



The Commonwealth of Massachusetts

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INDEPENDENT STATE AUDITOR'S REPORT ON
CERTAIN ACTIVITIES OF THE
MASSACHUSETTS BAY COMMUNITY COLLEGE

OFFICIAL AUDIT
REPORT
JUNE 8, 2004

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Massachusetts Bay Community College (MassBay) is one of 29 Massachusetts public institutions of higher education organized under Chapter 15A, Section 5, of the Massachusetts General Laws. Founded in 1961, MassBay is a two-year public community college and has approximately 4,000 students in day programs and 2,200 in continuing-education courses. It offers 39 Associate's degree programs, 31 certificate programs, and an array of non-credit courses. MassBay is regulated by the Board of Higher Education, which is responsible for monitoring such educational institutions to ensure that state funds support measurable performance, productivity, and results. A Board of Trustees, which establishes MassBay's administrative policies, governs the college. MassBay's President is responsible for implementing the policies set by the Board of Trustees.

In accordance with Chapter 11, Section 12, of the General Laws, the Office of the State Auditor conducted a review of MassBay to (1) evaluate the accounting methodology and procedures for tuition remission to the Commonwealth and (2) determine whether those accounting procedures are sufficient and in compliance with applicable laws, rules, and regulations. Our review was for the period July 1, 2002 to November 30, 2003 (when necessary, we reviewed accounting activity in prior periods) and was conducted in accordance with applicable generally accepted government auditing standards.

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1. MASSBAY'S LACK OF A RECONCILIATION PROCESS AND ITS USE OF ESTIMATES IN THE CALCULATION OF TUITION REMISSIONS RESULTED IN EXCESS PAYMENTS OF \$72,430

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MassBay is required to remit to the Commonwealth the total amount of state tuition that it has collected during the fiscal year from current- and prior-period billings. Our review of MassBay's fiscal year 2003 tuition remission procedures found that the college uses estimates to determine the amount of state tuition to be remitted to the Commonwealth. MassBay also made a payment in recognition of state tuition underpaid in prior years. As a result, MassBay remitted \$72,430 more than the amount of state tuition that it collected in fiscal year 2003. MassBay did not have policies or procedures for using available accounting records to calculate the correct amount of collections. In response to our audit, MassBay indicated it will develop appropriate reconciliation procedures and remit collections for the current year from the Tuition Distribution Report.

2. ACCOUNTING ERRORS RESULTED IN UNDERSTATEMENT OF MASSBAY LIABILITY DUE THE COMMONWEALTH

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We reviewed MassBay's accounting records and audited financial statements for fiscal years 1999 through 2003. We noted a liability account, titled "Due to State," representing the net amount of state tuition billed to students, less remissions made to the Commonwealth. Our analysis of this account found that the balance of \$729,053 as of June 30, 2003 was understated by \$574,030 due to a series of accounting errors. The actual balance should have been \$1,303,083. In response to our audit, MassBay indicated

it will restate the liability due to the Commonwealth to reflect the correction of the errors found during the audit.

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INTRODUCTION

Background

Massachusetts Bay Community College (MassBay) is one of 29 Massachusetts public institutions of higher education organized under Chapter 15A, Section 5, of the Massachusetts General Laws. Founded in 1961, MassBay is a two-year public community college and has approximately 4,000 students in day programs and 2,200 in continuing-education courses. It offers 39 Associate's degree programs, 31 certificate programs, and an array of non-credit courses. MassBay is regulated by the Board of Higher Education, which is responsible for monitoring such educational institutions to ensure that state funds support measurable performance, productivity, and results. A Board of Trustees, which establishes MassBay's administrative policies, governs the college. MassBay's President is responsible for implementing the policies set by the Board of Trustees.

MassBay is funded through state appropriations, trust funds, and student tuition and fees. It charges tuition and fees to students on a per-credit basis for each course in which they are registered. MassBay is allowed to retain all fees and tuition collected for continuing-education courses. However, under Chapter 29, Section 2, of the General Laws, the amount of state tuition collected must be remitted to the Commonwealth in the fiscal year in which it is received. The remitted amount should include tuition collected in the current fiscal year, whether from current- or prior-period billings. Therefore, MassBay must be able to determine, on a regular basis, the amount of collected state tuition to be remitted to the Commonwealth.

For fiscal years 1999 to 2003, MassBay remitted \$4,019,316 of state tuition to the Commonwealth, as follows:

Fiscal Year	Amount
1999	\$ 801,130
2000	\$ 464,667
2001	\$ 360,270
2002	\$1,000,000
2003	\$1,393,249

Our review of MassBay's accounting methodology and procedures for tuition remission was initiated at the request of MassBay.

Audit Scope, Objectives, and Methodology

In accordance with Chapter 11, Section 12, of the General Laws, the Office of the State Auditor conducted a review of MassBay to (1) evaluate the accounting methodology and procedures for tuition remission to the Commonwealth and (2) determine whether those accounting procedures are sufficient and in compliance with applicable laws, rules, and regulations. Our review was for the period July 1, 2002 to November 30, 2003 (when necessary, we reviewed accounting activity in prior periods) and was conducted in accordance with applicable generally accepted government auditing standards.

To accomplish our objectives, we

- Reviewed MassBay’s administrative and accounting policies and procedures manuals
- Interviewed various administrators at MassBay
- Reviewed reports and work papers of MassBay’s private accounting firm to determine whether they contained any significant audit results or identified any weakness in internal controls relating to tuition remitted to the Commonwealth
- Reviewed the accounting controls in relation to the recently implemented PeopleSoft software
- Reviewed selected transactions at MassBay concerning revenues and receipts to evaluate their completeness and compliance with established criteria
- Reviewed the process for determining the amount of state tuition to be remitted as well as the actual remittance process
- Reviewed the student accounting process, from registration through final accounts receivable balances

Our review, for the areas tested, determined that MassBay’s lack of a reconciliation process and its use of estimates in the calculation of tuition remissions led to excess payments of \$72,430 in fiscal year 2003. Also, our review of MassBay’s accounting records found \$574,030 in accounting errors that resulted in the understatement of a potential liability due the Commonwealth.

AUDIT RESULTS

1. MASSBAY'S LACK OF A RECONCILIATION PROCESS AND ITS USE OF ESTIMATES IN THE CALCULATION OF TUITION REMISSIONS RESULTED IN EXCESS PAYMENTS OF \$72,430

MassBay is required to remit to the Commonwealth the total amount of state tuition that it has collected during the fiscal year from current- and prior-period billings. Our review of MassBay's fiscal year 2003 tuition remission procedures found that MassBay uses estimates to determine the amount of state tuition to be remitted to the Commonwealth. MassBay also made a payment in recognition of state tuition underpaid in prior years. As a result, it remitted \$72,430 more than the amount of state tuition that it collected in fiscal year 2003. MassBay did not have policies or procedures for using available accounting records to calculate the correct amount of collections.

According to MassBay officials, calculations prior to fiscal year 2003 regarding remittances to the Commonwealth had to rely on estimates. These estimates were based on a percentage calculated by comparing two amounts: the total billed, and the total collected, for all categories of tuition and fees. That percentage was then applied to the total state tuition billed to determine the estimated amount of state tuition collected. This methodology was used because MassBay's accounting system was unable to track the actual amount of state tuition collected as there was no separate student receivable in the general ledger for each type of charge such as fees, state tuition and local tuition (continuing education).

In fiscal year 2003, despite the implementation of new accounting software (PeopleSoft), MassBay could not determine the amount of state tuition charged or collected. PeopleSoft could not segregate the amount of state tuition charged or collected without modifications. Consequently, MassBay created a new procedure to collect the information necessary for determining the amount of state tuition collected. This new procedure resulted in the Tuition Distribution Report (TDR), generated by MassBay's Office of Information Technology (IT). For each semester, the TDR categorizes the different types of tuition, tuition waivers, and applied payments, which are the actual

collections and the amounts that should be remitted to the state. However, MassBay did not use the TDR when determining the amount to be remitted to the state for fiscal year 2003, instead, it again prepared the remittances based on an estimate. In June 2003, MassBay estimated the amount of state tuition collected for fiscal year 2003 to be \$1,093,249, of which \$895,000 had been already remitted. The college remitted the remaining amount, \$198,249, on June 27, 2003, along with \$300,000, which MassBay officials stated was for prior years' tuition collected, therefore, the total remitted in fiscal year 2003 was \$1,393,249.

MassBay officials acknowledged that, in some previous years, total collections for state tuition had not been remitted to the Commonwealth due to negative cash flow issues. MassBay officials also stated that they were unable to determine what amounts it had collected but not remitted in fiscal years prior to 2003. We reviewed five prior years' remissions to the Commonwealth and noted that no remissions were made during the spring semester of 2000 and only \$60,000 was remitted during the 2001 spring semester. Remittances for fiscal years 2002 and 2003 were made during the respective spring semesters. The following table summarizes the state tuition amounts remitted for fiscal years 1999 to 2003:

Fiscal Year	Remittances During Fall Semester	Remittances During Spring Semester	Total Remitted
1999	\$287,291	\$ 513,839	\$ 801,130
2000	\$464,667	-	\$ 464,667
2001	\$300,270	\$ 60,000	\$ 360,270
2002	-	\$1,000,000	\$1,000,000
2003	-	\$1,393,249	\$1,393,249

MassBay asserts that in fiscal year 2003 it made a \$300,000 payment to the Commonwealth for prior years' tuition collected. However, our analysis using actual data available to the college, the TDR, initially calculated an excess payment of \$175,832. Since the TDR is the basis for generating the information needed to determine what

tuition amounts are state as opposed to continuing education, we analyzed the details of this report to determine whether it was accurate.

Our testing revealed errors in the design process for the extraction of data for this report that allowed for the same tuition charges to appear multiple times, incorrect recording of applied payments, and incorrect designation of charges as state or continuing-education tuition. The data that resided within the College's accounting system was properly recorded. Moreover, we found that because MassBay did not have a reconciliation process to verify the amounts on this report, it was unaware that errors were occurring. Based on the results of our testing, MassBay's IT department reviewed and revised the TDR to correct these inadequacies. After new reports were run on November 7, 2003, we recalculated the actual amount of tuition due for fiscal year 2003. Taking that calculation into account, the amount of excess payment to the Commonwealth for previous year's tuition was recalculated to be \$72,430.

As part of our analysis, in addition to the net state tuition payments reported on the TDR, net state tuition being tuition payments less waivers, we considered the amount of tuition collected for prior periods. During fiscal year 2003, MassBay collected \$533,709 in tuition and fees for prior periods. When the PeopleSoft accounting software was implemented, all outstanding student account balances were converted in total—that is, tuition and fees were not segregated. This occurred because the prior student accounts system would only allow for this type of conversion. Therefore, when payments were received, MassBay was unable to determine whether the payments were for fees or tuition—and whether state or continuing education. MassBay officials stated that because the funds cannot be segregated except manually on an individual basis, the use of historical estimates is the only reasonable method to determine the amount of state tuition to be remitted to the Commonwealth.

To find the most accurate method for estimating the state tuition amount to be remitted, we reviewed MassBay's analysis of outstanding student account balances deemed uncollectible and written off in fiscal year 2003. We determined that 34% of the total

amounts written off were for state tuition. Because prior years' collected amounts could not be segregated, we considered this percentage as most accurately reflecting collection rates prior to fiscal year 2003. We therefore applied that percentage to the amounts of tuition and fees collected in fiscal year 2003 for prior periods and determined that \$181,461 of the \$533,709 collected should be included in the calculation of remittances.

Our calculation of the tuition collected, to be remitted to the Commonwealth for fiscal year 2003, is as follows:

Collections for Fiscal Year 2003 Per TDR	July 2, 2003	November 7, 2003
Fall 2002 Net State Tuition	\$ 440,411	\$ 583,381
Spring 2003 Net State Tuition	595,545	555,977
Collections for Periods Prior to Fiscal Year 2003		
Total Tuition and Fees	\$533,709	
Share to Apply to State Tuition <u>34%</u>	<u>181,461</u>	<u>181,461</u>
Total Fiscal Year 2003 Tuition to Remit to State	\$1,217,417	\$1,320,819
Amount Remitted by MassBay in Fiscal Year 2003	<u>1,393,249</u>	<u>1,393,249</u>
Excess Amount Remitted	<u>\$ 175,832</u>	<u>\$ 72,430</u>

As a result of remitting to the Commonwealth based on estimates, MassBay has made an excess payment in fiscal year 2003 of \$72,430. Continued use of estimates by MassBay could result in underpayments or overpayments of tuition remission to the Commonwealth. Because MassBay does not have a reconciliation process, MassBay and the Commonwealth cannot be assured that all state tuition collected is being remitted in the fiscal year it is due and all state tuition collected in previous years has been remitted to the Commonwealth.

Recommendation

MassBay should implement a reconciliation process to ensure that all collections for state tuition are remitted to the Commonwealth in the same fiscal year. It should also

reconcile collections, on a regular basis, to the student accounts receivable subsidiary ledger. MassBay should use available analytical tools to determine the actual amounts to be remitted to the Commonwealth. It should only use estimates to calculate the state tuition collected that apply to prior periods.

Auditee's Response

MassBay agrees with the auditor's finding, that it overpaid its liability to the Commonwealth for state tuition collected during fiscal year 2003 by \$72,430. MassBay also agrees with the auditor's recommendations to resolve this finding.

The College implemented new account software (PeopleSoft), during fiscal year 2003, for Student Accounts. PeopleSoft could not, as delivered, determine the amount of state tuition billed or collected. This limitation was not discovered until shortly before PeopleSoft went into production at the College, despite the fact that PeopleSoft had assured the College that the software would be able to appropriately handle special tuition calculations associated with public colleges. The College's Office of Information Technology (IT) in response developed a report, the Tuition Distribution Report (TDR), to provide the amount of state tuition billed and collected for a given semester, which would be journalized into the general ledger.

When PeopleSoft was implemented, the outstanding balances from the Legacy system were converted as a single amount per student, rather than by tuition and/or fee category. The balances had to be converted as single amounts, because that was how they existed in the Legacy system. To determine how much the College owes the Commonwealth for payments applied to converted balances, the College will continue to estimate the percentage of the converted balances that is from state tuition.

The fact that the College overpaid its liability to the Commonwealth was not only due to the lack of reconciliations, it was also by design. The College knew it had an outstanding balance due the Commonwealth, and was reducing it with each payment. This additional outstanding balance was created from insufficient cash flow from the business practices from the College's prior administration. The College relied on the TDR to calculate its state tuition billed and collected. The TDR, as originally developed, did not accurately calculate these amounts. The state auditor's finding revealed the inaccuracy, and IT has since modified the methodology used in the TDR to calculate the proper amount of state tuition billed and collected.

The College is currently recording its state tuition billings and collections from the revised TDR. The amount remitted for collections this year will be from the TDR. The College will develop appropriate reconciliation procedures for the collections due to the Commonwealth.

2. ACCOUNTING ERRORS RESULTED IN UNDERSTATEMENT OF MASSBAY LIABILITY DUE THE COMMONWEALTH

As part of our review of MassBay's tuition remission procedures, we reviewed its accounting records and audited financial statements for fiscal years 1999 through 2003. We noted a liability account titled "Due to State," representing the net amount of state tuition billed to students, less remissions made to the Commonwealth. Our analysis of this account found that the balance of \$729,053 as of June 30, 2003 was understated by \$574,030 due to a series of accounting errors. The balance should have been \$1,303,083.

In fiscal year 2002, MassBay implemented a new accounting system (PeopleSoft). However, for the years prior to fiscal year 2002, MassBay did not maintain a general ledger system. Therefore, to review the "Due to State" liability account, we reconstructed the activity in the account from the college's audited financial statements for fiscal years 1999 through 2001. As of July 1, 1998, MassBay had a beginning balance of zero in the account. From the financial records, we were able to determine the tuition amounts billed to students and the cash remitted to the Commonwealth for fiscal years 1999 through 2001. From that information, we were able to arrive at the correct beginning balance for fiscal year 2002, which totaled \$1,465,742. We reconciled that balance with the balance listed on MassBay's new accounting system, which was \$1,111,081. MassBay's balance was understated by \$354,661. Our analysis determined that the balance of \$354,661 as of June 30, 1999 had not been brought forward as a beginning balance for fiscal year 2000.

Because of the implementation of the new accounting software, we were able to analyze each entry to this general ledger account. We found several errors in the manual entries during fiscal years 2002 and 2003 that resulted in an additional understatement. In fiscal year 2002, MassBay did not recognize tuition billings of \$300,589 and overstated the amount of tuition waivers by \$75,864. The amount of net state tuition recorded by MassBay was \$851,308, however, the actual net state tuition was \$1,227,761. Those errors resulted in an understatement of \$376,453 for the liability of that fiscal year .

In fiscal year 2003, we found that MassBay overstated the amount of state tuition billings for the year by \$157,084. The amount of state tuition recorded was generated from the Tuition Distribution Report (TDR), which was developed by the MassBay Office of Information Technology in fiscal year 2003, in order to accumulate the amount of state tuition charged and collected. After testing this report, we noted there were double and triple charges, which led to the overstatement of state revenue. After these overcharges were revealed by our audit, the IT department rewrote the program that generates this report and the additional charges were eliminated. The amount of net state tuition recorded by MassBay was \$1,225,407, however, the actual net state tuition, as reported on the corrected TDR was \$1,068,323, resulting in a \$157,084 overstatement of the state tuition liability for fiscal year 2003.

The following is a summary of our analysis for fiscal years 1999 through 2003:

	Office of the State Auditor's Adjusted Balance	MassBay's Balance	Variance
Fiscal Year 1999			
Balance July 1, 1998	-	-	-
Tuition Billed	\$1,155,791	\$1,155,791	-
Cash Remittance	<u>(801,130)</u>	<u>(801,130)</u>	-
Balance, June 30, 1999	<u>\$ 354,661</u>	<u>\$ 354,661</u>	-
Fiscal Year 2000			
Balance, July 1, 1999	\$ 354,661	-	\$354,661
Tuition Billed	850,952	\$ 850,952	-
Cash Remittance	<u>(464,667)</u>	<u>(464,667)</u>	-
Balance, June 30, 2000	<u>\$ 740,946</u>	<u>\$ 386,285</u>	<u>\$354,661</u>
Fiscal Year 2001			
Balance, July 1, 2000	\$ 740,946	\$ 386,285	\$354,661
Tuition Billed	1,085,066	1,085,066	-
Cash Remittance	<u>(360,270)</u>	<u>(360,270)</u>	-
Balance, June 30, 2001	<u>\$1,465,742</u>	<u>\$1,111,081</u>	<u>\$354,661</u>
Fiscal Year 2002			

Balance, July 1, 2001	\$1,465,742	\$1,111,081	\$354,661
Tuition Billed	1,227,761	851,308	\$376,453
Cash Remittance	<u>(1,000,000)</u>	<u>(1,000,000)</u>	-
Balance, June 30, 2002	<u>\$1,693,503</u>	<u>\$ 962,389</u>	<u>\$731,114</u>
Fiscal Year 2003			
Balance, July 1, 2002	\$1,693,503	\$ 962,389	\$731,114
Tuition Billed	1,068,323	1,225,407	\$(157,084)
Cash Remittance	(1,393,249)	(1,393,249)	-
Student A/R Write-Offs	<u>(65,494)</u>	<u>(65,494)</u>	-
Balance, June 30, 2003	<u>\$1,303,083</u>	<u>\$ 729,053</u>	<u>\$574,030</u>

After all adjustments for fiscal years 1999 through 2003 are factored in, the overall understatement of this liability account totals \$574,030. As a result of the understatement of this account, MassBay is not accurately reflecting the amount potentially due the Commonwealth as of June 30, 2003.

We discussed this matter with MassBay officials, and they reviewed our analysis with the accounting firm that performs their annual audits. After conferring with their auditors, they found our analysis to be accurate and agreed an adjustment to this account is necessary.

Recommendation

MassBay should make the appropriate adjustments to the accounting records to more accurately reflect the state tuition balance owed the Commonwealth.

Auditee's Response

MassBay agrees with the auditor's finding that the college understated its liability to the Commonwealth due to accounting errors, for the fiscal years 1999 through 2003, by \$574,030. MassBay also agrees with the auditor's recommendations to resolve this finding.

The understatement of the College's liability due the Commonwealth from accounting errors was due to several causes. The state auditors constructed a roll forward schedule of the College's liability from fiscal year 1999 through 2003. Their schedule revealed the years where errors occurred. The first error was from . . . the College's independent audit firm not carrying forward a balance from one year to the next . . . The audit partner . . . acknowledges his firm's responsibilities. The other accounting errors were from entries the College did not record correctly, which were also not determined during MassBay's year-end financial statement audit and should have been, and also from errors in the TDR. The TDR's errors were discovered in the course of the State Auditor's fieldwork, as mentioned above.

The College does not agree with the auditor's comment that the College did not maintain a general ledger system prior to fiscal year 2002. The College did have a general ledger system. While the previous general ledger was not integrated with its student information subsidiary ledger and it had some obvious systematic flaws, it was sufficient to allow our independent auditors . . . to evaluate internal controls and to rely on the system to issue an unqualified opinion.

. . . The State Auditors did accurately recalculate the amount of state tuition billed and subsequently remitted. The College would like to be sure it is clear that the amount due the Commonwealth, in any given fiscal year, is the amount of state tuition collected, not billed. The liability is an amount due at some point in the future. The roll forward schedule in this report is based on state tuition billed, not state tuition collected. In essence, the College's responsibility is to ensure that the liability of \$1,303,083 will be due and payable to the Commonwealth at the time it is collected, and may be reduced due to adjustments and future write-offs.

Lastly, the College will restate the liability due to the Commonwealth of Massachusetts in its 2004 audit report to reflect the correction of the errors found during the audit. Management's Discussion and Analysis will also include a discussion on the correction and restatement of the liability due to the state.

Auditor's Reply

MassBay maintains that they had a general ledger system, however, during our initial discussions with MassBay officials, we were told the college did not have a general ledger system prior to fiscal year 2002. We were told the accounting system was not integrated and the Controller provided spreadsheets and trial balances to the independent auditors to assist in facilitating their annual audit.

When we analyzed the liability account titled "Due to State", we again asked the Controller for detailed information from the MassBay's accounting system. We were told that detailed information did not exist for that account for the periods prior to fiscal

year 2002. Because the information was not available, we were required to use MassBay's audited financial reports to perform our analysis.

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 Luvaan*, Speaker.

In Senate, December 22, 1989.

Passed to be enacted, *William W. Budge*, President.

January 3, 1990.

Approved, *Richard H. Kiah* 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:

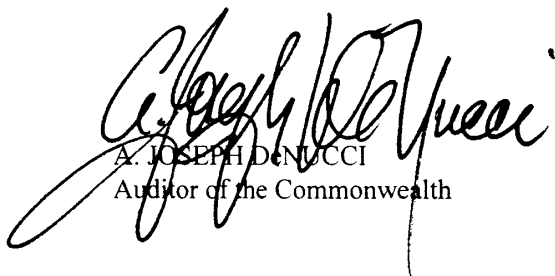
- ◆ The Office of the Comptroller offers departments free monthly training on internal controls. These classes are listed in the *OSC Training Bulletin*.
- ◆ The Office of the Comptroller provided a new document entitled the *Internal Control Guide for Managers* on the Office of the Comptroller's Web 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:

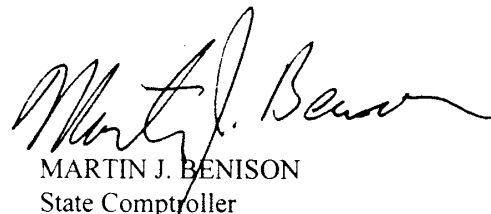
<http://www.magnet.state.ma.us/sao/>.

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