



Commonwealth of Massachusetts  
Office of the State Auditor  
Suzanne M. Bump

*Making government work better*

Official Audit Report – Issued July 14, 2011

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## Office of the State Treasurer and Receiver General

As of January 19, 2011



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**INTRODUCTION**
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The State Treasurer and Receiver General, an elected constitutional officer of the Commonwealth, has direct jurisdiction over the Office of the Treasurer and Receiver General (OST), the State Board of Retirement, the Alcoholic Beverages Control Commission, and the Veterans' Welcome Home Bonus program. In addition, the State Treasurer is the chairperson of the State Lottery Commission, the School Building Authority, the Massachusetts Water Pollution Abatement Trust, and the Pension Reserves Investment Management (PRIM) Board, and is the sole trustee of the Commonwealth's Deferred Compensation Plan. The OST is responsible for a variety of important financial functions, as established by Chapter 10, Sections 1 through 69, of the Massachusetts General Laws, including receiving, managing, and investing all funds paid to the Commonwealth; issuing and managing the state's debt; paying state employees and retirees; administering the pension system for state employees and retirees; oversight of tax-deferred retirement savings accounts for over 280,000 government workers; processing and paying the Commonwealth's bills in concert with the Office of the State Comptroller (OSC); managing the Unpaid Check Fund; receiving, safeguarding, and liquidating abandoned property; and making local aid distributions.

In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, and in consideration of the recent election of a new State Treasurer, the Office of the State Auditor (OSA) conducted a transition audit of the status of certain financial activities, accounts and functions, and the related internal control systems of the OST, as of the transition date of January 19, 2011, which included reviews of transactions and events prior to and any follow-up related to those transactions and events after the transition date for Fiscal Year 2011.

The purpose of our review was to inform the new State Treasurer of the status of fiscal and administrative operations as of the date he assumed office, to enhance the transition from the prior administration, and to identify either internal controls needing improvement or noncompliance with laws or regulations that need to be addressed and resolved.

As a result of our transition audit of the status of financial activities, accounts, functions, and the related internal control systems of the OST as of January 19, 2011, we have identified certain prior administration issues that require corrective action, as discussed below.

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**AUDIT RESULTS**
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**1. INTERNAL CONTROLS OVER THE UNPAID CHECK FUND NEED IMPROVEMENT**
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As part of the transition audit of the OST, we reviewed the Unpaid Check Fund (UPCF). The UPCF is comprised of checks issued by the Commonwealth that have not been presented for payment within one year of the issue date. These checks are held by the OST in the UPCF for an additional year, in the event that the individual or entity holding an outdated check presents it for payment through the claims process. If a claim is not processed during that year, the funds are then transferred to the Abandoned Property account. As of January 31, 2011, the balance in OST's UPCF database was \$49.8 million, while the balance in the UPCF appropriation within the Massachusetts Management Accounting and Reporting System (MMARS) was \$41.5 million, resulting in a variance of \$8.2 million. The OST does not currently perform reconciliations between the UPCF

database and the balance per MMARS. Without a timely and accurate reconciliation, there is no assurance that funds have been received and accurately recorded on a timely basis, that claims have been accurately paid, and that funds have been accurately transferred to the Abandoned Property account. In response to the audit report, OST stated that it had implemented monthly reconciliation procedures for the UPCF.

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**2. ADMINISTRATIVE COSTS FOR THE VETERANS' WELCOME HOME BONUS PROGRAM DO NOT COMPLY WITH FISCAL YEAR 2011 APPROVED BUDGET PER APPROPRIATION**

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A review of OST's December 31, 2010 quarterly budgeted vs. actual spending report for the Veterans' Welcome Home Bonus program disclosed that the fiscal year 2011 total budgeted amount for administrative expenses was \$165,417, which exceeded the appropriation language establishing \$100,000 as the limit for administrative costs. In addition, actual administrative expenses for the first six months of the fiscal year totaled \$73,553, or 73.6% of the annual limit. Prior to fiscal year 2011, the appropriation language established the administrative cost limit at \$150,000; this amount was reduced to \$100,000 for the Welcome Home Bill Bonus Payments appropriation 0610-2000 upon release of the fiscal year 2011 budget during the summer of 2010. OST planned to request a language change to increase this limit in the appropriation by filing a supplemental budget appropriation request once the new State Treasurer assumed office. In response to the audit report, OST stated that a supplemental budget was filed on May 9, 2011, to increase the ceiling for the administrative expense in the program to \$205,000. This change, if enacted, would correct this audit finding.

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**3. NONCOMPLIANCE WITH THE OFFICE OF THE STATE COMPTROLLER'S INTERNAL CONTROL PLAN DOCUMENTATION REQUIREMENT**

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The OST is not in compliance with the Office of the State Comptroller's Internal Control Plan documentation requirement regarding the establishment of written policies and procedures for all of its processes. Specifically, our review of four OST processes disclosed that in two cases (Veterans' Welcome Home Bonus payments and Unpaid Check Fund processing), procedures had not been documented. Also, in two additional cases (Budgeting/Spending Plan and Cash Management processing), procedures had been documented but not dated. Without documented policies and procedures, there is limited assurance that steps have been taken to consider risks associated with specific processes and that procedures have been designed to mitigate those risks. Also, without an effective date recorded on the documentation of the procedures, there is limited assurance that the procedures have been reviewed and updated or modified as needed. In response to the audit report, OST stated that its internal auditor will work with OST staff to ensure that policies and procedures are documented.

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**4. NONCOMPLIANCE WITH FISCAL YEAR 2011 APPROVED BUDGET REPORTING REQUIREMENT FOR VICTIM AND WITNESS ASSISTANCE**

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The OST is required to submit an annual report to the Victim and Witness Assistance Board by January 14, 2011, as stipulated in the fiscal year 2011 approved budget for the OST's administrative budget appropriation 0610-0000. This report details the amount of assessments transmitted to the OST from certain outside agencies, as determined by the courts, for the rights of victims and witnesses of crimes. The OST had not submitted

this report as of January 14, 2011. In response to the audit report, OST stated that the report was provided on March 24, 2011 and that it will review the budget language and ensure that the reporting responsibility is aligned with the overall responsibility for the fund.

## **INTRODUCTION**

### ***Background***

The State Treasurer and Receiver General, an elected constitutional officer of the Commonwealth, has direct jurisdiction over the Office of the Treasurer and Receiver General (OST), the State Board of Retirement, the Alcoholic Beverages Control Commission, and the Veterans' Welcome Home Bonus program. In addition, the State Treasurer is the chairperson of the State Lottery Commission, the School Building Authority, the Massachusetts Water Pollution Abatement Trust, and the Pension Reserves Investment Management (PRIM) Board, and is the sole trustee of the Commonwealth's Deferred Compensation Plan. The OST is responsible for a variety of important financial functions, as established by Chapter 10, Sections 1 through 69, of the Massachusetts General Laws, including receiving, managing, and investing all funds paid to the Commonwealth; issuing and managing the state's debt; paying state employees and retirees; administering the pension system for state employees and retirees; oversight of tax-deferred retirement savings accounts for over 280,000 government workers; processing and paying the Commonwealth's bills in concert with the Office of the State Comptroller (OSC); managing the Unpaid Check Fund; receiving, safeguarding, and liquidating abandoned property; and making local aid distributions.

The fiscal year 2011 OST-approved state budget included seven appropriations, excluding the State Lottery Commission. The total amount for these seven appropriations for fiscal year 2011 was approximately \$15 million.

Through December 31, 2010, the Cash Management System (CMS) was used to record all cash transactions for the OST. On January 1, 2011, the OST discontinued use of CMS for reporting cash activity, and began using the Massachusetts Management Accounting and Reporting System (MMARS), the Commonwealth's central accounting and financial data system, to record and report all cash transactions. As a result of some technical differences in the two systems, such as different account coding, numbering, and transaction codes, numerous discrepancies occurred during the system transition in January 2011, which required follow-up research and corrective entries. OST now records all cash transactions directly into the MMARS system, and performs daily cash reconciliation between the bank balance and the MMARS balance. A review of the completed cash reconciliation as of January 19, 2011 disclosed numerous discrepancies, which OST personnel attributed to lack of familiarity with the different processing procedures between the two systems. A

review of the completed cash reconciliation as of February 14, 2011 disclosed that OST had successfully researched and resolved all but six of the above-mentioned differences.

***Audit Scope, Objectives, and Methodology***

In accordance with Chapter 11, Section 12, of the General Laws, and in consideration of the recent election of a new State Treasurer, the Office of the State Auditor conducted a transition audit of the status of certain financial activities, accounts, functions, and the related internal control systems of the OST as of the transition date of January 19, 2011, which included reviews of transactions and events prior to and any follow-up related to those transactions and events after the transition date for Fiscal Year 2011. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards 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.

The purpose of our review was to inform the new State Treasurer of the status of fiscal and administrative operations as of the date he assumed office, to enhance the transition from the prior administration, and to identify either internal controls needing improvement or noncompliance with laws and regulations that need to be addressed and resolved. We also performed a comparison of actual to budgeted expenditures from July 1, 2010 through January 19, 2011, as well as an analysis of OST's documented controls for monitoring projected expenditures from January 20, 2011 to June 30, 2011, for appropriated funds under review.

The objectives of our review were to:

- Review and evaluate internal controls used to monitor approved budgeted expenditures against actual spending of appropriated funds.
- Review and analyze fiscal year 2011 spending from July 1, 2010 through January 19, 2011 to determine and project the sufficiency of funds to meet the OST's obligations for the remainder of the fiscal year. The following appropriations were selected for review: Office of the State Treasurer and Receiver General (0610-0000), Welcome Home Bill Bonus Payments (0610-2000), and Alcoholic Beverages Control Commission (0610-0050).
- Review bank account reconciliations completed by the OST for completeness, accuracy, and timeliness. The following bank account reconciliations were selected for review: Main Operating Account, Float Account, ACH Settlement Account, Controlled Disbursement

Account, Main Sweep Account, Special Purpose Agency Courts Account, Trial Court Sweep Account, and Central Disbursement Clearing Account for Trial Courts.

- Determine the adequacy of internal controls used to process Unpaid Check Fund activity; specifically, claims processing.
- Review and evaluate OST's Internal Control Plan to determine whether it is complete, current, and in compliance with the Office of the State Comptroller's Internal Control Guide.
- Review and evaluate OST's compliance with applicable laws, rules, and regulations for the areas reviewed above.

To accomplish our objectives, we conducted interviews with management and staff and reviewed spending plans, fiscal monitoring reports, and applicable laws and regulations. We also obtained and reviewed policies and procedures; accounting records and supporting source documentation; and performed tests of these records where necessary.

As a result of our transition audit of the status of financial activities, accounts, functions, and the related internal control systems of the OST, we have identified certain prior administration issues that require corrective action (see the Audit Results section of this report). The recommendations in our report are intended to assist the new administration in strengthening its internal control structure and implementing additional fiscal and administrative measures to ensure that the OST is operating in an economical, effective, and efficient manner and in compliance with all applicable laws and regulations.

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## AUDIT RESULTS

### 1. INTERNAL CONTROLS OVER THE UNPAID CHECK FUND NEED IMPROVEMENT

The Unpaid Check Fund (UPCF) within the Abandoned Property Division of the Office of the State Treasurer and Receiver General (OST) is comprised of checks issued by the Commonwealth that have not been presented for payment within one year of the issue date. These checks are held by the OST in the UPCF for an additional year, in the event that the individual or entity holding an outdated check presents it for payment through the claims process. Each year, on June 30th, any remaining unclaimed funds in the UPCF for at least one year are then transferred to the Commonwealth's Abandoned Property account.

Chapter 29, Section 32, of the Massachusetts General Laws states, in part:

*Any check issued by the state treasurer or by any agent or agency of the commonwealth, other than checks issued in payment of obligations of the state board of retirement and the teachers' retirement board, which is not presented for payment within one year from its date shall be payable only at the office of the state treasurer. On the thirtieth day of June in each year the comptroller shall transfer to the abandoned property fund all funds which are identified by the state treasurer as funds of the commonwealth which have remained in the unclaimed check fund for at least one year.*

The UPCF system is updated monthly via electronic transfer of specific information – that is, the dollar amount of checks issued by the Commonwealth that were not cashed within one year from the check issuance date – into the UPCF database, as submitted by the bank. As the corresponding cash amounts are transferred from the agencies' specific bank accounts, the transfer activity is recorded in the UPCF appropriation within the Massachusetts Management Accounting and Reporting System (MMARS). The transfer of cash from the OST-owned bank accounts occurs in the subsequent month. For those non-OST-owned bank accounts (e.g., Department of Revenue, Trial Courts, etc.), OST waits for confirmation from each of these agencies that the dollar amount of checks not cashed within one year corresponds with the agencies' records – that is, confirms that none of these checks have already been reissued by the agencies – and waits for authorization from the agencies to transfer the corresponding funds. During the course of the following year, as the OST processes claims from individuals or entities that are legally entitled to these funds, the replacement check is issued to the claimant, and the balances of the UPCF database and MMARS are reduced. These two balances should be in



agreement, after taking into consideration the timing differences of items in transit, as well as other reconciling items.

As of January 31, 2011, the balance in OST's UPCF database was \$49.7 million, while the balance in the UPCF appropriation within MMARS was \$41.5 million, resulting in a variance of \$8.2 million. At the time of the audit, the OST did not regularly perform reconciliations between the UPCF database and the balance per MMARS, because it believes that the activity within the UPCF, especially the claims process, is well-documented and is subject to many compensating internal controls.

However, without a timely and accurate reconciliation, especially given the sheer volume and varied nature of the UPCF activity, there is limited assurance that funds have been received and accurately recorded on a timely basis, that claims have been accurately paid, and that funds have been accurately transferred to the Abandoned Property account.

The Office of the State Comptroller's Internal Control Guide, dated September 13, 2007, states, in part:

*The purpose of periodic comparison/reconciliation is to verify that the processing or recording of transactions is valid, properly authorized and recorded on a timely basis. Integral parts of the reconciliation process include identifying and investigating discrepancies from established standards, and taking corrective action when necessary.*

When this condition was brought to the attention of OST, it performed a preliminary reconciliation and identified \$6.5 million of the variance that represented a timing issue in the recording of one transaction. OST stated that this item was resolved on February 9, 2011. They also indicated that they would perform additional analyses to identify and resolve the remaining variance of \$1.7 million.

### ***Recommendation***

The OST should develop, document, and implement procedures to ensure that accurate, periodic reconciliations are completed, and that variances are researched and resolved on a timely basis.

***Auditee's Response***

*Effective April 1, 2011, the Abandoned Property Division has implemented new procedures that will not allow for check data to be loaded to the UPCF system until there is confirmation that the corresponding funds have been received. This new procedure will minimize the variances that can occur from April 2011 and forward. The Abandoned Property Division is in the process of completing the reconciliation of the MMARS UPCF appropriation balance to the UPCF system and has added this reconciliation to its monthly procedures.*

**2. ADMINISTRATIVE COSTS FOR THE VETERANS' WELCOME HOME BONUS PROGRAM DO NOT COMPLY WITH FISCAL YEAR 2011 APPROVED BUDGET PER APPROPRIATION**

A review of OST's December 31, 2010 quarterly budgeted vs. actual spending report comparing budgeted expenditures to actual spending for the Veterans' Welcome Home Bonus program disclosed that the fiscal year 2011 total budgeted amount for administrative expenses was \$165,417, which exceeded the appropriation language establishing \$100,000 as the limit for administrative costs. In addition, actual administrative expenses for the first six months of fiscal year 2011 totaled \$73,553, or 73.6% of the annual limit established by the appropriation.

The fiscal year 2011 approved budget (Chapter 131 of the Acts of 2010) for the Veterans' Welcome Home Bonus program, appropriation 0610-2000, states, in part:

*For payments made to veterans pursuant to section 16 of chapter 130 of the acts of 2005; provided, that the office of the state treasurer may expend not more than \$100,000 for costs incurred in the administration of these payments.*

The Veterans' Welcome Home Bonus Program, which is administered by the OST's Veterans' Bonus Division, was established in 2005, for the purpose of providing benefits, based on an initial deployment, to veterans in the global war on terrorism, retroactive to September 11, 2001. It was amended in 2009 (Chapter 132, Section 11, of the General Laws) to include additional deployments. Prior to fiscal year 2011, the appropriation language established the administrative cost limit at \$150,000. OST reported that it became aware of a reduction to \$100,000 in the administrative cost limit for appropriation 0610-2000 upon release of the fiscal year 2011 budget during the summer of 2010. OST indicated that it has made the decision to allow the new administration taking office in January 2011 to address this issue at that time. It further reported that on January 25, 2011, this issue was discussed at the first budget meeting of the new administration, and was followed up on February 11, 2011, during a meeting between OST senior management and the Executive Office for Administration and Finance, where it was

agreed that the language change would be submitted via the filing of a supplemental state appropriation.

***Recommendation***

The OST should ensure that an approved increase in the administrative costs budget associated with the Veterans' Welcome Home Bonus program is included in a supplemental appropriation filing prior to the end of fiscal year 2011.

***Auditee's Response***

*A supplemental budget filed May 9, 2011 included the following language:*

*For payments made to veterans pursuant to section 16 of chapter 130 of the acts of 2005; provided, that the office of the state treasurer may expend not more than \$205,000 for costs incurred in the administration of these payments.<sup>1</sup>*

**3. NONCOMPLIANCE WITH THE OFFICE OF THE STATE COMPTROLLER'S INTERNAL CONTROL PLAN DOCUMENTATION REQUIREMENT**

The OST is not in compliance with the Office of the State Comptroller's (OSC) Internal Control Plan documentation requirement regarding the establishment of written policies and procedures for all of its processes. Specifically, our review of four OST processes disclosed that in two cases (Veterans' Welcome Home Bonus payments and Unpaid Check Fund processing), procedures had not been documented. Also, in two additional cases (Budgeting/Spending Plan and Cash Management processing), procedures had been documented but not dated.

The OSC's Internal Control Guide (Chapter 1), dated September 13, 2007, states that controls are comprised of policies and procedures, which are designed, developed, and documented after identifying and assessing risks, in order to minimize these risks. The Guide states, in part:

*A policy establishes what should be done and serves as the basis for the procedures. Procedures describe specifically how the policy is to be implemented. It is important that an organization establish policies and procedures so that staff knows what is to be done and compliance can be properly evaluated.*

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<sup>1</sup> On May 17, 2011 the Governor approved the supplemental appropriation. Chapter 27, Section 3 of the Acts of 2011 increased the ceiling to \$205,000.

The Guide further states, in part:

*Because the department's policies and procedures provide the detail for the internal control plan, it is important that they be reviewed in conjunction with the plan. It is not uncommon for the detailed policies and procedures to be modified due to changes in personnel, audit or quality assurance recommendations, etc. As these modifications occur, the department's documentation should be updated to reflect them.*

Without documented policies and procedures, there is limited assurance that steps have been taken to consider those risks associated with specific processes and procedures have been designed to mitigate those risks. Also, without an effective date recorded on the procedures documentation, there is limited assurance that the procedures have been reviewed and updated or modified as needed. OST personnel indicated that time and resource constraints have not permitted them to properly prepare and update written documentation of the policies and procedures reviewed.

#### ***Recommendation***

The OST should ensure that policies and procedures are documented for all processes and that the documentation is current and dated.

#### ***Auditee's Response***

*The Internal Auditor will work with OST staff to ensure that policies and procedures are documented for all processes and that the documentation is current and dated.*

#### **4. NONCOMPLIANCE WITH FISCAL YEAR 2011 APPROVED BUDGET REPORTING REQUIREMENT FOR VICTIM AND WITNESS ASSISTANCE**

The OST is required to submit an annual report to the Victim and Witness Assistance Board by January 14, 2011, as stipulated in the fiscal year 2011 approved budget for the OST's administrative budget appropriation 0610-0000. This report details the amount of assessments transmitted to the OST from certain outside agencies, as determined by the courts, for the rights of victims and witnesses of crime. The OST had not submitted this report as of January 14, 2011, as required.

The appropriation for the OST in the fiscal year 2011 approved budget (Chapter 131 of the Acts of 2010) states, in part:

*The treasurer's office shall submit a report to the victim and witness assistance board which details the amount of assessments transmitted to the treasurer during the previous calendar year on a monthly basis from the courts, the registrar of motor vehicles and the sheriff or superintendent of any correctional facility pursuant to section 8 of chapter 258B; provided further, that the report shall be submitted to the board on or before January 14, 2011.*

OST indicated that in the past, it has submitted the report in response to a request from the Victim and Witness Assistance Board during the first quarter after the calendar year, which gives the OST ample time to accurately collect and report all activity for the prior calendar year. OST further indicated that it would submit a technical language change in a supplemental budget filing to allow for this report to be submitted by the end of the first quarter following the calendar year.

### ***Recommendation***

The OST should ensure that the reporting requirement date for submitting the report to the Victim and Witness Assistance Board is changed in the supplemental 2011 budget filing from January 14, 2011 to the end of the first quarter following the calendar year.

### ***Auditee's Response***

*The report to the Victim and Witness Assistance Board was provided on March 25, 2011. OST will review the language to ascertain how to ensure that the reporting responsibility is aligned with the overall responsibility for the fund. We believe that when the responsibility for the Victim and Witness fund was moved from the Treasury to OAG, responsibility for preparing the report should have followed.*

### ***Auditor's Reply***

Subsequent to our audit, on July 10, 2011 the OST indicated that it is in the process of working with the Office of the Attorney General (OAG) to transfer the reporting responsibility for the Victim and Witness Assistance Board annual report to the OAG which is currently responsible for maintaining the Victim and Witness fund.