATE AUDITOR'S REPORT ON
THE DORCHESTER DIVISION OF THE BOSTON
MUNICIPAL COURT DEPARTMENT'S
COMPLIANCE WITH THE OFFICE OF THE
STATE COMPTROLLER'S YEAR-END CLOSING
INSTRUCTIONS FOR CASH AND REVENUE
MANAGEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

**OFFICIAL AUDIT
REPORT
JANUARY 5, 2009**

INTRODUCTION

Background

As authorized by Chapter 11, Section 12, of the Massachusetts General Laws, the Office of the State Auditor examined the accounting records at certain state agencies for compliance with the Office of the State Comptroller's (OSC) fiscal year (FY) 2008 Closing and FY 2009 Opening Instructions, Section 10, Revenue Management and Cash Receipts. The Dorchester Division of the Boston Municipal Court Department was one of the agencies selected for our review.

Chapter 29, Section 5C, of the Massachusetts General Laws requires the OSC to certify to the Commissioner of Administration, on or before October 31, the amount of the consolidated net surplus in the operating funds at the close of the preceding fiscal year. This report is essential to subsequent year budgeting and planning. To have accurate and timely data for these and other reports, the Commonwealth must close its books properly. Therefore, the Comptroller issues a set of closing and opening instructions to each agency prior to the close of each fiscal year, which ends on June 30.

Section 10 of the FY 2008 Closing and FY 2009 Opening Instructions contains specific procedures for handling cash receipts and reporting state revenue at year-end. To ensure that all revenue and cash are recognized in the proper fiscal year, the OSC requires state agencies to deposit all cash received and on hand through the end of the last business day of the fiscal year (June 30) and enter all revenue data pertaining to these deposits into the Massachusetts Management Accounting and Reporting System (MMARS) by a prescribed date. Agency compliance with these procedures ensures that cash and other revenue received at year-end are promptly and accurately reported in the correct fiscal year.

Audit Scope, Objectives, and Methodology

Our review, which was conducted in accordance with applicable generally accepted government auditing standards, included observation and review procedures to measure agency compliance with Section 10 of the OSC FY 2008 Closing and FY 2009 Opening Instructions.

To accomplish our objectives, we:

- a. Observed and reviewed the processing of cash received during the last week in June and observed whether all cash on hand on June 30 was deposited by noon on July 1st.

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- b. Tested the processing of “as-of” period transactions (cash period established to capture all activity after year end that should be appropriately recorded for the fiscal year closing) by reviewing the following:
- Agency submissions of cash deposits (CD) processed by the Office of the State Treasurer (OST) and advance refunds (AR) and expense refunds (ER) processed by the OSC during the period July 1, 2008 through July 7, 2008 to determine whether these receipts were recorded in the proper fiscal year and supported by proper forms and documentation.
 - OST controls over submissions returned to agencies because of improper input documentation.
 - Post audit adjustments made after July 7, 2008 by the OST and OSC to ensure that receipts were recorded in the proper fiscal year and adequate documentation was submitted by state agencies.
- c. Conducted fiscal year-end observations at the Commonwealth’s authorized lockbox-banking facility for compliance with year-end lockbox cutoff procedures and interviewed Bank of America senior management.
- d. Observed whether the required cash receipts (CR) documents allocating revenue were entered accurately into the MMARS for all cash deposited with the OST.
- e. Identified those departments in our sample that engaged private debt-collection services to recover outstanding debts owed to the Commonwealth to determine whether:
- The Commonwealth’s Debt Collection Services Statewide Contract was used to procure debt collection services, and the collection agencies that were selected by these departments were included on the listing of qualified contractors under contract.
 - All outstanding debts recovered through June 30, 2008 were properly recorded and recognized as fiscal year 2008 revenue as required by the OSC’s closing instructions.
- f. Observed and reviewed the processing of credit card payments (point-of-sale transactions, telephone transactions, and Web-based electronic payments) through June 30, 2008 and determined whether the credit card payments were properly accounted for and recognized as fiscal year 2008 revenue.
- g. Followed up on prior audit issues noted during our fiscal year ended June 30, 2007 review.
- h. Reviewed, where applicable, agency internal control policies and procedures regarding revenue collection and retained revenue accounts to:
- Identify the retained revenue amounts, relevant appropriation numbers, and authorized ceiling limits.
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- Document the last three deposits made to retained revenue accounts prior to June 30, 2008.
- Verify the first three deposits made to retained revenue accounts for fiscal year 2009 and ensure that the check dates and amounts were recorded in the proper fiscal year.

Based on our review, we have concluded that, for the areas tested, the Dorchester Division of the Boston Municipal Court Department (DMC) did not comply with specific procedures for handling cash receipts and reporting state revenue at year-end as set forth in the OSC's FY 2008 Closing and FY 2009 Opening Instructions. Additionally, our audit determined that the DMC needed to strengthen internal controls over revenue to ensure that all cash receipts are deposited on a daily basis, thereby ensuring compliance with governing policies and procedures issued by the OSC and applicable Massachusetts General Laws.

The accompanying Audit Results section summarizes the above matters that came to our attention during our review and is presented as opportunities for strengthening DMC internal controls. Accordingly, our report is intended for use by management in taking corrective action where needed.

AUDIT RESULTS

FISCAL YEAR 2008 REVENUE RECOGNIZED IN FISCAL YEAR 2009 AND IMPROVEMENTS NEEDED IN INTERNAL CONTROLS REGARDING DAILY DEPOSITS

To ensure that all revenues and cash are recognized in the proper fiscal year, the Office of the State Comptroller (OSC) requires state agencies to deposit all cash received and on hand through the end of the last business day of the fiscal year and enter all revenue data pertaining to these deposits into the Massachusetts Management Accounting and Reporting System (MMARS) by a prescribed date. Specifically, the OSC's fiscal year (FY) 2008 Closing and FY 2009 Opening Instructions state, in part:

Cash receipts on hand or on deposit as of June 30, 2008 are FY2008 assets and revenue of the Commonwealth and need to be reflected as such on the annual financial statements.

Final Deposits for June 30th collections must be posted by the bank by noon on Tuesday July 1, 2008. To ensure that all deposits reflected in clearing accounts are properly posted for the FY2008 closing, departments should enter CRs at the same time that the deposits are made for cash received through June 30th.

Our review determined that, contrary to the above-mentioned instructions, the Dorchester Municipal Court (DMC) did not establish and implement special year-end cut-off procedures to ensure that cash receipts were properly deposited, recorded, and reported in the appropriate fiscal year. Our audit disclosed that the DMC did not deposit \$18,554 in cash receipts collected on June 30, 2008 until July 2, 2008, or one day beyond the OSC-established July 1 noon deadline for depositing FY 2008 revenue. Since the DMC's \$18,554 deposit consisted of bail funds¹ totaling \$12,800, only cash receipts collected on behalf of the Commonwealth totaling \$5,754 represented FY 2008 revenue. As a result, \$5,754 in fiscal year 2008 receipts were improperly recorded and reported as fiscal year 2009 revenue. The DMC contracts with Dunbar Security to pick up bank deposits after 11:00 AM three times a week (Monday, Wednesday, and Friday) for delivery to the bank. On June 30, 2008, Dunbar Security picked up and delivered \$10,203 in bank deposits that represented cash receipts collected during the period June 27 through June 30, 2008. However, additional cash receipts collected after the June 30 pick up at 11:00 AM totaling \$18,554—Clerk Magistrate \$15,666, Probation Office \$2,888—were not deposited until the July 2, 2008

¹ Bail refers to cash or other property pledged in order for a suspect to obtain their release and as a promise to appear in court at a future date. Bail funds held in the custody of the Trial Court may be returned to the defendant and/or surety when a case has been disposed. Bail funds that are declared forfeited or determined to be abandoned (unclaimed) by the Trial Court are remitted to the State Treasurer in accordance with Chapter 276, Section 80, and Chapter 200A of the Massachusetts General Laws.

(Wednesday) scheduled pick up. Although responsible Clerk Magistrate personnel explained that they were not aware of nor were instructed about OSC's required year-end closing procedures, year-end training attendance records provided by the Administrative Office of the Trial Court (AOTC)² showed that two individuals from the Judge's Lobby of the DMC had participated in the training. For that reason, when done correctly, effective internal communication would have facilitated a clear understanding of relevant year-end financial reporting requirements and individual responsibilities and therefore would have brought the necessary attention to the OSC's year-end closing instructions.

In addition, as noted above, our examination disclosed that the DMC did not routinely make daily deposits of cash receipts as required by the OSC Cash Recognition and Reconciliation Policy (Revised November 1, 2006), which states, in part:

Except as otherwise expressly provided, all fees or other money received on account of the Commonwealth shall be paid daily into TRE [Treasury].³ However, the Office of Administration and Finance (ANF) and TRE may determine it is in the interest of the Commonwealth to allow payments to be made weekly, in accordance with such rules and regulations as TRE may prescribe.

Instead, the DMC conducts its daily closing procedures in the early afternoon and schedules bank deposit pick ups three times a week. During our analysis, the Clerk Magistrate commented that he was not aware of this daily deposit exemption and approval requirement and therefore assumed that its Dunbar Security deposit courier services were an acceptable and suitable internal control. In addition, an AOTC representative further acknowledged that the daily deposit of funds was also an AOTC requirement and was under the impression that the DMC was making daily bank deposits. In the event that revenues are not properly safeguarded, not depositing cash receipts daily increases the risk of revenues being misplaced, lost, stolen, or misused. Moreover, because the Commonwealth earns interest on its funds, not depositing funds promptly decreases potential investment income and the use of funds collected on the Commonwealth's behalf.

During our audit, we provided the OSC with pertinent information concerning the improper recording and reporting of fiscal year 2008 receipts totaling \$5,754 as fiscal year 2009 revenue. Accordingly, the OSC Quality Assurance Bureau asked the AOTC to prepare a Corrective Action

² The AOTC is the office through which the Chief Justice for Administration and Management manages and provides services to the Trial Courts of Massachusetts.

³ Chapter 30, Section 27, of the Massachusetts General Laws.

Plan (CAP) summarizing procedures to prevent this shortcoming from occurring again. Furthermore, a copy of the OSC notification letter and management's CAP will be placed in a Quality Assurance (QA) file and will be part of the next scheduled AOTC QA review.

Recommendation

The DMC should establish and implement the necessary controls to ensure compliance with the OSC annual closing and opening instructions. At a minimum, the DMC must pay special attention to year-end closing instructions to account for all cash receipts in the appropriate fiscal year. In addition, each year DMC management should communicate year-end closing requirements with staff to ensure a clear understanding of responsibilities. Moreover, to enhance oversight and compliance with year-end requirements, the AOTC should implement tracking controls that require responsible court officials to confirm the receipt, understanding, and communication of year-end requirements. In addition, DMC should ensure that all cash receipts are deposited within one business day, thereby ensuring compliance with governing policies and procedures issued by the OSC and applicable Massachusetts General Laws. If daily deposit of cash receipts is not possible, the DMC, through the AOTC, should consider requesting permission from the ANF and TRE for an exception to the daily remittance of cash receipts. Until such approval, the DMC should adhere to prescribed daily deposit requirements.