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INDEPENDENT STATE AUDITOR'S REPORT ON CERTAIN ACTIVITIES OF THE METROPOLITAN AREA PLANNING COUNCIL JULY 1, 2004 TO JUNE 30, 2008

OFFICIAL AUDIT REPORT

FEBRUARY 10, 2009

TABLE OF CONTENTS/EXECUTIVE SUMMARY

The Metropolitan Area Planning Council (MAPC) was established pursuant to Chapter 40B of the Massachusetts General Laws. MAPC is a regional planning and economic development district, consisting of 101 member communities in the Metropolitan Boston Area, whose purpose is to develop comprehensive plans and recommendations in the areas of population and employment, transportation, economic development, regional growth, and the environment. MAPC also provides technical assistance and advocacy to its member communities and acts as a fiduciary of homeland security funds distributed by the Executive Office of Public Safety and Security (EOPSS). Our audit objectives were to review and analyze MAPC's internal controls over administrative and other expenses, controls over contracts, and most recent Independent Auditor's Report and management letter. In addition, we reviewed MAPC's progress in addressing the issues contained in our prior audit report (No. 2002-0056-3O).

Based on our review, we have concluded that, except as discussed in the Audit Results section of this report, during the 48-month period ended June 30, 2008, MAPC had adequate controls over administrative and other expenses and complied with applicable laws, rules, and regulations for the areas tested. In addition, we found that although MAPC had adequately addressed the prior audit issue of inventory controls over fixed assets, the prior issue of inadequate controls over expenses had not been resolved.

Our prior audit report found that the credit card expenses of MAPC's former Executive Director, including $17,415 in hotel, air travel, and other expenditures, were routinely paid without the review or approval of MAPC's Executive Committee, contrary to Chapter 40B, Section 28, of the Massachusetts General Laws. During our follow-up review, we determined that MAPC's Executive Committee still did not routinely review the credit card expenses incurred by MAPC's current Executive Director, as required. In addition, we noted that credit card expenses incurred by MAPC's Deputy Director were not approved by the Executive Director.

Our prior audit report noted that MAPC had not established an inventory of its fixed assets, contrary to Generally Accepted Accounting Principles (GAAP) and prudent business practices, which advocate that entities maintain an inventory of fixed assets in order to properly account for the assets' historical value and related depreciation. Our follow-up review disclosed that MAPC has established a fixed asset inventory and has developed and implemented adequate accounting policies and procedures over its fixed assets.

Our review found that the December 10, 2007 management letter prepared by MAPC's independent auditor for the fiscal year ended June 30, 2007 contained comments and recommendations regarding the following issues: (a) capital assets purchased with Department of Homeland Security Federal Grant Funds, (b) the lack of a general journal, (c) unbilled accounts receivable, and (d) old outstanding checks. MAPC should adhere to the recommendations contained in the independent auditor's management letter to correct the conditions noted.

INTRODUCTION

Background

The Metropolitan Area Planning Council (MAPC) was established pursuant to Chapter 40B of the Massachusetts General Laws. It is one of 13 regional planning districts in Massachusetts. These districts are intended to promote the orderly development of the areas they oversee as well as general welfare and prosperity of their citizens. MAPC does not receive direct appropriations from the Commonwealth of Massachusetts. Instead, MAPC is funded chiefly from assessments to its member cities and towns and state, federal, and private grants and contracts. For the fiscal year ended June 30, 2007, MAPC had operating revenues totaling $11,890,213 and operating expenses totaling $11,949,280.

MAPC has 122 members consisting of one member from each of the 101 member communities and 21 gubernatorial appointees. An elected Executive Committee provides direct oversight and is responsible for appointing and supervising MAPC's Executive Director.

MAPC shares oversight responsibility for the region's federally funded transportation program as one of 14 members of the Boston Metropolitan Planning Organization (MPO). Pursuant to an agreement effective July 1, 1997, MAPC is also the fiduciary agent for the MPO. Under this arrangement 69 Central Transportation Planning Staff are legal employees of MAPC but receive their direction from the MPO.

MAPC also acts as a fiduciary of homeland security funds distributed by the Executive Office of Public Safety and Security (EOPSS) for the Northeast Regional Advisory Council (NERAC), an unincorporated advisory committee. NERAC is charged with determining how homeland security funds will be expended in accordance with guidelines provided by EOPSS and the federal government. Pursuant to this arrangement, MAPC receives homeland security funds through EOPSS, which receives its funding in the form of grants from the federal government. MAPC expends these funds for equipment purchases, training for emergency services personnel, exercises or "mock emergencies", planning, and management and administrative duties in accordance with directions from NERAC and contractual requirements. In addition to its role as fiduciary of NERAC funds, MAPC provides the staff to accomplish the objectives established by NERAC and

EOPSS. MAPC's homeland security expenditures for fiscal years 2005, 2006, and 2007 were $522,956, $5,969,514, and $2,538,081, respectively.

Audit Scope, Objectives, and Methodology

Our audit of MAPC, which covered the period July 1, 2004 to June 30, 2008, was conducted in accordance with generally accepted government auditing standards for performance audits. Our audit objectives were to review and analyze MAPC's internal controls over administrative and other expenses; controls over contracts; and most recent Independent Auditor's Report and management letter. In addition, we reviewed MAPC's progress in addressing the issues contained in our prior audit report (No. 2002-0056-3O).

To achieve these objectives, we reviewed the Massachusetts General Laws and MAPC's bylaws, minutes of board meetings, accounting records, and financial statements; performed various audit tests of compliance with statutory criteria; reviewed internal controls over administrative and other expenses, including travel, conferences, employee use of credit cards, consultant payments, and equipment purchases and rentals; reviewed controls over contracts, including bidding, awarding, and contract oversight; and reviewed and evaluated MAPC's Independent Auditor's Reports.

Based on our review, we have concluded that, except as discussed in the Audit Results section of this report, during the 48-month period ended June 30, 2008, MAPC had adequate controls over administrative and other expenses and complied with applicable laws, rules, and regulations for the areas tested. In addition, we found that although MAPC had adequately addressed the prior audit issue of inventory controls over fixed assets, the prior issue of inadequate controls over expenses had not been resolved.

AUDIT RESULTS

1. PRIOR AUDIT RESULT UNRESOLVED – INADEQUATE CONTROLS OVER EXPENSES

Our prior audit (No. 2002-0056-3O) of the Metropolitan Area Planning Council (MAPC) noted that, contrary to Chapter 40B, Section 28, of the Massachusetts General Laws, the former Executive Director's credit card and travel-related expenses were routinely paid each month without review or approval by MAPC's Executive Committee. As a result, there was inadequate assurance that such expenditures were appropriate and allowable. In response to this issue, MAPC's Controller and its Treasurer indicated that all future credit card and travel-related expenses would be reviewed and approved as required.

During our follow-up review, we examined credit card, travel-related, and expense report expenditures incurred by MAPC during the period July 1, 2004 through June 30, 2008. Our testing of credit card expenditures indicated that all expenditures were reasonable and appropriate. However, we found that the Executive Director's American Express bills were not reviewed and approved by the Executive Committee as required by Chapter 40B, Section 28, of the General Laws. In addition, we noted that credit card expenses incurred by the Deputy Director were not approved by the Executive Director.

Recommendation

MAPC's Executive Committee should review and approve all credit card expenditures of the Executive Director as required by Chapter 40B, Section 28, of the General Laws. In addition, MAPC's Executive Director should review and approve the credit card expenditures of MAPC's Deputy Director. Moreover, MAPC's Accounting Policies and Procedures Manual should be amended to require these approvals.

Auditee's Response

In response to this issue, MAPC stated, in part:

In summary, we accept the recommendation in your draft report. We would like to point out that we have made significant efforts to address your prior recommendation(s) concerning the use of a credit card as well as the current one. We have taken or will take the following steps to address your current recommendation:

1. We now require the Treasurer to review and sign off on all direct expense reimbursements made by the Executive Director either from an expense reimbursement request or from a credit card.

2. The Executive Director will sign off on the monthly credit card voucher approving all expenses for the month in addition to signing the check.

3. The accounting manual will be amended to include the above steps.

2. PRIOR AUDIT RESULT RESOLVED – CONTROLS OVER FIXED ASSETS IMPROVED

Our prior audit report noted that MAPC had not established an inventory of its fixed assets. This matter was also reported in the fiscal year 2001 audit report prepared by MAPC's private accounting firm. Generally Accepted Accounting Principles (GAAP) and prudent business practices advocate that an entity maintain an inventory of its fixed assets in order to properly account for the existence and historical value of those assets, and to properly report the related depreciation. We recommended that MAPC immediately implement systems and procedures that would allow it to maintain an inventory of fixed assets in compliance with GAAP. In response to this issue, MAPC stated that it had begun to address the recommendations included in the audit report and that it was committed to fully implementing them in a timely manner.

During our follow-up review, we determined that MAPC has implemented a comprehensive inventory management system that addresses the issues noted in our prior report. Included among these enhancements are the establishment of a physical asset inventory of all assets purchased for $500 or more and a depreciation expense schedule listing all depreciable assets and their purchase date, acquisition cost, estimated useful life, accumulated depreciation, and monthly depreciation expense. Moreover, in 2004 MAPC developed an Accounting Policies and Procedures Manual, which specifies procedures to safeguard MAPC's fixed assets, provide financial integrity to their valuation, and allow for the computation of annual depreciation.

3. INDEPENDENT AUDITOR'S MANAGEMENT LETTER

Our review found that the December 10, 2007 management letter prepared by MAPC's independent auditor for the fiscal year ended June 30, 2007 contained comments and recommendations regarding the following issues: (a) capital assets purchased with Department of Homeland Security Federal Grant Funds, (b) the lack of a general journal, (c) unbilled accounts receivable, and (d) old outstanding checks. The management letter's comments and recommendations are outlined below.

a. Capital Assets Purchased with Department of Homeland Security Federal Grant Funds

The management letter noted that MAPC purchases public safety equipment for its member communities through Department of Homeland Security federal grant programs. The equipment purchased is shipped initially to a Northeast Regional Homeland Security Cache Site, and is subsequently either permanently transferred to a member community or maintained at the cache for regional use. Based on federal guidelines, the end users (i.e., the member communities) are required to track the capital assets on their books if the individual assets acquired with federal funds have an original cost of $5,000 or more. The independent auditor found no formal document between MAPC and its members that clearly identifies the end user's responsibility as it relates to the tracking of capital assets purchased with federal funds.

The independent auditor recommended that MAPC, together with its member communities, develop and adopt an agreement that clearly defines ownership of assets purchased with federal grant funds and ensure that this agreement specifically assigns financial responsibility for the cost of maintaining, repairing, and insuring these assets.

b. General Journal

The management letter revealed that MAPC's Controller did not maintain a general journal that identifies each journal entry and contains related supporting documentation, which represents a deficiency in internal control. As part of the audit, the independent auditor selected a sample of journal entries to review. Although the journal entries appeared to be appropriate accounting entries, supporting documentation, including identification of the individuals who prepare, authorize, and enter such entries, was not provided. The independent auditor recommended that the Controller maintain a general journal, attach documentation supporting each journal entry, and identify the personnel who prepare, authorize, and enter journal entries into the accounting system.

c. Unbilled Accounts Receivable

The management letter noted that advances from granting agencies (a liability) were recorded as credits to the Unbilled Accounts Receivable (asset) account. This method does not appropriately segregate assets and liabilities and creates difficulties in analyzing and reconciling the related balances. For external financial reporting purposes, these amounts have been appropriately segregated on MAPC's statement of net assets. In addition, the management letter indicated that reconciliation documentation was not available for some of the individual Unbilled Accounts Receivable balances. Although not material to the financial statements, the variances appeared to be related, in part, to amounts that were recorded as advances.

The independent auditor recommended that MAPC's Controller establish a separate liability account on the general ledger to record grant advances in order to simplify the analysis of the Unbilled Accounts Receivable account balance and assist in the determination that activity in the account is properly classified. Also, the management letter recommended that the Controller reconcile all of the individual Unbilled Accounts Receivable balances in a timely manner.

d. Old Outstanding Checks

The management letter stated that the vendor and payroll outstanding checklist maintained by MAPC's Accounting Department included many checks greater than three months old totaling approximately $128,000. Typically, checks greater than three months old reflect checks that have been voided, lost, misplaced, or stolen. The management letter also noted that there was no process or procedure in place to investigate and resolve the status of these checks. The independent auditor recommended that MAPC's Controller implement procedures to investigate and resolve outstanding checks greater than three months old on a regular basis in order to strengthen internal controls over cash disbursements.

During our audit we discussed these management letter comments with MAPC's Controller, who indicated that MAPC will take necessary steps to address these issues.

Recommendation

MAPC should adhere to the recommendations contained in the independent auditor's management letter to correct the conditions noted.

Auditee's Response

In response to this issue, MAPC stated, in part:

The Management Letter is a guide to help us to review and improve our accounting practices and as such we welcomed the auditor's comments. We have reviewed the recommendation in the Management Letter and we will consider them as they apply to our accounting procedures.