The Commonwealth of Massachusetts

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INDEPENDENT STATE AUDITOR'S REPORT ON CERTAIN ACTIVITIES OF THE DEPARTMENT OF ENVIRONMENTAL PROTECTION

OFFICIAL AUDIT REPORT

JULY 17, 2003

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Chapter 21A, Section 7, of the Massachusetts General Laws established the Massachusetts Department of Environmental Protection (DEP) as a subdivision under the Executive Office of Environmental Affairs. DEP is the state agency responsible for protecting human health and the environment by ensuring clean air and water, the safe management and disposal of solid and hazardous wastes, the timely cleanup of hazardous waste sites and spills, and the preservation of wetlands and coastal resources. The DEP administers state laws and regulations aimed at preventing pollution, protecting natural resources, promoting the safe disposal and recycling of wastes, and ensuring timely cleanup of contamination.

Our audit was initiated as a result of a Chapter 647 report filed by DEP's Bureau of Administrative Services (BAS) indicating that a DEP employee had input false information into the Massachusetts Management Accounting and Reporting System (MMARS) for six years (fiscal years 1997 to 2002) and generated more than $75,000 in payments to herself. When DEP discovered this issue, it took administrative action and also fired the employee.

We conducted our audit in conjunction with the Office of the Attorney General and in accordance with Chapter 647 of the Acts of 1989, An Act Relative to Improving the Internal Controls within State Agencies. Chapter 647 requires the Office of the State Auditor (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 modifications; and report the matter to appropriate management and law enforcement officials.

The purpose of our audit was to determine whether DEP has (1) adequate internal controls over disbursements to ensure that payments for obligations are valid, represent goods and services received, and are prepared with adequate supporting documentation and proper approvals, (2) maintained the principle of segregation of duties within the disbursement process, and (3) remitted disbursed funds in accordance with applicable laws, rules, and regulations.

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Our audit disclosed that an administrative assistant in DEP's Office of Research and Standards (ORS) processed more than 400 fraudulent expenditure transactions during fiscal years 1997 through 2002 without the required payment vouchers (PVs), supervisory approvals, and back-up supporting documentation. Moreover, ORS did

not implement the required segregation of duties, did not perform the mandatory weekly reconciliation of transactions listed on weekly "Transaction Processed" reports against original documents, and did not ensure that after data entry original documentation was retained to support processed transactions. In addition, DEP's Bureau of Administrative Services (BAS), contrary to DEP policies and procedures, did not administer necessary oversight and control over MMARS transactions. Moreover, DEP's Internal Audit section did not perform the required data entering security checks and compliance reviews of original input forms and supporting documentation. Collectively, these internal control deficiencies allowed a DEP employee to divert, over a six-year period, more than $79,000 of state funds to herself by entering false reimbursement expenditure transactions into the Commonwealth's MMARS accounting system.

Our audit also included a department-wide examination of employee reimbursement payments made during fiscal years 1998 through 2002. Our sample of 175 transactions totaling $354,294 disclosed that 89 transactions totaling $200,321, or 51%, lacked adequate documentation. In response to the misappropriation of funds, DEP established disbursement policies and procedures to ensure that payments for obligations are valid, represent goods and services received, and are prepared based on adequate supporting documentation and proper approval. We tested compliance with those new policies and procedures and determined that the expenditure transactions had complete, accurate, and properly approved PVs; had adequate supporting documentation; and had been checked by BAS.

In response to the audit, DEP indicated that a number of corrective steps have taken place in order to be in compliance with Chapter 647 and the Comptroller's internal control guidelines. These steps include segregation of duties in cost centers, payment logs, periodic review by Internal Audit of employees' reimbursements, and distribution of the State Comptroller's Internal Control Guide to all managers.

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INTRODUCTION

Background

The Massachusetts Department of Environmental Protection (DEP) was established by Chapter 21A, Section 7, of the Massachusetts General Laws as a subdivision of the Executive Office of Environmental Affairs. DEP is the state agency responsible for protecting human health and the environment by ensuring clean air and water, the safe management and disposal of solid and hazardous wastes, the timely cleanup of hazardous waste sites and spills, and the preservation of wetlands and coastal resources. DEP is the guarantor of the peoples' right, under Article 97 of the Massachusetts Constitution, to "clean air and water" and "the natural scenic, historic and aesthetic qualities of the environment."

DEP has several offices throughout the state. The central office is in downtown Boston. Most of DEP's day-to-day business is handled by its four regional offices.

DEP administers state laws and regulations aimed at preventing pollution, protecting natural resources, promoting safe disposal and recycling of wastes, and ensuring timely cleanup of contamination. The United States Environmental Protection Agency (EPA) administers similar federal laws and regulations, but it delegates much of its enforcement authority in Massachusetts to DEP.

Our audit was conducted in conjunction with the Office of the Attorney General and initiated as a result of a Chapter 647 report filed with the Office of the State Auditor (OSA) by DEP's Director of Financial Management. The report indicated that a DEP employee had possibly input false information into the Massachusetts Management Accounting and Reporting System (MMARS) for six years (fiscal years 1997 to 2002) and generated $75,133.39 in payments to herself. When DEP discovered this problem it took administrative action and also fired the employee.

In accordance with Chapter 647 of the Acts of 1989, An Act Relative to Improving the Internal Controls within State Agencies, agencies are required to report unaccounted-for variances, losses, shortages, or thefts of property to OSA. Chapter 647 requires that OSA determine the

internal control weaknesses contributing to or causing unaccounted-for variances, losses, shortages, or thefts of funds or property; make recommendations to correct the condition found; identify the internal control policies and procedures that need modification; and report the matter to appropriate management and law-enforcement officials.

Audit Scope, Objectives, and Methodology

In accordance with Chapter 11, Section 12, of the General Laws and Chapter 647 of the Acts of 1989, we conducted an audit of DEP. Our audit, which covered the period July 1, 1996 to October 8, 2002, was conducted in conjunction with the Office of the Attorney General (AG) and in accordance with applicable generally accepted government auditing standards and included a review of the disbursement transactions and other pertinent records, such as payment vouchers, invoices, and various MMARS expenditure reports, that we felt necessary under the circumstances.

The objectives of our audit were to determine whether DEP, including its Office of Research and Standards (ORS), has (1) adequate internal controls over cash disbursements to ensure that payments for obligations are valid, represent goods and services received, and are prepared on the basis of adequate supporting documentation and proper approvals; (2) maintained within the disbursement process the principle of segregation of duties; and (3) remitted disbursed funds in accordance with applicable laws, rules, and regulations.

To accomplish our objectives, we performed on-site reviews, evaluated the DEP internal control structure, and reviewed and analyzed controls over employee reimbursements. In addition, we conducted interviews with DEP officials, reviewed DEP's *General Procedures and Internal Controls with MMARS,* analyzed DEP-prepared employee reimbursement queries, and reviewed interview reports prepared by the AG's Director of Financial Investigations.

At the conclusion of our audit, we reviewed the audit result with the DEP's Director of Financial Management.

Except as noted in the Audit Results section of the report, for areas tested, the DEP had adequate internal controls over disbursements and complied with applicable laws, rules, and

regulations. The diversion of state funds totaling $79,622 resulted from inadequacies in the segregation of duties, supervision of staff, and enforcement of internal controls.

AUDIT RESULTS

1. INADEQUATE INTERNAL CONTROLS OVER CASH DISBURSEMENTS RESULTED IN FRAUDULENT PAYMENTS OF MORE THAN $79,000 TO A DEP EMPLOYEE

The Department of Environmental Protection's (DEP's) Director of Financial Management reported to the Office of the State Auditor that an administrative assistant in its Office of Research and Standards (ORS) had misappropriated, over a period of six years, $75,133.39 in employee-related and administrative expenses. Our audit disclosed that the administrative assistant had processed over 400 false expenditure transactions during fiscal years 1997 through 2002 without required payment vouchers (PVs), supervisory approval, and back-up supporting documentation. Moreover, our audit disclosed that the ORS did not implement the required segregation of duties, did not perform DEP-mandated weekly reconciliations of transactions on the ORS "Transaction Processed" weekly report against original documents, and did not ensure that after data entry original documentation was retained to support processed transactions. We also determined that DEP's Bureau of Administrative Services (BAS), contrary to DEP policies and procedures, did not administer the necessary oversight and control over Massachusetts Management Accounting and Reporting System (MMARS) transactions. Moreover, DEP's Internal Audit Section did not perform required data entry security checks and compliance reviews of original input forms and supporting documentation. Collectively, these internal control deficiencies allowed the ORS administrative assistant to generate $79,622.07 in payments to herself over a six-year period by entering invalid reimbursement expenditure transactions into the Commonwealth's MMARS accounting system.

During our audit we ascertained that two DEP employees, a supervisor and an administrative assistant, were responsible for the daily administration and operational duties of DEP's ORS. The ORS administrative assistant was authorized to have direct access to MMARS and was responsible for entering various accounting transactions. The administrative assistant's cash-disbursement responsibilities included preparing original PVs for supervisory approval, entering supervisor-approved PVs into MMARS, retaining all original PVs and supporting data (e.g., vendor invoices) in a "Pending" file, and performing

weekly reconciliation of all transactions against original documents. According to DEP's Director of Financial Management, supervisors typically perform DEP weekly reconciliation procedures.

Our assessment of ORS internal controls revealed that the ORS supervisor did not anticipate or consider the risk in delegating weekly reconciliation procedures to the administrative assistant. As a result, the supervisor did not design and implement the necessary segregation of duties or adequate checks and balances, such as conducting weekly reconciliations, that might have earlier identified the concealment and unauthorized diversion of state funds. The ORS internal control flaw resulted primarily from the ORS supervisor's faulty understanding of the segregation of duties control technique.

Chapter 647 of the Acts of 1989, An Act Relative to Improving the Internal Controls within State Agencies, requires state agencies to establish internal control systems for administration and financial operations in accordance with guidelines established by the Office of the Comptroller (OSC). These guidelines, set forth in the *Internal Control Guide for Managers* and the *Internal Control Guide for Departments*, define six standards that departments must establish and implement in an internal control structure, and they require that departments continually monitor the effectiveness and quality of their internal controls. One of the six standards, Segregate Duties, is outlined in those guides as follows:

> *Departments must establish a system to assign the following essential duties and responsibilities to a number of individuals.*
>
> 1. *Authorizing, approving and recording transaction,*
> 2. *Issuing and receiving assets,*
> 3. *Making payments, and*
> 4. *Reviewing or auditing transactions.*

The assignment of duties should be segregated so that no individual controls all phases of transaction processing, a situation that would facilitate potentially undetected errors, misuse of funds, illegal acts, etc. The ORS supervisor's completing of weekly reconciliations against original documents would have served as a check on the administrative assistant's work and

likely identified invalid, unauthorized, and unsupported expenditure payments. The ORS supervisor explained that she had placed much trust in her administrative assistant, who was experienced and with whom she had a close working relationship, and that she had no reason to doubt the work being performed. The supervisor stated that staff shortages also affected ORS operations.

A DEP query of MMARS payments disclosed that beginning in fiscal year 1997 and continuing through fiscal year 2002, the ORS administrative assistant diverted $75,133.39 in state funds to herself, by check and direct deposit, for employee-reimbursement and administrative expenses such as travel, airfare, subscriptions, memberships, and bottled water. DEP officials confirmed that the administrative assistant was not authorized to receive those reimbursements. However, our examination of DEP's query for determining the amount of funds diverted disclosed that it had not included some accounts payable period disbursements (payments made during the months of July and August). As a result, DEP's original reporting was adjusted to $79,622.07, consisting of the following amounts: $210 in fiscal year 1997, $1,898.76 in fiscal year 1998, $10,073.69 in fiscal year 1999, $18,484.20 in fiscal year 2000, $26,944.02 in fiscal year 2001, and $22,011.40 in fiscal year 2002. A total of 403 invalid reimbursements were processed.

Our audit also identified shortcomings in the adherence to and enforcement of DEP standard operating procedures regarding the balancing and reconciliation of expenditure transactions, management oversight, and post-expenditure audit reviews. Implementation of those control procedures would have mitigated the risk of misappropriation. Specifically, DEP's *General Procedures and Internal Controls with MMARS* sets forth procedures for implementing MMARS, including the following specific operating instructions for Cost Centers (e.g., ORS), the Bureau of Administrative Services (BAS), and Internal Auditing (IA):

> *Cost Centers shall prove all transactions from the weekly "Transaction Processed" (paid expenditures) report to the original documentation. Further, balancing and reconciliation procedures must be performed and documented by each cost center. Also, output reports should be reviewed for any transactions which are unusual and*

> *documentation, such as reports and summary of progress to date must be maintained as supporting backup….*
>
> *BAS should process forms from each cost center for post entry internal control and audit use and perform selective review of transactions (review of PV and backup documentation) and the on-line data. They should also maintain an overall oversight and control of those activities (data entry, files for audit trail, financial records, etc.), consistent with audit requirements and sound internal controls….*
>
> *IA should perform security checks of both MMARS and data entering the system and review original input and other supporting documentation for coding accuracy, completeness (PV and backup documentation) and authenticity of approval signatures prior to data entry.*

DEP representatives explained that staff shortages in ORS, BAS, and IA prevented compliance with established procedures. DEP adherence to defined policies and procedures would have provided assurance that only authorized activities are carried out. Moreover, the OSC's *Internal Control Guide for Managers*, Chapter Three, titled "Five Components of Internal Control," in part states:

> *Managers must continually **monitor** the effectiveness of their controls. Monitoring assesses the quality of internal controls over time. Monitoring is a basic management duty included in management activities like performance evaluations, ongoing supervision, and status reports. Proper monitoring ensures that controls continue to be adequate and continue to function properly. Even the best internal control plan will be unsuccessful if it is not followed.*

Our audit also included a department-wide examination of employee reimbursement payments during fiscal years 1998 through 2002. Our examination revealed that nearly 33% (57 of 175) of employee reimbursements examined were missing PVs and adequate supporting documentation. The results of our test are illustrated in the following table:

Analysis of DEP Employee Reimbursements
Fiscal Years 1998 through 2002

Fiscal Year	Employee Reimbursements	Dollar Amount Tested	Number of Transactions Tested	Number of Missing PVs and Supporting Documentation	Dollar Value of Missing PVs and Supporting Documentation	Transactions with Missing PVs and Supporting Documentation (%)
1998	$ 61,307	$ 16,035	30	9	$ 7,313	30
1999	71,975	17,289	30	18	11,473	60
2000	100,552	21,878	30	15	7,874	50
2001	111,466	29,199	45	15	11,368	33
2002	737,714	269,893	40	0	0	N/A
Total	$1,083,014	$354,294	175	57	$38,028	33

In addition, our examination identified another 32 PVs, totaling $162,293, with inadequate supporting documentation, thus bringing the total to almost 51% (89 of 175) of transactions with inadequate documentation. DEP offered no explanation for missing PVs and inadequate supporting documentation. Our examination indicates that DEP needs to ensure that employee-reimbursement submissions, approvals, and payments are adequately documented.

In response to the misappropriation of funds, DEP established and began to implement specific disbursement policies and procedures, effective August 29, 2002, to ensure that payments for obligations are valid, represent goods and services received, and are prepared based on adequate supporting documentation and proper approvals. The new policies and procedures that BAS has established include a monthly query by BAS staff of all PVs processed (the "Payment Voucher Log") from MMARS expenditure reports. They also include a comparison of all expenditures with hardcopy PVs to confirm accuracy and completeness, document ID, document total, proper approval, and sufficient supporting documentation. All discrepancies are to be brought to the Director of Financial Management and the responsible bureau/cost center manager for resolution. In addition, consistent with prior DEP policies and procedures, cost centers are still required to

reconcile, every week, all expenditure transactions to MMARS ("Transaction Processed Reports") against the original supporting documentation.

Our compliance review of DEP's new policies and procedures revealed that whereas only three of the nine Boston DEP cost centers had performed weekly expenditure reconciliations during fiscal years 1998 to 2002, all nine cost centers were in compliance as of February 2003. Moreover, our examination of 45 expenditure transactions processed during the period September 3, 2002 to October 8, 2002, totaling $126,282, disclosed that all expenditure transactions had complete, accurate, and properly approved PVs; had adequate supporting documentation; and had been checked by BAS.

Recommendation

To more fully comply with the requirements of Chapter 647 and the Office of the State Comptroller's internal control guidelines, DEP should take the following actions:

- Continue to promote and emphasize the importance of internal controls through more education and training and increased departmental awareness of control procedures. Managers need to be especially mindful whether internal controls in their departments are adequate for reducing the risk of asset loss and helping to ensure the reliability of financial information and compliance with laws and regulations.

- Ensure that departmental management provides closer attention to and maintains better oversight over internal controls. Particular emphasis should be given to the segregation of duties. The flow of employee activities should be designed so that the work of one individual is either separate from or serves as a check of another's. If segregating duties to the extent desirable is not possible because of limited staff, supervision and monitoring should be increased.

- Continue to adhere to *General Procedures and Internal Controls with MMARS* and newly implemented expenditure review policies and procedures. In addition, IA can assist management by examining current operations and identifying areas that need improvement.

Auditee's Response

After review, we found the report to be fair and it accurately portrayed issues faced by the Department. As your report noted, we have already taken a number of corrective steps in order to stay in compliance with Chapter 647 and the

Comptroller's guidelines on internal controls. These include segregation of duties in cost centers, payment logs, periodic review by Internal Audit Unit of employees' reimbursements, distribution of the State Comptroller's Internal Control Guide to all managers.

APPENDIX I

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 Fingold, Speaker.

In Senate, December 22, 1989.

Passed to be enacted, William M. Bulger, President.

January 3, 1990.

Approved,

Michael Dukakis Governor.

APPENDIX II

Chapter 647 Awareness Letter from the State Auditor and the State Comptroller

The Commonwealth of Massachusetts

Office of the State Auditor
State House
Boston, MA 02133

Office of the Comptroller
One Ashburton Place
Boston, MA 02108

September 19, 2000

Legislative Leadership
Judicial Branch Administrators
Elected Officials
Secretariats
Department Heads

The State Auditor and the Comptroller are both committed to departmental improvements in the Internal Control structure of the Commonwealth. A good system of controls, as you know, assists management in meeting objectives while avoiding serious problems. Chapter 647 of the Acts of 1989, *An Act Relative To Improving Internal Controls Within State Agencies*, establishes acceptable Internal Control systems for state government operations and constitutes the criteria against which we will evaluate internal controls. With the passage of this law, we began a campaign to educate all department staff on the significant role of internal controls in department operations.

In the past few years, departments have made significant progress in the area of internal controls. Every department has certified that they have documented internal controls in the form of an Internal Control Plan. In Fiscal Year 2001, we are focusing our Internal Control Campaign on the review of department risk assessments, as documented within the departments' internal control plans. Internal control plans must, of course, include all aspects of a department's business, programmatic operations as well as financial.

A major requirement of Chapter 647 is that "an official, equivalent in title or rank to an assistant or deputy to the department head, shall be responsible for the evaluation of the effectiveness of the department's internal controls and establish and implement changes necessary to ensure the continued integrity of the system". This official, whom we refer to as the Internal Control Officer, is responsible for ensuring that the plan is evaluated annually or more often as conditions warrant.

During this annual Statewide Single Audit, we continue with our review of the Commonwealth's internal controls. We analyze and evaluate information obtained during the audit process in our continuing effort to educate agencies regarding both the need for internal controls and the risks of not having adequate internal controls in place.

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To assist departments with this effort, we provide the following support activities:

- The Office of the Comptroller offers departments free monthly training on internal controls. These classes are listed in the *OSC Training Bulletin*.
- The Office of the Comptroller provided a new document entitled the *Internal Control Guide for Managers* on the Office of the Comptroller's Web page: http: www.osc.state.ma.us/. Part II of the guide will be available shortly and will replace the current *Internal Control Guide for Departments*, currently available on the Web.
- Upon request, the Office of the Comptroller provides assistance to departments in the process of redefining or reviewing their internal control plans.
- As part of the Statewide Single Audit, auditors will review and comment upon departments' internal control plans, risk assessments, and the reporting level of the Internal Control Officers.
- We have updated and automated the Internal Control Questionnaire (ICQ) for easier submission. These changes to the ICQ will enable OSA and OSC to evaluate department internal controls and monitor their progress.

Chapter 647 also requires that "all unaccounted for variances, losses, shortages, or thefts of funds or property be immediately reported to the Office of the State Auditor" (OSA). The OSA is required to determine the amount involved and the internal control weaknesses that contributed to or caused the condition, make recommendations for corrective action, and make referrals to appropriate law enforcement officials. In order to comply with this law instances must be reported on the *Report on Unaccounted for Variances, Losses, Shortages, or Thefts of Funds or Property* and be submitted to the OSA. Reporting forms can be obtained by contacting the Auditor's office, Room 1819, McCormack State Office Building, or Web Site: http://www.magnet.state.ma.us/sao/.

In conjunction with the above requirement, please note that management is responsible for financial records and systems and must inform, disclose and make representations to the auditors with regards to their management of funds, account activities, programs and systems.

The Offices of the State Comptroller and the State Auditor are committed to the goal of improving the Internal Control structure of the Commonwealth. Thank you for your cooperation and attention on this worthwhile task. Please do not hesitate to call upon the staff of either office for assistance.

A. JOSEPH DeNUCCI
Auditor of the Commonwealth

MARTIN J. BENISON
State Comptroller