Commonwealth of Massachusetts
Office of the State Auditor
Suzanne M. Bump
Making government work better

Official Audit Report – Issued January 2, 2013

Massachusetts International Trade Council, Inc.

For the period July 1, 2009 through June 30, 2011

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INTRODUCTION AND SUMMARY OF FINDINGS AND RECOMMENDATIONS

On December 21, 1979, the Massachusetts Foreign Business Council, Inc. (MFBC), a Massachusetts not-for-profit corporation, was formed pursuant to Chapter 180 of the Massachusetts General Laws to enhance the global business competiveness of Massachusetts. On November 12, 1985, MFBC changed its name to the Massachusetts International Trade Council, Inc. (MITCI). Since 1983, MITCI has entered into contracts with state agencies[1] for the purpose of conducting various activities to promote the Commonwealth as a location for foreign investment and international trade. On August 5, 2010, Governor Patrick signed into law Chapter 240 of the Acts of 2010, the Massachusetts Economic Development Reorganization Act. The Act created within the Executive Office of Housing and Economic Development (EOHED)—but not subject to its control—an entity known as the Massachusetts Marketing Partnership (MMP). According to this legislation, the purposes of the MMP are to coordinate and promote the marketing of Massachusetts locally and internationally and to stimulate the state's economy through the operation of three state agencies placed under its control: the Massachusetts Office of Travel and Tourism, the Commonwealth Marketing Office, and the Massachusetts International Trade Office (MITO). As of January 1, 2011, MITCI's contractual obligations with the Commonwealth were discontinued and MITO assumed the international marketing activities formerly provided by MITCI. Also at this time, five of MITCI's seven employees, including its Executive Director, began working for MITO.

Our audit of MITCI was initiated to follow up on an issue identified during our prior audit of the agency (No. 2006-4499-3A), which disclosed inadequate documentation relative to reimbursements made to staff for travel expenses.

Highlight of Audit Findings

Our current audit of MITCI found that its administrative staff failed to establish effective internal controls over agency operations, which resulted in the following issues:

- During our audit period, MITCI disbursed $56,207 in reimbursements to staff, primarily to its Executive Director and Director of Administration, for expenses that were inadequately documented or not properly approved. In addition, MITCI overpaid its staff and consultants $12,679. This amount includes $2,297 in duplicate compensation to three staff members and

[1] MITCI held a contract with the Massachusetts Office of Business Development in fiscal year 2010 and with the Massachusetts Marketing Partnership in fiscal year 2011.

$3,173 in duplicate and unauthorized compensation to the Executive Director, which went undetected due to a lack of appropriate controls.

- On June 27, 2011, four of the six members of MITCI's Board of Directors voted to authorize severance compensation totaling $83,140 to MITCI's Executive Director. However, these board members had no authority to authorize this transaction, and the Executive Director was not entitled to receive this compensation because he had previously voluntarily transferred from MITCI to its successor organization, MITO. As of June 30, 2011, the former Executive Director had received $6,346 of this compensation from MITCI.

Recommendations of the State Auditor

We recommend the following:

- EOHED, in conjunction with MITO, should determine what amount of the $56,207 in improperly documented reimbursements to staff should be recovered. It should also recover all of the $12,679 in overpayments MITCI made to its Executive Director, staff, and consultants during our audit period.

- EOHED, in conjunction with MITO, should recover the $6,346 in severance payments MITCI's Executive Director improperly received and take measures to ensure that no further severance compensation is provided to this individual.

Agency Progress

During our audit, we brought these matters to the attention of MITO and EOHED officials. In response, EOHED's former General Counsel requested that MITCI's Director of Administration either provide acceptable documentation or reimburse EOHED for the reimbursements made to him for which there was inadequate or nonexistent documentation. We have confirmed with EOHED officials that MITCI's Director of Administration reimbursed the office for those expenses that were not supported by any documentation. In addition, the former General Counsel requested that MITCI's Executive Director reimburse the Commonwealth the $6,346 in unauthorized severance payments he received, the $3,009 in duplicate reimbursements, and the various expenses for which he did not provide acceptable documentation. As of the end of our audit fieldwork, MITCI's Executive Director had not responded to this request.

OVERVIEW OF AUDITED AND RELATED AGENCIES

Massachusetts International Trade Council, Inc.

On December 21, 1979, the Massachusetts Foreign Business Council, Inc. (MFBC), a Massachusetts not-for-profit corporation, was formed pursuant to Chapter 180 of the Massachusetts General Laws to enhance the global competiveness of Massachusetts. On November 12, 1985, MFBC changed its name to the Massachusetts International Trade Council, Inc. (MITCI). According to information published by MITCI, its mission is as follows:

> *To assist the Commonwealth of Massachusetts to create new employment opportunities within the Commonwealth by conducting research and disseminating and providing information to foreign business, interested observers and the general public.*

Since 1983, MITCI has entered into contracts with state agencies for the purposes of marketing Massachusetts internationally and encouraging other countries to invest in Massachusetts. During fiscal years 2010 and 2011, MITCI received a total of $225,000 in appropriated funding from the Commonwealth for these purposes. In addition, MITCI received revenue from the Massachusetts Port Authority, the Massachusetts Technology Collaborative, and other sources, as indicated in the table below:

	Fiscal Year		
Revenue Source	2010	2011	Total
State-Appropriated Funding	$ 125,000	$ 100,000	$ 225,000
Massachusetts Port Authority	300,000	300,000	600,000
Massachusetts Technology Collaborative	311,225	311,225	622,450
Other Income (interest, trade shows, etc.)	422,319	338,545	760,864
Total Revenue	$1,158,544	$1,049,770	$2,208,314

During our audit period, MITCI employed seven full-time employees; retained four international trade representatives in China, Germany, Brazil and Mexico; and utilized the services of several consultants to aid in its operations. As of January 1, 2011, MITCI's contractual obligations with the Commonwealth were discontinued and the activities that MITCI conducted under these contracts were assumed by the Massachusetts International Trade Office (MITO).

Massachusetts Marketing Partnership

On August 5, 2010, Governor Patrick signed into law Chapter 240 of the Acts of 2010, the Massachusetts Economic Development Reorganization Act, which was created to stimulate job growth and economic recovery in Massachusetts through the coordination of economic development activities funded by the Commonwealth. Included in this Act is a provision to create—within the Executive Office of Housing and Economic Development (EOHED), but not subject to its control—an entity known as the Massachusetts Marketing Partnership (MMP). According to its enabling legislation, the MMP is to be composed of 11 partners consisting of the Secretary of EOHED as chair; the Executive Director of the Massachusetts Port Authority or the Executive Director's designee; the Director of the Massachusetts Office of Business Development or the Director's designee; the Executive Director of the Massachusetts Convention Center Authority or the Executive Director's designee; the Executive Director of the Massachusetts Alliance for Economic Development or its successor organization; and six individuals appointed by the governor for terms of five years, who are charged with the oversight of the MMP. The MMP is composed of the Massachusetts Office of Travel and Tourism, the Commonwealth Marketing Office, and MITO, which share a common goal of marketing Massachusetts, locally and internationally, to stimulate the state's economy.

AUDIT SCOPE, OBJECTIVES, AND METHODOLOGY

In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, the Office of the State Auditor (OSA) has conducted a performance audit of certain administrative activities of the Massachusetts International Trade Council, Inc. (MITCI) for the period July 1, 2009 through June 30, 2011. The OSA conducted this audit in accordance with generally accepted government auditing standards, which require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Our specific audit objectives included the following:

- Follow up on the issue identified during our prior audit of MITCI (No. 2006-4499-3A) relative to inadequate documentation of certain travel expenses.
- Review and assess the internal controls MITCI had established over: reimbursements to employees for business expenses, payments to consultants, and salaries and benefits provided to employees.
- Review various expenses paid for by MITCI during the audit period in the targeted areas to determine whether all expenses were properly documented, business–related, and properly recorded and reported by the agency.
- Assess the oversight activities conducted by MITCI's Board of Directors.

In order to achieve our audit objectives, we first attempted to review the internal controls that MITCI had established over the activities under review. However, we noted that MITCI had not developed a formal internal control plan that addressed management's oversight responsibilities, the control environment, communication and exchange of information within the entity, or the identification and management of risks to MITCI's operations and functions. Because of the lack of formal internal controls, we modified our audit plan to include a comprehensive review of all of the transactions and related documents relative to our audit objectives. We examined all of MITCI's financial records, contracts, reports, and other documentation that were made available by MITO for our audit period; reviewed all the minutes of the meetings of MITCI's Board of Directors; and spoke with officials from the Executive Office of Housing and Economic Development and the Massachusetts International Trade Office (MITO), MITCI's successor organization.

At the conclusion of our audit, a copy of our draft report was provided to MITO for its review and comments. All comments provided by MITO were considered in the drafting of this report.

AUDIT FINDINGS

1. INADEQUATELY DOCUMENTED EMPLOYEE REIMBURSEMENTS TOTALING $56,207 AND DUPLICATE AND UNAUTHORIZED PAYMENTS FOR CREDIT CARD EXPENSES, STAFF COMPENSATION, AND CONSULTANT EXPENSES TOTALING $12,679

We found that the Massachusetts International Trade Council, Inc. (MITCI) had not developed and implemented an adequate system of internal controls over certain aspects of its operations. Specifically, although MITCI implemented formal written policies and procedures relative to reimbursements for its staff members for business-related expenses, there were no controls in place to ensure that MITCI adhered to these policies and procedures. Additionally, a key element in an effective internal control system is to ensure that the duties of staff members are properly segregated. The purpose of segregating job responsibilities is to reduce the opportunities for any person to be in a position to both perpetrate and conceal errors or irregularities in the normal course of his or her duties. This segregation is imperative to ensuring an effective system of checks and balances. However, our audit identified that MITCI did not ensure that the duties and responsibilities of MITCI's Director of Administration were properly segregated. In fact, this individual had sole signatory authority over all MITCI bank accounts and was the sole individual responsible for reviewing, authorizing, and recording all employee business expense reimbursements, including those of his supervisor, the Executive Director. In fact, when the Director of Administration was terminated from MITCI on June 27, 2011, he approved and completed the wire transfer of his own $32,029 severance payment. As a result of these internal control deficiencies, we found that during our audit period, MITCI made $56,207 in reimbursements, primarily to its Executive Director and Director of Administration, for expenses that were inadequately documented or not properly approved. MITCI also made duplicate payments for credit card expenses, staff compensation, and consultant expenses totaling $12,044—including over $3,009 to MITCI's Executive Director—that went undetected.

According to generally accepted accounting principles (GAAP), entities such as MITCI should establish and implement an adequate internal control system within the organization to ensure that goals and objectives are met; resources are used in compliance with laws, regulations, and policies; assets are safeguarded against waste, loss, and misuse; and financial data is maintained, reported, and fairly disclosed in reports. In order to comply with GAAP, MITCI is required to have a documented, comprehensive plan of internal controls describing its goals and objectives and the means by which they can be achieved. An effective internal control system would establish clear lines of authorization and approval for an entity's various business functions, such as purchasing, contracting, asset management, payroll, and personnel. In addition, an entity's internal control system should be backed up with a set of detailed subsidiary policies and procedures that communicate responsibilities and business operations, such as accounting, billings, cash receipts, accounts payable, human resources, and payroll.

We found that MITCI had not developed and implemented an adequate system of internal controls over its operations, including a formal internal control plan that addressed management's oversight responsibilities, the control environment, communication and exchange of information within the entity, and the identification and management of risks to MITCI's operations and functions. As a result of MITCI's failure to implement and adhere to such internal controls, we found several problems with expenses that were paid by MITCI during the audit period, as detailed below:

a. Inadequate Documentation to Support $56,207 in Employee Reimbursements

MITCI had a policy that provided for its employees to be reimbursed for expenses they incurred while engaging in agency business activities. According to this policy, in order to obtain reimbursements for business expenses, employees were required to submit an expense report documenting the business or work justification for the expense, the date of the activity, the original receipts to support all expenses, and a standard Certification Form for any missing receipts. Staff members were also required to obtain prior approval for all travel and event expenses over $50.

During our prior audit of MITCI (No. 2006-4499-3A), we found that, contrary to MITCI's established policy, certain employee expense accounts lacked the documentation necessary to support the reimbursements made. Specifically, $2,734 in expense reimbursements lacked adequate documentation, such as original receipts, prior written approval from management, and the number of persons participating, all of which are necessary to substantiate the accuracy of these charges and their intended business purpose. As a result, our prior audit recommended that MITCI take measures to ensure that its staff adhered to its policy in this area.

During our current audit, we determined that MITCI had failed to fully implement our prior audit recommendation. Specifically, we reviewed all the documentation maintained by MITCI relative to the $118,581 in expenses that were reimbursed to its employees during fiscal years

2010 and 2011 and identified problems relative to $56,207 (47%) of these expenses. The problems we identified, which are summarized in the following table, included numerous instances in which MITCI staff failed to comply with MITCI's reimbursement policy, as follows: a lack of documentation to support requested reimbursements, a lack of indication regarding the business nature of expenses, expense reports containing photocopies of bills rather than original receipts, and travel expenses in excess of $50 that lacked required pre-approval.

Questionable Employee Business Expenses

MITCI Employee	No Documentation	Business Purpose Not Documented	Photocopies of Receipts	Travel over $50 Not Pre-Approved	Total
Executive Director	$ 666	$10,882	-	$141	$11,689
Director of Administration	2,896	512	$33,617	-	37,025
All Other Employees	4,141	2,820	532	-	7,493
Total	$7,703	$14,214	$34,149	$141	$56,207

b. Duplicate and Unauthorized Payments for Credit Card Expenses, Staff Compensation, and Consultant Expenses Totaling $12,679

As previously noted, MITCI failed to ensure that the duties and responsibilities of its Director of Administration were properly segregated. Because MITCI did not properly delegate all of these functions to more than one employee, there were no checks and balances within the system to ensure that errors or irregularities in the authorizing, recording, and reporting of transactions did not occur. In fact, during the course of our audit, we noted several overpayments that went undetected, as follows:

- Duplicate Payments Totaling $3,009 Processed for MITCI's Executive Director: On January 29, 2010, MITCI's Executive Director requested and received reimbursements for 10 credit card expenses totaling $2,909 for travel, meals, hotels, and transportation for which he had already submitted and received reimbursement from MITCI on November 10, 2009. We also found an expense report submitted by the Executive Director that included the same $100 event fee twice, which was paid on May 17, 2010. According to the Executive Director's employment agreement with MITCI, he was required to seek reimbursement approval for these types of business expenses from MITCI's Board of Directors. However, we determined that for the expenses we reviewed, he did not seek board approval. Instead, his subordinate, the Director of Administration, approved all of his business expense reimbursements. Not only did the Director of Administration approve his superior's expenses for reimbursement despite not having the authority to do so, as noted above, he also approved reimbursement payments for expenses that were not supported by adequate or original documentation.

- Duplicate Compensation for Three Staff Members Totaling $2,297: As of December 31, 2011, four of MITCI's full-time employees, including its Executive Director, left MITCI to work for the Massachusetts International Trade Office (MITO). Although MITO payroll records indicated that these employees were compensated beginning on January 1, 2011, MITCI's payroll records indicated that these employees remained on MITCI's payroll until January 7, 2011. This error resulted in MITCI and MITO paying these four employees for the same six work days for a total of $4,835, $2,538 of which was paid to the Executive Director and $2,297 of which was paid to the remaining three employees. During our audit, we brought this matter to the attention of MITCI's Director of Administration, who originally stated that the six days of additional compensation provided by MITCI to these individuals was for unused vacation time. However, our review of MITCI's payroll records indicated that these four individual had received a separate check in payment for all of their unused vacation time. Further, MITCI's payroll records did not categorize these hours as "vacation pay," but rather as part of a regular bi-weekly pay cycle.

- Duplicate and Unauthorized Compensation to Executive Director Totaling $3,173: In addition to the $2,538 of duplicate compensation the Executive Director received for the six-day period he incorrectly remained on MITCI's payroll, we also found that this individual received $635 in additional compensation that he should not have received. Specifically, although MITCI's Executive Director began working for MITO on December 31, 2010, MITO was required to complete several authorizations in order to perform the duties and functions of his position as MITO's Executive Director. As a result, the Executive Director was not placed on MITO's payroll for several weeks. In order to compensate the Executive Director for the time he worked without compensation, the Chief of Staff at the Massachusetts Office of Business Development (MOBD), an entity that traditionally held oversight responsibility for MITCI, authorized $17,769 to be wire-transferred to MITCI's account to provide payments to the Executive Director for the period December 31, 2010 through February 28, 2011 (the Executive Director began receiving compensation directly from MITO as of March 1, 2011), the equivalent of 42 work days. However, when MOBD's Chief of Staff authorized this payment, he was unaware that the Executive Director had already received compensation from MITCI through January 7, 2011, and therefore was only entitled to 36 days of retroactive pay, or $15,231. As a result, the Executive Director was overpaid $2,538 for this six-day period.

  Further, based on our review of MITCI's payroll records, we found that MITCI's Director of Administration apparently disregarded his authorization to pay the agency's Executive Director the approved $17,769, but rather issued the Executive Director a retroactive payment of $18,404, or $635 more than what was authorized by MOBD's former Chief of Staff. As a result, the Executive Director received $3,173 in overpayments. During our audit, we discussed this matter with MITCI's Director of

Administration, who stated that the $18,404 included 41 work days of retroactive pay, despite MOBD's authorizing 42, with an additional 20 hours for unused vacation time. However, as noted above, we determined that certain MITCI employees, including the Executive Director, were paid for their unused vacation time in a separate payment.

- <u>Overpayments Totaling $4,200 Made to Consultants:</u> During fiscal year 2010, MITCI maintained a contract with a consultant who operated MITCI's international trade office in China. According to the terms of this consultant's contract with MITCI, he was to receive a monthly service fee of $4,166, with total payments not to exceed $50,000 for the term of the contract. However, our review of MITCI's financial records indicated that the payments made to this consultant were not properly recorded. Specifically, payments categorized in MITCI's records as monthly payments were paid to the consultant multiple times within the same month, whereas records for other months indicated that no monthly payments were made to the consultant. As a result, based on our calculation of the actual payments made to this individual, we determined that MITCI overpaid this consultant by one month and therefore exceeded the total value of its fiscal year 2010 contract by $4,000.

  MITCI also utilized the services of another consultant to develop reports and materials related to MITCI's Tokyo and Boston Air Service Project in fiscal year 2010. According to the terms of this consultant's contract, she was to receive a weekly payment of $200 for 13 weeks, with total payments not to exceed $2,600. Our review of MITCI's financial records found that the payments made to this consultant were not properly recorded. We determined that this consultant was paid $200 twice for the week ended June 26, 2010. As a result, this consultant received $200 in overpayments.

Recommendation

In order to address our concerns relative to these issues, we recommend that the Executive Office of Housing and Economic Development (EOHED), in conjunction with MITO, determine what amount of the $56,207 in improperly documented reimbursements to staff should be recovered. It should also recover all of the $12,679 in overpayments MITCI made to its Executive Director, staff members, and consultants during our audit period.

2. MITCI'S BOARD MEMBERS INAPPROPRIATELY AUTHORIZED $83,140 IN SEVERANCE PAYMENTS TO MITCI'S EXECUTIVE DIRECTOR

The Executive Director's employment contract with MITCI entitled him to receive severance compensation equal to nine months of his annual salary in the event that he was terminated from the agency without just cause. However, on January 1, 2011, MITCI's Executive Director voluntarily left MITCI and became employed by MITO. Subsequently, on May 24, 2011, the Executive Director's employment at MITO was terminated by EOHED effective June 30, 2011 because, according to EOHED's former General Counsel, the agency "wanted to go in a different direction."

On June 27, 2011, four of MITCI's six board members, representing themselves as current members of MITO's Board of Directors, held a board meeting in which they agreed that MITO would assume the severance responsibilities detailed in the employment agreement between the Executive Director and MITCI. They voted to pay him $83,140 in severance pay as long as he agreed to provide up to 32 hours per calendar month of transitional assistance for nine months following the date of his termination of employment with MITO. The document detailing this arrangement was ultimately used to justify $6,346 of the approved $83,140 to be wire-transferred from MITCI's checking account to the Executive Director's personal bank account.

We noted problems based on our review of the documentation that was made available to us relative to this transaction. First, four of MITCI's board members represented themselves in the minutes of this meeting as board members of MITO. However, under its enabling legislation, MITO does not have a Board of Directors. As a result, these four members had no legal authority to act on behalf of MITO and could not establish the liability for the severance compensation in question. Second, according to the former General Counsel of the EOHED, when MITCI's former Executive Director agreed to voluntarily leave his employment at MITCI, he forfeited his right to receive any severance compensation that was authorized in his employment contract with MITCI. When he became the Executive Director of MITO on January 1, 2011, the terms of his employment at MITO did not include a severance provision.

We determined that, as of the end of our audit period, $6,346 of the approved $83,140 had been wire-transferred from MITCI's checking account to the Executive Director's personal bank account. The four members of MITCI's board voted to fund the remaining balance of $76,794 with MITO's $100,000 appropriation from the state's fiscal year 2012 budget. During our audit, we discussed this matter with MITO's current Executive Director and confirmed that MITCI's Executive Director received the $6,346 in question from MITCI. However, MITO did not plan to provide this individual with any additional severance compensation.

We also brought this matter to the attention of the former General Counsel of EOHED, who subsequently sent a letter to MITCI's Executive Director requesting that he reimburse the Commonwealth the $6,346 in severance compensation that he inappropriately received from MITCI. As of the end of our audit fieldwork, MITCI's Executive Director had not responded to this request. We also sent letters to each of the four MITCI board members in question asking them to confirm that they did attend the June 27, 2011 MITO "board meeting" and did in fact vote to take the actions detailed above, including approving the severance compensation to MITCI's Executive Director. As of the end of our audit fieldwork, three of these four members had returned this confirmation letter to the Office of the State Auditor (OSA) acknowledging that they did take the actions noted in the board minutes.

Recommendation

EOHED, in conjunction with MITO, should continue to seek recoupment from MITCI's Executive Director for the $6,346 in severance payments he improperly received and should take measures to ensure that no further severance compensation is provided to this individual.

Auditee's Response

In response to the matters discussed in Audit Findings No. 1 and No. 2, the Secretary of the EOHED provided comments, which are excerpted below:

> *As you are aware, the Commonwealth has not had a contract with MITCI since fiscal year 2011. This office and the newly constituted Massachusetts International Trade Office (MITO), a state entity within this office, have worked hard to reorganize and reinvest in the success of the Commonwealth's international trade initiatives. I have confidence in the leadership and integrity of the current Executive Director of MITO . . . .*
>
> *The most important aspect of the report we would like to clarify pertains to the circumstances surrounding [MITCI's former Executive Director's] termination from his position as Executive Director of the state entity MITO. As correctly stated in the report, on or about January 1, 2011 [the former Executive Director] left his position as Executive Director of the non-profit entity MITCI and became the Executive Director of the state entity MITO. From that day forward, he was no longer employed by MITCI, and the terms of his contract with MITCI clearly did not apply during his employment at MITO.*
>
> *[The former Executive Director's] employment with MITO was terminated on or about May 24, 2011, effective June 30, 2011. At its June 27, 2011 meeting, in attempting to effectuate the terms of a severance document for [the former Executive Director], the MITCI Board of Directors represented itself as a "MOITI [MITO] Board of Directors," which was a board that did not exist and never has existed. In doing so, the MITCI Board violated its ethical and fiduciary duties. The MITCI employment contract that the MITCI Board intended to revive, calling itself the MOITI [MITO] Board of Directors, had been obsolete for seven months. Moreover, that contract bore no relation to [the former Executive Director's] employment at MITO, which was an entirely different entity.*
>
> *As correctly noted in the report, this office and MITO cooperated readily with the [OSA] during its investigation. We accept the troubling findings in this report and are working with MITO to execute the [OSA's] recommendations. We continue to seek recovery of all overpayments and improper payments made to [the former Executive Director]. We have*

already been reimbursed by [MITCI's former Director of Administration], aided by the preliminary findings of your audit.