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INDEPENDENT STATE AUDITOR'S REPORT ON CERTAIN ACTIVITIES OF THE UNIVERSITY OF MASSACHUSETTS AT BOSTON

**OFFICIAL AUDIT
REPORT
JUNE 29, 2009**

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INTRODUCTION

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Chapter 75, Section 1, of the Massachusetts General Laws (MGL) established the University of Massachusetts (University), a public institution of higher learning within the system of public higher education governed by the Board of Trustees consisting of campuses to be maintained in Amherst, Boston, Dartmouth, Lowell, and Worcester. The University has a Board of Trustees (Board) consisting of 22 appointed members (19 voting members - including two students and three ex-officio non-voting members). The Board establishes the University's administrative policies, and each campus Chancellor is responsible for implementing the policies set by the Board. The University operates under the oversight of the Board of Higher Education, which is responsible for monitoring each campus to ensure that state funds support measurable performance, productivity, and results.

The University of Massachusetts Boston (UMB) is a four-year public university offering undergraduate and graduate programs. As of September 30, 2006, UMB had a student population of approximately 12,300 and employed 2,320 full-time and part-time faculty, administrators, and staff members. UMB was supported by a fiscal year 2007 budget of approximately \$236.8 million.

In accordance with Chapter 11, Section 12, of the General Laws, the Office of the State Auditor conducted an audit of the financial and management controls over certain operations of UMB. The purpose of our audit was to review and analyze the financial and management internal controls over administrative and operational activities, including payroll and personnel, contract administration, property and equipment, and the Parking and Transportation Trust Fund (PTTF); compliance with Chapter 647 of the Acts of 1989, An Act Relative to Improving the Internal Controls within State Agencies; and compliance with applicable laws and regulations for the period July 1, 2006 to May 31, 2007.

AUDIT RESULTS

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1. PRIOR AUDIT RESULT RESOLVED - UMB UTILIZED ALL OF PTTF TO OPERATE AND MAINTAIN THE GARAGE

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Our prior audit (2003-0214-3S) disclosed that UMB expended funds from the PTTF for purposes not related to the operation of the garage, including the improper allocation of salaries and payment of overtime, architectural and landscaping fees, administrative charges, and questionable electricity charges. Our follow-up review disclosed that UMB has taken corrective action by establishing a policy to restrict the use of the PTTF for expenses directly attributable to parking and transportation operations.

The underground parking garage was closed in July 2006 due to safety and structural concerns. UMB received authorization from the Board of Trustees and the State Executive Office for Administration and Finance to issue tax-exempt bonds to finance the construction of a new parking garage. The University of Massachusetts Building Authority (UMBA) issued garage revenue bonds in the amount of \$40 million for a new 1,500-square-foot parking garage at UMB. The funds are currently in UMBA's escrow account. After several condition appraisal studies identified short-term critical health,

safety, and deferred-maintenance projects needing immediate attention, construction of a new parking garage was deferred until more pressing short-term and long-term capital issues were addressed. UMB obtained authorization from the University's President's Office and UMBA to re-direct the \$40 million in garage revenue bonds towards the projects identified in the condition appraisal reports and to remedy other more pressing safety hazards. UMB has started an all-inclusive master planning process that will center on the physical development and reconstruction of the campus over the next 25 years. The master plan will identify sites, open spaces, pedestrian and vehicle circulation, and parking locations, which will include sites and construction for new parking facilities.

2. IMPROVEMENTS NEEDED OVER PAYROLL ACTIVITIES **4**

Our review over UMB's payroll internal controls disclosed that a) UMB did not follow-up to verify the accuracy of reported information received from the Social Security Administration (SSA) when different from its data, b) approval of payroll did not include all UMB employees, and c) UMB did not fully comply with completing the necessary documentation requirements for classifying its contract employees. These issues are discussed as follows:

a. UMB Did Not Verify the Accuracy of Reported Information Received from the Social Security Administration **5**

Our review disclosed that follow-up procedures are not conducted by UMB when differences in UMB's employee Social Security data and information reported from the SSA are identified. As a result, UMB cannot ensure that Social Security Numbers and other employee data reported to taxing and regulatory authorities are accurate.

b. Internal Controls over Review and Approval of Payroll Reporting Need Improvement **6**

Our review of UMB's payroll approval process indicated that the People Soft Time and Labor Report (UMTL 700) did not include all employees. Specifically, employees who work a set number of hours each pay period and report exceptions to their regular work schedule (e.g., vacation, sick leave) are not included in cases where no attendance exceptions were recorded. The Assistant Vice Chancellor of Human Resources stated that another Time and Labor Report (UMTL 706), which includes all employees, will replace the UMTL 700 for signatures by authorized department heads.

c. Documentation for Contract Employees Needs to be Enhanced **8**

Our review noted that UMB has not completed all the required contract forms for its contract employees. The completion and documentation of these forms is necessary to document the proper distinction between a contract employee and an independent contractor. Contract employees have an employee-employer relationship pursuant to individual contracts with the Commonwealth, while independent contractors do not. Without the proper completion of the required forms for contract employees, strict penalties could be imposed on UMB by federal and state tax authorities should an employee be misclassified.

In its response to the audit report, the UMB indicated that corrective action has been taken to strengthen its internal controls over the payroll issue cited above as a result of the audit.

3. IMPROVEMENTS NEEDED IN INTERNAL CONTROLS OVER PROPERTY AND EQUIPMENT **9**

Our review of UMB's internal controls over its furniture and equipment inventory, with an estimated value of \$52,238,095 as of September 30, 2006, disclosed that UMB was not in full compliance with the Office of the State Comptroller's (OSC) inventory control guidelines, its own internal control procedures for inventory, and Chapter 647 of the Acts of 1989, An Act Relative to Improving Internal Controls within State Agencies (see Appendix). Our audit disclosed that because UMB has not maintained effective internal controls over its property, it cannot ensure that all of its assets are adequately safeguarded against loss, theft, and misuse. The specific inventory control issues disclosed during our review included a) periodic physical inventories that were not conducted and an asset management database that was not properly maintained and b) controls over donated property that need improvement. These issues are discussed as follows:

a. Periodic Physical Inventories Not Conducted and Asset Management Database Not Properly Maintained **10**

A periodic physical inventory is essential to ensure that all property is adequately safeguarded against loss, theft, or misuse. Contrary to University policies and procedures that require a biannual physical inventory be conducted, UMB could not provide documentation for its last physical inventory. Our test of 119 property items (81 equipment items valued at \$859,461 and 38 vehicles valued at \$659,716) found that eight computers (10%) valued at \$10,546 could not be located and 15 vehicles (39%) valued at \$204,638 were no longer at UMB but had not been removed from UMB's Asset Management database (two of the vehicles were transferred to another University campus in fiscal years 2002 and 2003, 12 of the vehicles were reported to the State Surplus Officer as surplus between 1997 and 2005, and one of the vehicles was used as a trade-in in 1996). Also, 26 of the 81 equipment items (32%) had been removed from the campus; however, contrary to UMB's Inventory Control Policy, a property pass had not been completed to indicate who removed the items and their location. In addition, our tests of the Asset Management database disclosed that 54 leased copiers and a leased vehicle were recorded as assets on UMB's accounting records but not on the Asset Management database. University policy requires that each campus maintain inventory records for all capital and sensitive non-capital equipment. The lack of an accurate, complete, and valid inventory record for fixed assets, property, and equipment prevents UMB from detecting lost, missing, or stolen items.

b. Internal Controls over Donated Property Need Improvement **14**

Our review disclosed that UMB did not maintain adequate internal controls over donated property. Specifically, we noted that UMB did not establish or determine the total value of its donated property. In addition, our review noted that donated property was not being recorded and tracked. We were informed by UMB's Controller that University policy and guidelines on capitalization and inventory control do not include a reference to art collections, equipment, and vehicles and agreed that this subject needs to be clarified and addressed by the University as a whole.

In its response to the audit report, UMB indicated that, subsequent to our audit, a comprehensive physical inventory was completed and the Asset Management database was reconciled to accurately reflect the current status of all found, surplus, transferred, and applicable leased equipment. In addition, UMB stated that it has taken actions to further strengthen asset management policies and procedures over the safeguarding of its equipment and donated property.

4. NONCOMPLIANCE WITH CHAPTER 647 OF THE ACTS OF 1989 REPORTING REQUIREMENTS **17**

Chapter 647 of the Acts of 1989 requires agencies to immediately report all unaccounted-for variances, losses, shortages, or thefts of funds or property to the Office of the State Auditor (OSA). We noted that UMB did not promptly report four instances of stolen funds and one instance where payroll overpayments were made to a former employee. These issues are discussed as follows:

a. Instances of Stolen Funds Not Reported to OSA in a Timely Manner **17**

UMB did not report four instances of stolen funds totaling \$2,822 to the OSA in a timely manner as required by Chapter 647 of the Acts of 1989, with reporting delays ranging from four to 16 months. UMB stated that the delay was attributed to a flaw in UMB's Department of Public Safety internal reporting system that resulted in departments mistakenly assuming that the four instances were being directly reported to UMB's Controller through the various Vice Chancellors.

Our review disclosed that in the four instances noted, UMB did not design and implement the necessary internal controls at the Wit's End Café and the Admissions Office to ensure that all cash receipts were properly accounted for. Specifically, checks received at the Admissions Office were not restrictively endorsed "for deposit only," and the Café did not exercise due care for safeguarding daily receipts.

Our audit also disclosed that, as a result of not establishing and issuing formal written policies and procedures for reporting Chapter 647 incidents, UMB had no assurance that all departments were properly reporting all unaccounted-for variances, losses, shortages, or thefts funds or property to the OSA.

b. Payroll Overpayments Totaling \$34,273 Not Reported to OSA in a Timely Manner **18**

UMB did not promptly report to the OSA, as required by Chapter 647 of the Acts of 1989, one instance where gross payroll overpayments totaling \$34,273 were made to a former employee during a nine-month period after his last date of employment. In discussions with UMB's management, we were informed that the incident was not initially reported to the OSA because senior management was of the opinion that the incident did not meet the reporting criteria under Chapter 647 of the Acts of 1989. Upon the advice of the University's Internal Audit Director, UMB's Controller prepared and submitted the Chapter 647 report. UMB stated that the overpayment was the result of a fairly unique combination of circumstances, inadequate internal controls, and human error.

It is important that these incidents be reported immediately and investigated by the OSA as prescribed by law to ensure full and proper disclosure, resolution, and corrective action to preclude their reoccurrence.

In its response to the audit report, the UMB indicated that steps have been implemented to improve and strengthen its internal controls over daily cash processing. In addition, the UMB stated that its payroll controls were enhanced by clarifying responsibility and streamlining the process for notifying the payroll department of employee terminations.

5. IMPROVEMENTS NEEDED OVER INTERNAL CONTROLS AND ADMINISTRATION OF PRO-CARD PROGRAM

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Our review of UMB's internal controls over the administration of its Procurement Credit Card Program (Pro-card Program) was initiated as a result of the Chapter 647 report filed by UMB regarding the purchase of unallowable items amounting to \$2,385 by a former employee associated with a Research Corporation Grant (\$2,350) and Start-Up Fund (\$35). The incident was discovered by the Pro-card Administrator during a routine transaction review of the employee's Pro-Card activity on July 27, 2006. The administrator contacted the employee and was informed that he had resigned effective June 30, 2006. Further review by the administrator disclosed that a total of \$2,385 in improper purchases were made, consisting of a) two purchases totaling \$1,070 after the employee had resigned, and b) six purchases totaling \$1,315 during the period March 14, 2006 to June 28, 2006.

Our audit disclosed that UMB had not established the necessary internal controls for the timely cancellation of Pro-card Program credit cards for employees who are no longer employed at the campus. Our testing of authorized card holders disclosed that four employees were listed as active Pro-card Program users as of January 2007, when in fact they had terminated their employment at UMB during September 2005 and July, September, and October of 2006. The results of our review were communicated to the Pro-card Administrator, who was unaware that these employees were not actively employed by the campus. Subsequent to our review, the Pro-card Administrator cancelled all four accounts. Our review of the four accounts disclosed that transactions were allowable (valid transactions made prior to termination dates) and in accordance with UMB's Pro-card Program guidelines.

In its response to the audit report, the UMB indicated that a new employee exit policy was initiated, which requires the Department Head to complete an Employee Exit Check Out Form. In addition, the Department Head of an exiting employee is responsible for follow-up action to ensure that all property is returned, security access is cancelled, and general closure tasks are completed before the employee's last working day.

6. CHAPTER 647 REPORTS SUBMITTED DETAILING INSTANCES OF STOLEN PROPERTY, IMPROPER OVERTIME PAY, A BREACH OF SECURITY, AND PARKING FEE VARIANCES

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During the period of September 1, 2005 to March 24, 2007, UMB submitted twenty Chapter 647 reports to the OSA detailing a) 39 instances of stolen property, b) one instance of inappropriately paid overtime, c) one instance of a breach of security by a student employee involving student tuition, and d) 31 instances of parking fee variances, as discussed below:

a. 39 Instances of Stolen Property Valued at \$56,615 **24**

UMB filed nine reports detailing 39 instances of stolen property. In one report, 17 items, consisting of six laptop computers, 10 projectors, and one sound mixer (total value of \$39,815), were reported as a result of forced entry. Our review determined that UMB did not have the necessary security measures in place for securing the property items from theft; i.e., the installation of locks and alarms. Secondly, we found that many of the remaining incidents reported were the result of carelessness and could have been prevented. We found, for example, that some students left laptop computers unattended and unsecured. We were informed that UMB has begun to address the security concerns.

b. Overtime Charged for Time Not Worked by Two Employees and Approved by Three Supervisors **25**

The University's Internal Audit Department submitted a Chapter 647 report on March 24, 2005 in accordance with UMB's internal review regarding two employees within UMB's Information Technology Department that were granted regular weekly overtime for time not worked. The University's Internal Audit Department collaborated with an independent audit firm to conduct a limited review to evaluate regular and overtime reporting practices at selected University departments (six at the Amherst campus and three at the Boston campus). In its audit report, the independent audit firm recommended that overtime premium pay (OVP) be monitored closely or reported separately from overtime straight pay (OVS) when reviewing overtime information and all campuses institute a quarterly review process in which department directors are asked to review and attest to the overtime hours recorded for the individuals in their departments who have recorded overtime hours in excess of 10% of their base pay.

Our review disclosed that UMB has started to implement the recommendations of the report by identifying and reporting all employees who have received overtime greater than 10% of their base pay through any combination of OVS and OVP on a quarterly report. Department directors document their review and approval of all employees who have received overtime.

c. Breach of Security by Student Employee Involving Student Tuition and Fee Accounts **27**

A student employed by UMB's Division of Corporate, Continuing, and Distance Education (CCDE) was able to gain access to his own and another student's account using the login identification number of a regular employee who stepped away from his desk without logging out of the system. Although no funds were reported as inappropriately received or disbursed, financial records consisting of student accounts were altered to a) reverse charges for several prior semesters and the current semester and b) record and immediately reverse a payment without a corresponding cash deposit. The incident was reported to the Public Safety Department for review.

d. 31 Instances of Parking Fee Variances **29**

UMB submitted nine Chapter 647 reports detailing 31 instances of parking fee variances. Our review revealed that the variances did not represent a loss or shortage of actual cash to UMB, since the tollbooth attendant received the correct amount of cash. Rather, the situation occurs when a parking customer presents a parking ticket that has been issued

on a prior day, but never processed for payment when exiting the parking area. To address this issue, the Director of Parking stated that UMB is considering a pre-paid parking system and is currently implementing this system on an interim basis at selected locations on UMB's campus.

In its response to the audit report, the UMB indicated that security measures have been taken that include, regular patrolling of facilities by campus police, equipping all laptops with tracing capability, installing security cables in desktop computers and issuing reminders to university staff to secure equipment on a regular bases. Secondly, the UMB indicated that its overtime controls were enhanced by adopting a practice of notifying and requiring department managers to approve overtime on a quarterly bases whenever overtime payments exceed 10% of an employee's quarterly base earnings and issuing annual reminders to its employees about the University's policy on fraudulent financial activities. Third, the UMB stated that physical security protection policies and procedures have been initiated and are on going to ensure that data is secure from unauthorized access.

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INTRODUCTION

Background

Chapter 75, Section 1, of the Massachusetts General Laws (MGL) established the University of Massachusetts (University), a public institution of higher learning within the system of public higher education governed by the Board of Trustees (Board) consisting of campuses to be maintained at Amherst, Boston, Dartmouth, Lowell, and Worcester. The University operates under the oversight of the Board of Higher Education, which is responsible for monitoring each campus to ensure that state funds support measurable performance, productivity, and results. The University of Massachusetts Boston (UMB) is a four-year public university offering undergraduate and graduate programs.

The Board consists of 22 appointed members (19 voting members – including two students and three ex-officio non-voting members). The Board’s responsibilities include establishing policies necessary for the administrative management of personnel, staff services, and the general business of the University. The President of the University oversees the five-campus system and is responsible for implementing the policies of the Board. Each campus operates under the direction of a Chancellor, who reports to the President. UMB has five Vice Chancellors who are responsible for various administrative and/or educational functions. UMB’s funding sources consist of the annual state appropriation, student tuition and fee revenues, and research grant funding from federal, state, and private sources. UMB’s financial activity and its compliance with applicable laws and regulations are the responsibility of its management.

UMB’s mission is to provide:

- Access to liberal arts and professional programs to both traditional and non-traditional students.
- Excellence in addressing the intellectual and professional needs of individual students.
- Public service by forging linkages between research and service and forming partnerships with communities, the private sector, government, other colleges and universities, and other sectors of public education.
- Innovation by pursuing research and offering programs serving current and emerging needs of urban populations, institutions, and environments.

- Economic development by working cooperatively with metropolitan businesses, major public and private sector employers, representatives of state and local governments, neighborhoods, and communities to develop programs to link Massachusetts with economic communities around the world.
- Quality of life by sponsoring and supporting cultural diversity that helps ethnic and international communities to articulate and celebrate their cultural values and identities, and by recognizing the contributions and achievements of members of these communities.

As of September 30, 2006, UMB had a student population of approximately 12,300 and employed 2,320 full-time and part-time faculty, administrators, and staff members. UMB was supported by a fiscal year 2007 budget of approximately \$236.8 million.

Audit Scope, Objectives, and Methodology

In accordance with Chapter 11, Section 12, of the General Laws, the Office of the State Auditor conducted an audit of the financial and management controls over certain operations of UMB. The purpose of the audit was to examine UMB's internal controls over administrative and operational activities, including payroll and personnel, contract administration, property and equipment, and the Parking and Transportation Trust Fund (PTTF); compliance with Chapter 647 of the Acts of 1989, An Act Relative to Improving the Internal Controls within State Agencies; and compliance with applicable laws and regulations for the period July 1, 2006 to May 31, 2007.

Our audit was conducted in accordance with applicable generally accepted government auditing standards for performance audits and, accordingly, included audit procedures and tests that we considered necessary under the circumstances.

To accomplish our objectives, we conducted the following tests and procedures:

- Reviewed UMB's administrative and accounting policies and procedures manuals, including the University's Internal Control Plan.
- Reviewed reports generated by the University's Internal Audit Department to determine whether they contained any significant audit results or identified any weaknesses in internal controls for UMB.
- Reviewed internal controls over payroll and personnel.
- Assessed accounting management and administrative controls.
- Tested procurement transactions.

- Interviewed appropriate UMB management and staff.
- Reviewed and followed up on all items reported to the OSA in compliance with Chapter 647 of the Acts of 1989.
- The UMB's progress in addressing the issue noted in our prior report (No. 2003-0214-3S).

At the conclusion of the audit, we met with UMB's management staff to discuss the results of our review.

Based on our review, we determined that, except for the issues noted in the Audit Results section of this report, UMB: (1) maintained adequate controls over administrative and operational activities, including payroll and personnel, contract administration, property equipment, and the Parking and Transportation Trust Fund (PTTF); complied with Chapter 647 of the Acts of 1989; and complied with applicable laws and regulations for the areas tested.

AUDIT RESULTS

1. PRIOR AUDIT RESULT RESOLVED - UMB UTILIZED ALL OF PTTF TO OPERATE AND MAINTAIN THE GARAGE

Our prior audit (2003-0214-3S) disclosed that UMB expended funds from the Parking and Transportation Trust Fund (PTTF) for purposes not related to the operation of the garage, including the improper allocation of salaries and payment of overtime, architectural and landscaping fees, administrative charges, and questionable electricity charges. Our follow-up review revealed that UMB has taken corrective action by establishing a policy to restrict the use of the PTTF for expenses directly attributable to parking and transportation operations.

The underground parking garage was closed in July 2006 due to structural and safety concerns. UMB received authorization from the Board of Trustees and the State Executive Office for Administration and Finance to issue tax-exempt bonds to finance the construction of a new parking garage. The University of Massachusetts Building Authority (UMBA) issued garage revenue bonds in the amount of \$40 million for a new 1,500-square-foot parking garage on UMB's behalf, with the funds deposited in UMBA's escrow account. After several condition appraisal studies were conducted that identified short-term critical health, safety, and deferred-maintenance projects needing immediate attention, construction of a new parking garage was deferred until more pressing short-term and long-term capital issues were addressed. UMB obtained agreement from the University President's Office and UMBA in January 2006 to re-direct the \$40 million in garage revenue bonds towards the projects identified in the condition appraisal reports and to remedy other more pressing safety hazards. As a result, UMB has developed a five-year capital plan for campus-wide deferred-maintenance and repair projects to be completed by the year 2011. The plan was approved by the University's Board of Trustees on August 23, 2006. In addition, UMB has started an all-inclusive master planning process that will center on the physical development and reconstruction of the campus over the next 25 years. The master plan will identify sites, open spaces, pedestrian and vehicle circulation (traffic flow), and parking locations, which will include sites and construction for new parking facilities.

2. IMPROVEMENTS NEEDED OVER PAYROLL ACTIVITIES

Our review over UMB's payroll internal controls disclosed that a) UMB did not follow-up to verify the accuracy of Social Security data of its employees when different from its data, b) approval of payroll did not include all UMB employees, and c) UMB did not fully comply with

completing the necessary documentation requirements for classifying its contract employees. These issues are discussed as follows:

a. UMB Did Not Verify the Accuracy of Reported Information Received from the Social Security Administration

Our review disclosed that follow-up procedures are not conducted by UMB when the Social Security Administration (SSA) reported repeated differences of employees' Social Security information and data. Our review of three quarterly listings of differences in employees' Social Security information and data for periods ending on March 31, June 30, and September 30, 2006 noted 89, 64, and 87 differences reported, respectively, including 25 instances where the same employees appeared on the three reports, indicating that corrections have not been made.

On a quarterly basis, the University submits a listing of employees to SSA containing the name, Social Security Number, gender, and date of birth of all employees of its five campuses to verify for accuracy. The SSA then responds with a listing that contains differences in data between University records and SSA records. Each of the five campuses receives a listing of its employees whose Social Security data as reported by the campus differs from SSA records. A letter is generated by UMB's Human Resources Department to those employees with differing Social Security data. The letter requests that the employee either contact the SSA if UMB's records are correct or contact UMB's Human Resources Department if its records are incorrect. However, no further follow-up procedures were initiated by UMB, as evidenced by those employees with differing Social Security data who appeared in consecutive reports. We were informed that the campus was working under the assumption that employees were addressing and resolving the differences directly with the SSA.

As a result of not having follow-up procedures in place to determine the correct information and data for those employees, UMB cannot be assured that Social Security Numbers and other employee data being reported to the tax and regulatory authorities are accurate.

The Office of the State Comptroller's (OSC) Massachusetts Management Accounting and Reporting System (MMARS) payroll policy, dated July 1, 2004, Employee-Employer Relationship, requires communicating with the SSA to verify reported information. The policy states, in part:

Check the Social Security Number. Make sure the name matches Social Security Administration records. Correct names and social security numbers (SSN) on W-2 wage

reports are the keys to successful processing of the Commonwealth's annual wage report submission. Not only can the Commonwealth be subject to penalties when employee names and SSNs don't match Social Security Administration records, but also unmatched wage reports can cause earnings that are not posted to your employees' records.

We discussed this issue with the Assistant Vice Chancellor of Human Resources, and indicated that action should be taken in addressing differences in Social Security data between UMB's records and what is reported by the SSA. We were informed that UMB will be addressing the issue by employing new procedures requiring UMB's Human Resources Department to contact the employee in person in any case where differences in an employee's Social Security data appear on two consecutive quarterly reports.

Recommendation

UMB needs to develop and implement internal control policies and procedures to ensure that all discrepancies in UMB's and SSA's records are properly resolved in a timely manner. This would include following up with employees to resolve differences in reported information.

Auditee's Response

In response to this Audit Result, UMB replied with the following statement:

... in May 2007 UMass Boston issued a policy where UMB's Human Resources Department (HR) notifies each employee who appears on a quarterly mismatch report by issuing a letter that states a mismatch has been identified. The employee is asked to submit the correct information to Human Resources as soon as possible. Where an employee appears on two consecutive quarterly mismatch reports, Human Resources contacts the employee in person and notifies the Vice Chancellor for Administration and Finance and the employee's senior manager for further action.

Going forward, the University's goal is to completely eliminate any social security mismatches.

b. Internal Controls over Review and Approval of Payroll Reporting Need Improvement

Our review of UMB's payroll approval process indicated that the People Soft Time and Labor Summary Report (UMTL 700) did not include all employees. Specifically, exception-reporting employees (employees who work a set number of hours each pay period and only report exceptions to their regular work schedule, e.g., vacation, sick leave) are not included if there were no attendance exceptions reported. At the end of each week, authorized department heads sign off on the UMTL 700 Report, attesting to the completeness and accuracy of attendance recorded and hours worked as listed, which is forwarded for payroll processing. Without a

supervisory review of the entire payroll, including exception-reporting employees, there is no assurance that the attendance for all employees was accurately recorded and authorized.

MMARS Payroll Approval: Payroll Expenditure Approval, dated July 1, 2004, states, in part:

Once an employee's time is recorded, his/her manager must confirm that services have been delivered in accordance with this record. Time and attendance can then be recorded in the payroll system. A signatory authority or authorities certify the entire payroll based on confirmation of managers. This approval should include the following statement or can be done on the "Payroll Expenditure Approval" form.

This payroll has been processed in accordance with the Commonwealth's Payroll Expenditure Policy, State Finance Law, and this Department's Internal Control Plan. The amount listed has been certified to the Comptroller through the payroll system for payment. This certifies that time and attendance for each employee is on file in this Department and approved by the appropriate manager to support amounts paid. This approval and supporting details will remain on file in this Department for three years for review by the Office of the Comptroller or other auditing entity.

During our audit, a Chapter 647 report was filed by UMB to report a payroll overpayment amounting to \$34,273. UMB attributed one of the causes to a bi-weekly time and attendance report that prints information on an exception basis only, not for all employees for every bi-weekly pay period. (This condition is further explained in Audit Result No. 4b.)

We expressed our concerns to the Assistant Vice Chancellor of Human Resources regarding the approval of payroll by department heads and the inclusion of all employees. We also informed him that the People Soft Human Resource System does provide an all-inclusive report, namely the UMTL 706, which would include all exception-reporting employees. UMB management stated that the UMTL 706 would replace the UMTL 700 Report for signature by authorized department heads, ensuring that the payroll approval process includes all employees.

Recommendation

UMB should implement the utilization of UMTL 706 to ensure that payroll reports, signed off on by the authorized department heads, contain all UMB employees.

Auditee's Response

In response to this issue which was raised during the course of the audit, UMB issued a policy in May 2007 that requires the approval by department heads or managers of the UMTL706 Time and Labor Detail Report which lists prior time and labor entries for all department personnel. Errors on the report must be noted on the report and submitted to HR along with the appropriate correction form.

c. Documentation for Contract Employees Needs to be Enhanced

Our audit disclosed that UMB has not completed all the required contract forms for its contract employees. Although UMB performed an initial review to determine whether an individual will be deemed a contract employee, this determination was not documented on the Employment Status Form. In addition, we noted that the Standard Contract and Commonwealth Terms and Conditions forms have not been completed, which distinguish between a contract employee and an independent contractor, as follows:

Individual Contractors: Contract Employees vs. Independent Contractors, issued November 1, 2005 by Operational Services Division/Office of the State Comptroller/Human Resources Division, states, in part:

When a department requires the services of an individual, it must determine, before acquiring the services, if the service is a competitive procurement exception (contract employee) or if it must conduct a competitive procurement (independent contractor).

The policy further states that:

The Employment Status Form has been developed to assist departments in two ways:

- 1. To make the determination PRIOR to the procurement of services, as to whether the type of work to be performed will trigger an employment relationship (contract employee) or a non-employment relationship (independent contractor) in order to determine the proper procurement method to be used to acquire the services, and*
- 2. To confirm the employment status when a contract is signed with an individual contractor selected from either an RFR (independent contractor) or posting (contract employee) which is a required attachment to the Standard Contract Form.*

The checklist on the Employment Status Form reconciles the Federal IRS 20 factors (which are focused primarily on whether an employee falls under the "supervision and control" of a department) with the stricter Massachusetts presumption that an individual will be considered a contract employee "unless" the individual passes all three parts of the Massachusetts three-part test.

While the IRS factors consider the work context and the overall balance of the 20 factors, the Massachusetts law requires that the employer/employee relationship be definitively established. The Massachusetts Attorney General has interpreted this test to be rigid, thus resulting in the presumption that an individual contractor will be considered a contract employee unless the three-part test under MGL c. 149, s. 148B is met. The burden is on the department to defend a determination of independent contractor status. Massachusetts' law imposes strict penalties when a worker is misclassified. Therefore, a department must complete the Employment Status Form in order to certify the status for all individual contractors and attach it to the Standard Contract Form.

The policy further requires that:

Contract employees must execute the Commonwealth Terms and Conditions and the Standard Contract Form. The attachments should include a copy of the contract posting or an alternative attachment containing the description of the contract performance, any minimum qualifications, the compensation rate or range and a copy of the contractor's résumé (or statement of qualifications). Include completed Employment Status Form.

In discussions with the Assistant Vice Chancellor of Human Resources, we were informed that management was not aware of the requirement to complete the Commonwealth's Terms and Condition Form, the Standard Contract Form, and the Employment Status Form for its contract employees.

Without the proper completion of required forms for contract employees, strict penalties could be imposed on UMB by federal and state tax authorities should an employee be misclassified.

Recommendation

UMB needs to develop and implement internal control policies and procedures to ensure that the employment status form and all additional required contract forms are completed and documented for each of the contract employees. As part of this effort, management should develop sufficient internal controls, oversight, and monitoring to ensure that procedures are consistently followed.

Auditee's Response

UMass believes that prior to the audit it had sound practices in place for hiring contract employees and that results of the audit demonstrate the need to improve upon these practices through the completion of additional forms required by the Commonwealth. To this end, since this issue was raised during the course of the audit, UMass Boston has ensured that the Commonwealth Terms and Conditions, Standard Contract Form and Employment Status Form have been completed for the 10-12 personnel that UMB classifies as state-funded contract employees on an annual basis.

3. IMPROVEMENTS NEEDED IN INTERNAL CONTROLS OVER PROPERTY AND EQUIPMENT

Our review of UMB's internal controls over its furniture and equipment inventory, with an estimated value of \$52,238,095 as of September 30, 2006, found that UMB was not in full compliance with the Office of the State Comptroller's (OSC) inventory control guidelines, its own control procedures for inventory, and Chapter 647 of the Acts of 1989, An Act Relative to Improving Internal Controls within State Agencies (see Appendix). Our audit disclosed that because UMB had not maintained effective internal controls over its property, it cannot ensure that all of its assets are adequately safeguarded against loss, theft, and misuse. The specific inventory internal control issues disclosed during our review included a) periodic physical inventories that were not conducted and an asset management database that was not properly

maintained, and b) internal controls over donated property that need improvement. Each of these issues is discussed as follows:

a. Periodic Physical Inventories Not Conducted and Asset Management Database Not Properly Maintained

A periodic physical inventory is essential to ensure that all property is adequately safeguarded against loss, theft, or misuse. Contrary to University policies that require a biannual physical inventory be conducted, UMB could not provide documentation for its last completed physical inventory. In discussions with UMB's Property Department Fixed Asset Manager, we were informed that the last physical inventory consisted of a partial inventory that had been conducted in fiscal year 2000; however, records were not available due to Y2K problems and a physical inventory had not been conducted since then due to limited staff resources.

University policy T96-073, Capitalization and Inventory Control Policy, states, in part:

Each campus is responsible for maintaining inventory records for all capital¹ and sensitive non-capital² equipment as defined in this policy, performing or coordinating periodic physical inventories, reconciling physical inventories to the related records at least once every two years. The minimum frequency of the inventory of assets is indicated as follows Inventory Every Two Years: All capital equipment and all capital leased equipment. An extract of assets (capital and non-capital) should be obtained from the fixed asset system and used as the basis for the periodic inventory. Assets that are no longer utilized should be disposed of. All discrepancies should be reconciled and effectively reported in the fixed asset system. Assets that exist but are not reported in the fixed asset system should be added as of the date detected.

It is the responsibility of the Chancellor to implement and administer the provisions of this policy in all areas under his or her jurisdiction. At a minimum, the Chancellor shall inform all members of the faculty and administrative officers of their obligations for the use, care, maintenance, and safekeeping of all property under the control of their departments or units.

Chapter 647 of the Acts of 1989, Section F, states, in part:

Periodic comparison shall be made between the resources and the recorded accountability of the resources to reduce the risks of unauthorized use or loss and protect against waste and wrongful acts.

The University of Massachusetts Internal Control Plan also states that:

Periodic inventories of fixed assets are taken and inventory results are compared to detailed property records and general ledger control accounts.

¹ Capital assets over \$1,000 in value with a useful life of two or more years, consisting of assets purchased or donated to UMB.

² Non-capital assets include equipment purchased by UMB under the cost of \$1,000. The account also includes donated artwork and leased equipment.

Our test of 119 property items (81 equipment items valued at \$859,461 and 38 vehicles valued at \$659,716) found that eight computers (10%) with a value at \$10,546 could not be located and 15 of the 38 vehicles (39%), valued at \$204,638, were no longer at UMB but had not been removed from the Asset Management database. A review of the files disclosed that two of the vehicles were transferred to another University campus in fiscal years 2002 and 2003, 12 of the vehicles were reported to the State Surplus Officer as surplus between 1997 and 2005, and one of the vehicles was used as a trade-in for another vehicle in 1996. Also, 26 of the 81 equipment items (32%) had been removed from the campus; however, a property pass had not been completed to indicate who removed the items and their location.

UMB's Inventory Control Policy states, in part:

All property owned by the University being transported off campus on a loan basis must be accompanied by a "Property Pass". This property pass must be authorized and approved by the Department Head.

In addition, our tests of the Asset Management system and related inventory records disclosed that 54 leased copiers and one leased vehicle were recorded on UMB's financial statements but not on the Asset Management database.

The lack of an accurate, complete, and valid inventory record for fixed assets, property, and equipment prevents UMB from detecting lost, missing, or stolen items.

UMB's Inventory Control Policy, issued July 1, 1995, states, in part,

Chapter 75, Section 12 of the General Laws of the Commonwealth of Massachusetts delegates to the Board of Trustees the responsibility of managing and administering, on behalf of the Commonwealth, all property, real and personal occupied or used by the University.

In accordance with Trustee Policy (T91-074) equipment will be inventoried as follows:

a. Definition

For accountability purposes, property is defined as any item of equipment that meets the following definition:

- 1. Any piece of equipment that is an entity unto itself (stands alone-must be externally visible); (e.g., computer, printer, external modem, microscope, filing cabinet);*
- 2. Has a unit net price of \$100.00 or more that has a life expectancy, with normal wear and tear, of two or more years and is repairable.*
- 3. All office labor-saving devices (costing over \$100.00).*

4. *All office, classroom and laboratory furniture that is not permanently fixed in place (costing over \$100.00).*

5. *All items of equipment that, because of their attractiveness to pilferage or intangible value, requires accountability.*

Inventory Control will maintain property records in accordance with Trustee Policy T91-074, CMR's (Commonwealth of Massachusetts Regulations), Federal Register and any other governing documents.

By not properly maintaining the Asset Management database, UMB's inventory is exposed to the following risks:

- The effectiveness and efficiency of physical inventories could be compromised.
- The care and custody of fixed assets could be jeopardized if they are not recorded on the inventory records.
- There is no assurance that property and equipment are adequately safeguarded against loss, theft, or misuse.
- There is no assurance that fixed assets are accurately reflected on UMB's financial statements.

Recommendation

UMB's management should develop sufficient oversight and monitoring procedures over property and equipment to ensure that prescribed policies and procedures are consistently followed. UMB should ensure that:

- Physical inventories of all property are conducted in accordance with the OSC and UMB's established procedures to verify the existence, location, and value of inventory items;
- The Asset Management database is properly maintained and is reconciled with the results of the physical inventory;
- All property owned by UMB that is transported off campus on loan is accompanied by a property pass; and
- All items not located are reported to the OSA in accordance with Chapter 647 of the Acts of 1989.

Auditee's Response

During the course of the audit, UMass Boston developed and began to implement a detailed plan to inventory University assets and improve its maintenance of the asset management database. Since the audit, a comprehensive physical inventory was completed in March 2008; the physical inventory process has been clarified and

improved; and policies and procedures for fixed assets management were modified and internal controls strengthened by clarifying workflow processes and procedures including the acquisition, posting and maintaining of equipment items in the asset management database.

In June 2007, the firm of Hiron & Associates, Inc was hired to conduct a comprehensive physical inventory of all capital equipment and non-capital computers regardless of cost at UMB. In March 2008, this physical inventory was completed and 97% of items with a remaining net book value (NBV) were verified and accounted for. The value of unlocated equipment with a remaining NBV was less than \$52K. Documentation of this physical inventory has been provided.

- *A committee has been established to review and assist Property Management in strengthening the physical inventory process.*
- *Physical Inventories will be conducted every 2 years in accordance with Trustee Policy and the University will examine the feasibility of conducting more frequent periodic physical inventories.*

With the completion of the physical inventory, the Asset Management (AM) database has been reconciled to accurately reflect the current status of all found, surplus, transferred & applicable leased equipment in the AM database. Part of the AM database reconciliation included updating the issues found during the test of 119 property items. The fifteen vehicles no longer at UMB have been retired & the status changed to "disposed" in the AM database. One computer was located and the other seven have been removed from the database. Property passes for the 26 items off campus have since been provided by the departments and have been noted in the Property Pass Log. The 54 leased copiers and one leased vehicle were also posted in FY 07. In addition, internal procedures have been modified and strengthened for the posting of leased equipment and the surplus of items in the AM database.

To ensure the AM database is properly maintained, Property Management Policies & Procedures have been modified and internal controls strengthened to clarify:

- *Workflow process and procedures.*
- *Process and procedures for the acquisition of, posting of all capital and leased equipment, and non-capital computers regardless of cost to the AM database.*
- *Timelines for updating an assets status for surplus and transferred equipment in the database have been established.*

Property pass procedures were strengthened and are covered in training workshops. Effective FY 2009 Property Passes will be required for all laptops.

...UMass Boston has taken the following actions to further strengthen our asset management policies and procedures and to reinforce the safekeeping and inventory control requirements of University equipment;

- *A policy was implemented in 2007 where training is offered twice a year to departmental Property Custodians by the Property Manager. This training covers both capital and non-capital equipment and was implemented to increase communication and cooperation among departments.*

- *On an annual basis, the Property Manager will forward a memorandum to key administrators, Property Custodians and Business Managers.*
- *Property Management has collaborated with IT and procedures have been drafted for the delivery, tracking and location on record for bulk computer purchases; in addition, laptop computers are now installed with a tracking device called Computrace.*
- *Commencing FY09, computer towers purchased through the major computer replacement program will also be installed with tracking devices.*

b. Internal Controls over Donated Property Need Improvement

Our review disclosed that UMB did not maintain adequate internal controls over donated property. Specifically, UMB did not determine the total value of its donated property in its possession because UMB did not record and track all of its donated property in its inventory database. Our testing of the inventory database included the physical observation of donated property at the campus, which disclosed that donated property was not recorded or located.

Our observations noted the following:

- One piece of artwork with an appraised value of \$25,000 donated in fiscal year 2005 was located but not recorded.
- 46 pieces of equipment (41 computer equipment items, four lab equipment items, and one copier) with an appraised value of \$142,757 donated in fiscal year 2005 were not recorded. In addition, we noted that six of the 46 items (three lab equipment items, two computer equipment items, and one copier) with a total appraised value of \$60,700 could not be located.
- One vehicle with an appraised value of \$7,777 donated in fiscal year 2005 was not recorded or located. Further review disclosed that the vehicle was reported as surplus to the State Surplus Property Officer in August 2005.
- A vehicle donated to UMB in fiscal year 2001 was located but not recorded. Further review disclosed that documentation provided by UMB did not include an appraised value.
- 82 pieces of artwork maintained by UMB's librarian had no appraised value. UMB did establish an appraised value for nine (11%) of the 82 items, totaling \$57,000, which were located but not recorded.
- 20 pieces of artwork appearing on the University Advancement Department records as donated to UMB, with an aggregate appraised value of \$78,000, were located but not recorded.

In addition, during our physical inventory testing, we observed that a painting with an appraised value of \$115,000, donated in 1997, was folded up in a drawer in a cubicle. As a result of not

properly storing this asset, according to a professor in UMB's Art Department, the artwork was significantly damaged.

UMB's Property Control Officer stated that he could not explain why donated inventory was not appraised, recorded, and tracked.

UMB's Inventory Control Policy states, in part:

All property acquired by the University through State, Trust, Grant Funds or donations shall be processed through the University Property Inventory System.

We were informed by UMB's Controller that the University policy and guidelines on capitalization and inventory control do not include a reference to art collections, rare books, and archival items and agreed that this subject needs to be clarified and addressed by the University as a whole. She further stated that, when such policy and guidelines are clarified/documented/communicated, the campus will establish and implement procedures in accordance with University policies and guidelines.

The University policy T96-073, Capitalization and Inventory Control Policy, states, in part:

The Board of Trustees is responsible for all property to which the University holds title. The Board of Trustees hereby assigns to the Chancellor of each campus general responsibility for the care and custody of property belonging to the University of Massachusetts.

It further states:

Each campus is responsible for maintaining inventory records for all capital and sensitive non-capital equipment as defined in this policy.

Without effectively implementing documented policies and internal control procedures, there are potential significant risks that donated items:

- Are not recorded accurately on UMB's financial statements, resulting in an understatement of assets.
- Are not recorded and tracked on the Asset Management database, and thus not subject to the inventory control process.
- Are not properly safeguarded and could be either lost, stolen, or misplaced without being detected, resulting in added cost to replace lost, stolen, or misplaced items.

Recommendation

UMB management should:

- Conduct an inventory of donated property (artwork, equipment, vehicles). The inventory should establish a dollar valuation of these items that would include an appraisal if necessary. Once the inventory is completed, any items recorded on UMB's financial records and/or Property Department's Asset Management database that could not be located should be reported to OSA in compliance with Chapter 647.
- Establish and implement policies and procedures for accounting, inventory record keeping, tracking, and safeguarding of all assets donated to the campus.

Auditee's Response

- *The A&SC [Archives and Special Collections] department regularly inventories donated property under its control and will continue to do so in accordance with industry best practices. Donations that do not fall under the control of the Library will be inventoried in accordance with the University's fixed assets inventory process.*
- *The audit review correctly disclosed that items donated in 2005 were not recorded in the AM database in a timely manner. However, this was a one-time delay due to a transition to a new Asset Management System and not reflective of UMB's long-standing practices.*

Since the audit, the AM database has been updated to accurately record the 46 pieces of equipment and one (1) vehicle donated in fiscal year 2005. 39 items were laptops from the Beaumont Foundation. These were posted to the AM Database in fiscal year 2007; 15 were subsequently retired because they were raffled. There were conflicting issues regarding the donated vehicle which was donated in 2005 for an appraised value of \$7,777. This was an alternative energy vehicle that could not be registered and therefore delayed the posting process. This has since been posted and status changed to surplus in the AM database to provide an appropriate audit trail of its disposition.

- *... prior to the initiation of the state audit the Library had a database to track and record all of the artwork under their control. Since the audit, an item level inventory was created that includes all of the information for each piece of donated artwork, along with its location. All donated artwork has been inventoried and recorded in this database. The Library has submitted the inventory of artwork to UMB's Property Management Office.*
- *The University will have to examine the cost/benefit of hiring a firm to establish a dollar value for items that are currently not valued.*
- *To safeguard donated artwork, University Advancement will be responsible to report all artwork valued at \geq \$5,000 to the Property Management Department. Property Management will be responsible for the tracking and the physical inventory of donated artwork reported to them.*
- *It has always been our practice that all items located in Archives and Special Collections are cataloged and inventoried according to standard professional library practices. This practice will be documented in our internal policies and procedures.*

- *It has been the practice of the Property Management Department to post and inventory all donated capital equipment and computers regardless of cost to the AM database upon notification. This practice is now documented in our internal policies and procedures.*

4. NONCOMPLIANCE WITH CHAPTER 647 OF THE ACTS OF 1989 REPORTING REQUIREMENTS

Chapter 647 of the Acts of 1989 requires agencies to immediately report all unaccounted-for variances, losses, shortages, or thefts of funds or property to the Office of the State Auditor (OSA). We noted that UMB did not promptly report four instances of stolen funds and one instance where payroll overpayments were made to a former employee, as discussed below:

a. Instances of Stolen Funds Not Reported to OSA in a Timely Manner

UMB's Director of Public Safety informed us that UMB incurred four instances of stolen funds, totaling \$2,822, that were not reported to the OSA, as detailed below:

Date of Incident	Length of Time to Report	Cash/Checks	Amount	Location	UMB Explanation
08/09/2005	16 months	Cash	\$ 750	Wit's End Café*	Moneybag not put away in safe.
01/04/2006	11 months	Cash	580	Wit's End Café	Taken from locked safe; no forced entry.
01/25/2006	11 months	Cash	1,027	Wit's End Café	Taken from locked safe; no forced entry. Close examination showed safe to be defective.
08/09/2006	4 months	Money Orders	<u>465</u>	Admissions Office	Former employee involved, pending court action.
Total			<u>\$2,822</u>		

*NOTE: Coffee shop (Café) located in a building on the campus.

During our audit on December 8, 2006, UMB's Controller officially reported the above four instances to the OSA after we explained to senior management that these incidents represent reportable events pursuant to Chapter 647.

Our review found that UMB did not design and implement the necessary internal controls at the Wit's End Café and the Admissions Office to properly account for all cash receipts. Specifically, checks received at the Admissions Office were not restrictively endorsed "for deposit only," and the Café did not exercise due care for safeguarding daily receipts. In these cases of missing cash, UMB's Administration and Finance Department was not able to determine the cause and therefore was unable to recover the funds.

In addition, an employee in UMB's Admission's Office altered money orders by changing the payee from UMB to the employee's name and deposited the proceeds into a personal checking account. OSA has been advised that UMB is in the process of seeking restitution as part of a pending criminal case against the former employee.

Subsequent to our completion of fieldwork, we were informed by UMB that the Wit's End Café was closed at the end of the spring semester and that the former Admissions Office employee implicated in this case was ordered by the court to make restitution in the amount of \$465.

Our audit also disclosed that, as a result of not establishing and issuing formal written policies and procedures for reporting Chapter 647 incidents, UMB had no assurance that all departments were properly reporting all unaccounted for variances, losses, shortages, or thefts funds or property to the OSA.

UMB personnel informed the OSA that a new internal system for reporting missing or stolen funds would be established.

Recommendation

UMB should continue to design, implement, and strengthen internal controls over daily cash receipts processing to decrease the risk of funds being omitted, lost, stolen, or misused. Secondly, UMB should continue to take corrective action by reviewing, developing, and implementing policies and procedures to ensure that all unaccounted for variances, losses, shortages, or thefts of funds or property are immediately reported to the OSA as required by Chapter 647 of the Acts of 1989.

Auditee's Response

UMB remains committed to strengthening internal controls over daily cash processing. The Administration and Finance Division continues to remind departments through official communications of their responsibilities in protecting the revenue of the University and conducts training on a regular basis for personnel charged with handling and processing cash.

UMass Boston has a strong record of complying with Chapter 647 and will continue to report unaccounted for variances, losses, shortages, or theft of funds or property to the OSA in a timely manner.

b. Payroll Overpayments Totaling \$34,273 Not Reported to OSA in a Timely Manner

UMB did not promptly report to the OSA, as required by Chapter 647 of the Acts of 1989, payroll overpayments made to a former employee until May 10, 2007, approximately nine weeks

after the incident was discovered. Management informed us that the incident was not initially reported to the OSA because it was their opinion that the incident was not a reportable condition under Chapter 647. Chapter 647 requires that “all variance, losses, shortages or thefts of funds or property shall be immediately reported to the Office of the State Auditor.” UMB’s Internal Audit Department became aware of the incident on April 12, 2007 and initiated a review of the facts and circumstances of the overpayments.

The individual, having terminated his services on June 26, 2006, was paid up to March 23, 2007 in salary payments totaling approximately \$34,273. UMB’s Controller attributed the overpayment to a unique combination of circumstances, inadequate internal controls, and human error.

After the former employee terminated employment on June 26, 2006, normal and expected removal from payroll based on employee termination never occurred. As a result, the former employee received payroll overpayments until March 23, 2007, totaling gross wages of \$34,272.73 and net wages of \$26,721.50 (net direct deposit amount). During this period after termination, the former employee never contacted UMB’s Payroll Department to inform UMB of the overpayments that he had been receiving. The overpayments were discovered in late March 2007, when his former immediate supervisor reviewed the financial reports.

As of August 14, 2007, the former employee had submitted \$6,500 to be applied against the liability. In addition, his earned gross vacation time valued at \$5,203.60 and the gross accumulated retirement deductions of \$9,422.23 would be applied against the total net balance owed to UMB, resulting in an outstanding liability balance of \$5,595.67, which was subsequently paid in full on May 22, 2007.

University management used the net figure of \$26,721.50 to analyze the effect of overpayments made, but in actuality, UMB overpaid and was financially impacted by the total gross amount. UMB needs to work toward recouping the entire gross overpayment amount of \$34,272.73.

The payroll processes that permitted the salary overpayments to occur have begun to be addressed by UMB, including the adoption of a new attendance report that provides detailed information for all employees for each pay period and the initiation of a business process review for employees with termination dates to increase internal controls.

It is imperative that issues concerning payroll overpayments are immediately reported to the OSA so that it can conduct an independent review to identify the internal control weaknesses and conditions that caused the thefts, determine the amount to be reported to management and law enforcement officials, and recommend the necessary corrective action to be taken by management to preclude similar occurrences in the future.

As a result of this issue, UMB has issued a Policy and Guidance Memorandum that states, in part:

The policy defines a fraudulent act to include authorizing or receiving payments for hours not worked.

Recommendation

UMB should:

- Continue to take corrective action by reviewing, developing, and implementing policies and procedures to ensure that all unaccounted for variances, losses, shortages, or thefts of funds or property are immediately reported to the OSA in compliance with Chapter 647 of the Acts of 1989.
- Aggressively pursue recovery of the payroll overpayments, including the portion of federal and state taxes paid to the tax authorities.
- Continue to review, evaluate, and revise the policies and procedures regarding employees and termination dates to minimize the risk of payroll overpayments beyond an individual's last date of employment.
- If funds are not recovered, report the matter to the Commonwealth's Attorney General's Office.

Auditee's Response

UMass Boston has a strong record of complying with Chapter 647 and will continue to review and develop policies and procedures to ensure that all unaccounted for variances, losses, shortages, or theft of funds or property will be reported to the OSA in an expeditious manner.

... as soon as the overpayment was discovered by UMB personnel, the University believes it took appropriate action to recover the overpayment from the former employee including the portion of federal and state taxes paid to the tax authorities.

In response to the overpayment, which was a single instance and not systemic in nature, in June 2008, the University issued a policy on employee exits that clarifies the responsibility and streamlines the process for notifying the Payroll Department of employee terminations. Specifically, a new electronic employee exit check form is used to immediately notify the Payroll Department whenever an employee is terminated (in some cases, before the termination date). That policy, together with the policy on Time and Labor Reporting substantially improves the University's internal controls concerning overpayments and specifically overpayments in connection with an employee termination.

5. IMPROVEMENTS NEEDED OVER INTERNAL CONTROLS AND ADMINISTRATION OF PRO-CARD PROGRAM

Our review of UMB's internal controls over the administration of its Procurement Credit Card Program (Pro-card Program) was initiated as a result of the Chapter 647 report filed by UMB regarding the purchase of unallowable items amounting to \$2,385 by a former employee. The charges were associated with a Research Corporation Grant (\$2,350) and Start-Up Fund (\$35). The Research Corporation Grant was awarded to support the former employee's project, entitled "Investigations in organobarium chemistry: Novel mechanistic concepts and synthetic applications."

The Pro-card Program was initiated by UMB in 1996. Under the program, a MasterCard credit card is established to be used for purchases of consumable supplies by employees, related to University businesses only. For the period July 1, 2006 through December 31, 2006, UMB's Pro-card Program had 353 authorized cardholders and expended \$1,658,550.

Our audit disclosed that internal controls were not in place for the timely cancellation of Pro-card Program credit cards for terminated and/or transferred employees. During a routine transaction review conducted by the Pro-card Administrator on July 27, 2006, the Pro-card administrator determined that a former employee resigned effective June 30, 2006. The administrator immediately cancelled the account and reviewed Pro-card charges on the account incurred in June and July 2006. The administrator's review identified three inappropriate personal charges totaling \$1,968: one in June for \$898 and two in July (after the former

employee had resigned) totaling \$1,070. Based on the results of the review conducted, UMB requested that the University's Internal Audit Department conduct a thorough review of the former employee's Pro-card activity. The Internal Audit review identified an additional six inappropriate charges totaling \$417, resulting in a total of \$2,385 in unallowable/improper charges.

Our testing of authorized card holders disclosed that four employees were listed as active Pro-card Program users as of January 2007, when in fact their employment had been terminated from UMB during September 2005, and July, September, and October of 2006. The results of our review were communicated with the Pro-card Administrator, who was unaware that these employees were not actively employed by the campus. As a result of our review, the Pro-card Administrator cancelled the four accounts. Our review of the four accounts disclosed that transactions were allowable (valid transactions made prior to termination date) and in accordance with UMB's Pro-card Program guidelines.

In discussions held with UMB's personnel, we were informed that no written policies and procedures were in place requiring the department heads or Human Resources to notify the Pro-card Administrator of employee terminations and transfers. UMB management agreed with the need to improve communications to ensure that the Pro-card Administrator is notified of employee terminations on a timely basis. In response to our discussions, UMB established written procedures requiring departments to immediately notify the Pro-card Administrator of employee terminations.

Chapter 647 of the Acts of 1989 states, in part:

Transactions and other significant events are to be authorized and executed only by persons acting within the scope of their authority. Authorizations should be clearly communicated to managers and employees and should include specific conditions and terms under which authorizations are to be made. In addition, the Act requires that documentation of the agency's internal control systems should include (1) internal control procedures, (2) internal control accountability systems, and (3) identification of the operating cycles. Documentation of the agency's internal control systems should appear in management directives, administrative policy, and accounting policies, procedures and manuals.

UMB management also referred the matter to the University's Internal Audit Department for review. In its issued report, the Internal Audit Department concluded that the issue was a direct and intentional abuse of the Pro-card Program over a very short employment period. The Internal Audit Report recommended the following:

- UMB's Office of the Provost should notify the Research Corporation of all unallowable expenditures from its grant.
- UMB, in conjunction with legal counsel, should initiate actions to recover the losses in the amount equal to the outstanding improper charges.

In its response to the Internal Audit Report recommendations, UMB contacted the Grantor of the funds and proceeded to take action to recover the outstanding improper charges. Because the University has an obligation to return funds that were spent by the former employee, \$2,350 was returned to the Grantor.

Without timely cancellation of Pro-card Program credit cards for terminated or transferred employees, the Pro-card Program is at risk for misuse or abuse.

Recommendation

UMB should improve the administration of its Pro-card Program, as follows:

- Ensure that UMB's newly instituted policy requiring individual department heads and Human Resources to immediately notify the Pro-card Administrator of employee terminations and transfers is being followed.
- Seek restitution from the former employee for all improper and unallowable charges incurred.

Auditee's Response

UMass Boston's new Employee Exit Policy requires that the Department Head of the exiting employee is responsible for ensuring that the Employee Exit Check Out Form is electronically issued. The form is issued to key UMB departments at least two weeks before the employee's last working day, or as soon as reasonably possible. The key departments include Procard and Property Management, Facilities, IT, Controller/Bursar, Human Resources, Library, Budget, Campus Services, ORSP, Public Safety, Academic Affairs, and Assistant Deans.

The Department Head of the exiting employee is responsible for follow-up to ensure that all property is returned, security access is cancelled and other general closure tasks are accomplished before the employee's last working day. Lastly, the Department head is responsible for ensuring that the completed Exit Check-out Form is on file with Human Resources within two weeks after the employee's last working day.

In April 2007 the University's Office of the General Counsel sent a demand letter to the former employee seeking restitution. The former employee has not responded to the demand letter. Per the General Counsel's Office, any suit would have to be filed in New York and given the amount of money involved, it is their opinion the time and expense are not warranted.

6. CHAPTER 647 REPORTS SUBMITTED DETAILING INSTANCES OF STOLEN PROPERTY, IMPROPER OVERTIME PAY, A BREACH OF SECURITY, AND PARKING FEE VARIANCES

During the period of September 1, 2005 to March 24, 2007, UMB submitted twenty Chapter 647 reports to the Office of the State Auditor detailing a) 39 instances of stolen property, b) one instance of inappropriately paid overtime, c) one instance of a breach of security committed by a student employee, and d) 31 instances of parking fee variances. Our review and follow-up of these reports are discussed below. Chapter 647 requires the OSA to determine the internal control weaknesses that contribute to or cause an unaccounted-for variance, loss, shortage, or theft of funds or property; make recommendations to correct the condition found; identify the internal control policies and procedures that need modification; determine the amount of funds involved; and report the matter to appropriate management and law enforcement officials when necessary.

a. 39 Instances of Stolen Property Valued at \$56,615

UMB submitted nine Chapter 647 reports to the OSA detailing 39 instances of stolen property totaling \$56,615. In one report, 17 items, consisting of six laptop computers, 10 projectors, and one sound mixer (total value of \$39,815), were reported stolen as a result of forced entry. Our review determined that UMB did not have the necessary security measures in place for securing the property items from theft, i.e., the installation of locks and alarms. Secondly, we found that many of the incidents reported were the result of carelessness and could have been prevented. We found, for example, that some students left laptop computers unattended and unsecured.

University policy T96-073, Capitalization and Inventory Control Policy, states that “[a]t a minimum, the Chancellor shall inform all members of the faculty and administrative officers of their obligations for the use, care, maintenance and safekeeping of all property under the control of their respective departments or units.”

We were informed that UMB has taken measures to address security concerns, including installing lock guards on the doors of media labs and adjoining areas, securing projectors and computers to portable audio/video carts via wire locks, and installing audible alarms on all ceiling-mounted LCD projectors.

Recommendation

UMB should continue to address and implement security measures to ensure that valuable equipment is properly secured and access is limited only to authorized personnel. Secondly, UMB should explore the feasibility of installing surveillance cameras in areas of the campus affected by previous thefts and other areas determined to be of high risk. Third, UMB's faculty, staff, and students should be instructed to secure assigned property and equipment from theft, loss, or misuse. This would include keeping valuables and equipment vulnerable to theft in locked areas when unattended.

Auditee's Response

In an effort to protect the security of University equipment the campus takes the following measures:

- *Campus Police regularly patrol all facilities.*
- *All laptops purchased through the IT Department are equipped with a tracing capability. If a laptop is reported stolen, IT notifies the company who then monitors for the next time the laptop is connected to a network. IT is then notified and provides the police with information that allows them to subpoena the address where the laptop has been used. Campus Police have recovered three laptops in the last year using this tracking software.*
- *Security cables have been installed in desktop computers in Campus Center offices.*
- *Departmental managers issue reminders to staff to secure equipment on a regular basis.*

b. Overtime Charged for Time Not Worked by Two Employees and Approved by Three Supervisors

The University's Internal Audit Department submitted a Chapter 647 report on March 24, 2005 in accordance with UMB's internal review stating that two employees within UMB's Information Technology Department were granted regular weekly overtime for time not worked. Three supervisors inappropriately authorized the overtime payments.

The report stated that it was disclosed during a labor relations meeting that certain employees were granted regular weekly overtime in order to supplement the fact that they have not been upgraded in their positions, with overtime being used to increase their base salary. The employees admitted to UMB's Human Resources Director on January 28, 2005 that they did not work additional hours for these payments. An internal review conducted by UMB's Director of Human Resources and completed on March 24, 2005 estimated that the amount of

inappropriate overtime paid to these two employees was greater than \$50,000 and attributed the cause to a definite lapse in oversight, study, and approval of weekly payroll in the Information Technology Division of the campus.

The University's Internal Audit Department, along with an outside independent audit firm, conducted a review to evaluate regular and overtime reporting practices at selected departments. An audit report was issued in September 2005, which recommended that a) overtime premium pay (OVP)³ be monitored closely or reported separately from overtime straight pay (OVS) when reviewing overtime information, and b) all campuses institute, as a best practice, a quarterly review process in which department directors are asked to review and attest to the overtime hours recorded for the individuals in their departments who have recorded overtime hours in excess of 10% of their base pay. Also, it was determined that the actual overtime payments totaled \$40,000 and stated that the breakdown of internal controls were attributed to inadequate accountability in the bi-weekly employee payroll process, inadequate management reporting, the lack of a formal review and approval process in place that supervisors and department heads used to monitor employee overtime, and the lack of records kept regarding those employees who are authorized to sign off on time and labor.

Our review disclosed that UMB has begun to implement the recommendations of the report by identifying and reporting all employees who have received overtime in amounts greater than 10% of their base pay through any combination of OVS and/or OVP on a quarterly report. In addition, department directors document their review and approval of all employees who have received overtime and are listed on the quarterly reports.

Recommendation

UMB should continue to review, assess, and monitor its payroll practices to ensure that all recorded employee overtime incurred by the UMB's departments is appropriately authorized and approved.

Auditee's Response

UMass Boston has adopted a practice of notifying and requiring department managers to approve overtime on a quarterly basis whenever overtime payments exceed 10% of an employee's quarterly base earnings. Further, UMB issues annual reminders to all

³ There are two different categories of overtime: overtime straight pay (OVS) and overtime premium pay (OVP). OVS is used for hours above the individual standard hours (but not exceeding 40 hours in one week) and is paid at the employee's regular hourly rate of pay. OVP is used for all hours worked above 40 hours and is paid at 1.5 times the employee's regular hourly rate.

employees about the University's policy on fraudulent financial activities. That policy, among other provisions, defines "authorizing or receiving payments for hours not worked" as a fraudulent act.

c. Breach of Security by Student Employee Involving Student Tuition and Fee Accounts

UMB submitted a Chapter 647 report on February 20, 2007 stating that a student employed by UMB's Division of Corporate, Continuing, and Distance Education (CCDE) was able to gain access to his own and another student's account using the login identification number of a regular employee who stepped away from his desk without logging out of the system. Although UMB stated that no funds were inappropriately received or disbursed, the student gained access to confidential information and altered the financial records of the continuing education trust fund. Specifically, student accounts were altered to a) reverse charges for several prior semesters and the current semester and b) record and immediately reverse a payment without a corresponding cash deposit. The incident was discovered by UMB's Bursar when she noticed that the student tuition and fee accounts for two students were altered retroactively to reverse charges for several prior semesters and the current semester, and record and immediately reverse a payment without a corresponding cash deposit.

The University's Internal Audit Director requested that audit inquiries be delayed until the Police concluded its investigation. The OSA inquired as to whether the ongoing investigation had identified the breakdown of the internal control conditions that contributed to the incident and any actions subsequently taken to prevent this incident from reoccurring. In reply, UMB's Director of Fiscal Operations and Controller informed us that a student employee was able to gain access to student accounts using the login ID of a regular full-time employee. As a response to this incident, UMB removed all student financial system access by both the student and employee involved, limited access of the student financial system to the Director of Financial Services, and divided functions into separate security roles.

When the Internal Audit Department's review of the student billing system and the incident was completed, it made further recommendations to strengthen internal controls and to minimize risk of future incidents.

Generally accepted computer industry practices indicate that appropriate physical security controls need to be in place to ensure that the information technology assets are operating in a secure processing environment.

Without sufficient internal controls in place over computer equipment, UMB cannot be assured that only authorized personnel have access to its automated systems and data is sufficiently protected against unauthorized disclosure, change, or deletion.

Recommendation

UMB should implement the following recommendations:

- Adopt appropriate physical security protection policies and procedures requiring that computer assets be protected from unauthorized access, use, or theft and only distributed to appropriate staff members.
- Continue to review, monitor, and evaluate its data security policies and procedures over its student financial system and make appropriate changes based upon the incident cited and the ongoing investigation to mitigate the risk of unauthorized access to student accounts.
- Continue to promote and emphasize the importance of internal controls through more education and training and increased departmental awareness of control procedures. Management needs to be especially mindful of whether internal controls in their departments are adequate for reducing the risk of asset loss, help to ensure that data is secure from unauthorized access, and comply with applicable laws and regulations.

Auditee's Response

The University has taken the following actions to address this security breach and protect the data in the information management system:

- *All employee and student passwords for the PeopleSoft Student System were changed immediately upon learning of the incident and will continue to be changed on a regular basis.*
- *Employee security roles were reviewed and modified to reflect only the roles that are essential to the specific job that needs to be done. These security roles continue to be reviewed regularly by the data custodian for student financials.*
- *The University's Computing Awareness and Data Security Compliance Statements were redistributed to all CCDE and Bursar Office employees who were again reminded of their obligation to comply with all policies, guidelines and procedures.*
- *There continues to be education and emphasis placed on the importance of internal controls to insure that data is secure from unauthorized access.*

d. 31 Instances of Parking Fee Variances

UMB submitted nine Chapter 647 reports detailing 31 instances of parking fee variances. In discussions and interviews with the Director of Parking and Transportation, the Assistant Vice Chancellor of Parking and Transportation, and the Head Parking Attendant, we were informed that the variances reported consisted of the difference between the amount recorded on the register in the tollbooth and the actual amount of receipts collected by the tollbooth attendant. Our audit disclosed that the variances did not represent a loss or shortage of actual cash to UMB, since the tollbooth attendant received the correct amount of cash. Rather, the situation occurs when a parking customer presents a parking ticket that has been issued on a prior day, but never processed for payment when exiting the parking area. At this point, the tollbooth attendant processing the ticket for payments is required to read the amount owed (electronically shown on the register) before activating the Enter key on the register. When this process is not followed and the tollbooth attendant activates the Enter key before reading the amount owed, the registrar records the amount as owed, even though it may not be the correct amount.

For example, a parking customer is issued a daily parking ticket when entering the garage. Later that day, the parking customer attempts to exit the garage but cannot locate the ticket that was issued earlier in the day. The parking attendant processes a daily parking fee of \$6 on the tollbooth register and collects \$6. A week later, the same customer enters the garage and is issued a daily parking ticket. Later that day, the customer attempts to exit the garage and mistakenly presents the week-old ticket. At this point, the tollbooth attendant processing the ticket for payment is required to read the amount owed (which is electronically shown above the register) before activating the Enter key on the register. When this process is not followed and the tollbooth attendant activates the Enter key before reading the amount owed, the register records the amount as owed, which is not the correct amount. In this example, the previous issued ticket would show \$42 as owed (seven days at \$6 per day), when in fact only \$6 is owed and collected. As a result, a variance is generated between the amount recorded on the tollbooth register and the actual cash collected.

The Director of Parking explained that some customers accumulate several parking tickets due to leaving the parking facility after closing time. To address this issue, the Director of Parking stated that UMB is considering a pre-paid parking system and is currently implementing this system on an interim basis at selected locations on UMB's campus.

Recommendation

UMB should:

- Instruct and remind tollbooth attendants to follow the established instructions for the proper processing of parking ticks presented for payment.
- Provide information to parking customers to present all parking tickets for payments in a timely manner.
- Review its policies and procedures with regard to ensuring that all customers who are using the parking areas are paying the stipulated fee.
- Consider requiring pre-payment of parking fees for all parking lots.

Auditee's Response

The University is constantly seeking to improve parking and transportation operations through benchmarking and incorporation of best practices. In addition, please note that we are constantly seeking to improve operations and incorporate industry best practices.

[Instructing and reminding tollbooth attendants to follow established instructions for payment collection] is an ongoing process which occurs during initial hiring and training; formal training and reminders twice yearly at staff meetings. These instructions will continue to be emphasized during all trainings.

Beginning with the fall semester, signage will be posted at all entrances reminding customers to retain ticket for use when paying at exit. Similar language will be added to all relevant parking & transportation marketing materials, both printed and online. The parking fee is posted at the parking lots entrances, exits and in all written and online communications.

One method of pre-payment is to implement a pay-on-entry system for all parking lots. This is routinely done in one lot during the afternoon and evening hours. This system is also employed for event specific activities to enhance the traffic flow during peak periods. Current lot configurations are not set-up to implement this system university-wide at this time; however we will continue to pursue the feasibility of this in the future. Other pre-payment options, such as a central pay system, will continue to be explored.

Efforts to increase the use of parking passes will continue, which will decrease the possibility of the occurrence of these variances by decreasing overall ticket use.

APPENDIX

Chapter 647, Acts of 1989, An Act Relative to Improving the
Internal Controls within State Agencies

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Chapter 647

THE COMMONWEALTH OF MASSACHUSETTS

In the Year One Thousand Nine Hundred and Eighty-nine

AN ACT RELATIVE TO IMPROVING THE INTERNAL CONTROLS WITHIN STATE AGENCIES.

Be it enacted by the Senate and House of Representatives in General Court assembled, and by the authority of the same, as follows:

Notwithstanding any general or special law to the contrary, the following internal control standards shall define the minimum level of quality acceptable for internal control systems in operation throughout the various state agencies and departments and shall constitute the criteria against which such internal control systems will be evaluated. Internal control systems for the various state agencies and departments of the commonwealth shall be developed in accordance with internal control guidelines established by the office of the comptroller.

(A) Internal control systems of the agency are to be clearly documented and readily available for examination. Objectives for each of these standards are to be identified or developed for each agency activity and are to be logical, applicable and complete. Documentation of the agency's internal control systems should include (1) internal control procedures, (2) internal control accountability systems and (3), identification of the operating cycles. Documentation of the agency's internal control systems should appear in management directives, administrative policy, and accounting policies, procedures and manuals.

(B) 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.

(C) Transactions and other significant events are to be authorized and executed only by persons acting within the scope of their authority. Authorizations should be clearly communicated to managers and employees and should

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Include the specific conditions and terms under which authorizations are to be made.

(D) Key duties and responsibilities including (1) authorizing, approving, and recording transactions, (2) issuing and receiving assets, (3) making payments and (4), reviewing or auditing transactions, should be assigned systematically to a number of individuals to ensure that effective checks and balances exist.

(E) Qualified and continuous supervision is to be provided to ensure that internal control objectives are achieved. The duties of the supervisor in carrying out this responsibility shall include (1) clearly communicating the duties, responsibilities and accountabilities assigned to each staff member, (2) systematically reviewing each member's work to the extent necessary and (3), approving work at critical points to ensure that work flows as intended.

(F) Access to resources and records is to be limited to authorized individuals as determined by the agency head. Restrictions on access to resources will depend upon the vulnerability of the resource and the perceived risk of loss, both of which shall be periodically assessed. The agency head shall be responsible for maintaining accountability for the custody and use of resources and shall assign qualified individuals for that purpose. Periodic comparison shall be made between the resources and the recorded accountability of the resources to reduce the risk of unauthorized use or loss and protect against waste and wrongful acts. The vulnerability and value of the agency resources shall determine the frequency of this comparison.

Within each agency there shall be an official, equivalent in title or rank to an assistant or deputy to the department head, whose responsibility, in addition to his regularly assigned duties, shall be to ensure that the agency has written documentation of its internal accounting and administrative control system on file. Said official shall, annually, or more often as conditions warrant, evaluate the effectiveness of the agency's internal control system and establish and implement changes necessary to ensure the continued integrity of the system. Said official shall in the performance of his duties ensure that: (1) the documentation of all internal control systems is readily available for examination by the comptroller, the secretary of administration and finance and the state auditor, (2) the results of audits and recommendations to improve departmental internal controls are promptly evaluated by the agency management, (3) timely and appropriate corrective actions are effected

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by the agency management in response to an audit and (4), all actions determined by the agency management as necessary to correct or otherwise resolve matters will be addressed by the agency in their budgetary request to the general court.

All unaccounted for variances, losses, shortages or thefts of funds or property shall be immediately reported to the state auditor's office, who shall review the matter to determine the amount involved which shall be reported to appropriate management and law enforcement officials. Said auditor shall also determine the internal control weaknesses that contributed to or caused the condition. Said auditor shall then make recommendations to the agency official overseeing the internal control system and other appropriate management officials. The recommendations of said auditor shall address the correction of the conditions found and the necessary internal control policies and procedures that must be modified. The agency oversight official and the appropriate management officials shall immediately implement policies and procedures necessary to prevent a recurrence of the problems identified.

House of Representatives, December 21, 1989.

Passed to be enacted,

George Luvaan, Speaker.

In Senate, December 22, 1989.

Passed to be enacted,

William W. Budge, President.

January 3, 1990.

Approved,

Richard H. Kiah, Governor.