



# The Commonwealth of Massachusetts

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INDEPENDENT STATE AUDITOR'S REPORT ON  
CERTAIN ACTIVITIES OF THE  
FRANKLIN SHERIFF'S OFFICE  
JULY 1, 2008 TO OCTOBER 31, 2009

OFFICIAL AUDIT  
REPORT  
SEPTEMBER 8, 2010

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### INTRODUCTION

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The Franklin Sheriff's Office (FSO) was established as an independent state agency on July 1, 1997, as a result of the abolishment of Franklin County pursuant to Chapter 151 of the Acts of 1996. Chapter 127 of the Acts of 1999 amended the Massachusetts General Laws by adding Chapter 34B, which stipulated that the Franklin Sheriff became an employee of the Commonwealth, but remained an elected official and the Sheriff retained administrative and operational control over the FSO, the Jail, and the House of Correction. Chapter 151, Section 567 of the Acts of 1996, was further amended on July 25, 1997 by Chapter 48, Section 24 of the Acts of 1997. The effect of this statutory change removed the Franklin Sheriff from the jurisdiction of the Secretary of Public Safety. The FSO has an inmate capacity of 333 inmates, and had an average inmate census of 291 during our audit period.

In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, we audited certain activities at the FSO for the period July 1, 2008 to October 31, 2009. Our audit was conducted in accordance with applicable generally accepted government auditing standards and, accordingly, included such audit tests and procedures as we considered necessary. The objective of our audit was to review and examine internal controls over financial and program activities at FSO, including the Civil Process Division.

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### AUDIT RESULTS

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#### 1. PRIOR AUDIT RESULTS RESOLVED

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During our follow-up audit of the FSO, we determined that the FSO has taken corrective action with regard to the (a) monitoring of its gasoline usage, (b) monitoring of employee work time and leave time, (c) recording of inmate fund transactions, and (d) updating of inmates' personal cash fund balances.

##### **a. Improvements in Monitoring Gasoline Usage**

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Our two prior audits (Nos. 1999-1430-3 and 2004-1430-3S) disclosed that the FSO did not properly monitor gasoline usage because employees did not post accurate odometer readings when fueling FSO vehicles. Our follow-up audit disclosed that FSO gasoline purchases are monitored and FSO employees are entering accurate odometer readings in order to properly account for gasoline usage.

##### **b. Improvements in Monitoring Employee Work and Leave Time**

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Our prior audit (No. 2004-1430-3S) disclosed that improvements were needed in the monitoring of employee work and leave time. We noted that employees and supervisors at the FSO did not always sign time cards. Additionally, improvements were needed with regards to employee and supervisor signatures on requests for compensatory time and employees were allowed to use their compensatory time in increments of less than one hour, contrary to the requirements of the collective bargaining agreement.

Our follow-up audit disclosed that the FSO has taken corrective action and uses the Kronos electronic timekeeping system to track employee time and attendance. Time is

electronically recorded for each employee. At the end of the pay week, a report is sent to the employee's supervisor for signed approval. We also found compensatory time records are properly signed and used in increments of one hour in accordance with the collective bargaining agreement.

### **c. Recording of Inmate Transactions Improved**

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Our prior audits (No. 1999-1430-3 and 2004-1430-3S ) disclosed that there were variances between the inmate checking balance and the total inmates' personal cash fund balances. FSO officials stated that they were aware of the variance, which was due to profits from canteen sales being commingled with inmates' cash funds. Officials were confident that the inmates' personal funds were not being used for unintended purposes. An audit report performed by an Independent Public Accountant (IPA) confirmed this assertion, and the report made specific recommendations to address it. Our follow-up audit disclosed that inmate canteen services are now contracted out rather than conducted by FSO. The FSO now reconciles, on a monthly basis, the inmate checking account balance to the inmates' personal cash fund balances.

### **d. Inmates' Personal Cash Fund Balances Are Now Updated**

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Our prior audit (No. 2004-1430-3S) of inmates' accounts disclosed that the inmates' active and inactive personal cash fund balances needed to be updated. Our follow-up audit disclosed that the FSO has taken steps to resolve inactive inmate account balances. The FSO maintains a bank account at TD Bank North called the "Inmate Account." We reviewed all outstanding checks in the inmate account and found no checks outstanding for more than two years. In December 2005, the FSO issued General Order #405, which includes policies and procedures regarding unclaimed funds. Section 15 of General Order #405 states that unclaimed funds belonging to inmates who have been inactive for two or more years shall be transferred to the Office of the State Treasurer on an annual basis (in November of each year).

## **2. PRIOR AUDIT RESULTS UNRESOLVED OR PARTIALLY RESOLVED**

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During our follow-up audit, we determined that the FSO had not fully resolved the prior audit issues regarding the (a) deposit of telephone commissions and (b) organization of the civil processing function and the deposit of fees.

### **a. Clarification Still Needed Regarding the Deposit of Telephone Commissions**

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Our prior audit reports (Nos. 1999-1430-3 and 2004-1430-3S) noted that the FSO receives commissions on telephone services to inmates and these commissions are deposited to the Inmate Benefit Fund. When the FSO was transferred as a result of the change in legal status from county government to an independent agency of the Commonwealth, uncertainty existed regarding where these funds should be deposited, and which General Laws were applicable. Chapter 29, Sections 1 and 2, of the General Laws states that revenue payable to the Commonwealth, unless otherwise specified, should be deposited into the Commonwealth's General Fund. Conversely, Chapter 127, Section 3, of the General Laws states that revenue from the sale of goods and services in correctional facilities may be expended for the general welfare of all inmates at the discretion of the Superintendent. Because telephone commissions may meet the revenue

criteria of both laws, our prior audit reports noted that legal clarification was needed and that the FSO should seek legal clarification as to which law applies.

Our follow-up audit disclosed that the FSO is still depositing telephone commissions into its Inmate Benefit Fund, and that there has been no clarification as to which law applies. Subsequent to the completion of our audit, Chapter 61 of the Acts of 2009 transferred the remaining county sheriff's offices to the Commonwealth and the law states that telephone commissions remain with the Office of the Sheriff. Chapter 61, Section 22 also establishes a special commission to investigate and study the sheriff's offices throughout the Commonwealth and make recommendations for reorganization and consolidation of their operations, administration, regulation, governance, and finances, including recommending legislation. The special commission should take into consideration the inconsistencies in the various laws regarding the deposit and use of the telephone commissions and propose legislation that would make these functions consistent statewide. The FSO agrees that there is a need for the Legislature to clarify this matter, and as recommended, will work cooperatively with the special commission referenced in our report relative to this matter.

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**b. Clarification Still Needed Regarding the Civil Processing Function and the Deposit of Fees**

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Deputy Sheriffs throughout the Commonwealth collect fees for their service of civil process conducted in accordance with Chapter 37, Section 11, of the Massachusetts General Laws. Our prior audit (No. 2004-1430-3S) noted that civil processing fees retained by the Civil Process Division are "off line" and not accounted for, reported, and recorded on the Massachusetts Management Accounting and Reporting System (MMARS). Chapter 29, Section 2, of the General Laws requires that all Commonwealth revenue be paid into a Commonwealth fund. Our follow-up audit disclosed that no legislation has been passed in regards to accounting, reporting, processing, and management of civil process fees. Also, our prior audit disclosed that one employee from the FSO civil process division is not considered a state employee, contract employee, or some other employee status that complies with applicable Commonwealth laws, rules, and regulations. Our follow-up review found that the FSO has resolved this issue. All employees are now Commonwealth employees paid from the FSO's main appropriation through the Commonwealth's Human Resource/Compensation Management System. Also, Chapter 61, Section 22, of the Acts of 2009 establishes a special commission to investigate and study the sheriff's offices throughout the Commonwealth and make recommendations for reorganization and consolidation of their operations, administration, regulation, governance, and finances, including recommending legislation. The special commission should review the sheriff's offices' civil processing functions and the deposit and use of fees and propose legislation to make the operation of the civil processing function and deposit of fees consistent for all sheriff's offices.

The FSO agrees that there is a need for the Legislature to further clarify the Civil Process functions and the manner by which the fees are retained by the Sheriff's Offices, and will continue to support such legislation.

**3. IMPROVEMENTS AND ENHANCEMENTS NEEDED IN INTERNAL CONTROL PLAN 14**

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The FSO has prepared and developed an Internal Control Plan (ICP) that is generally in compliance with Chapter 647 of the Acts of 1989 (An Act Relative to Improving the Internal Controls within State Agencies) and the Office of the State Comptroller's guidelines. However, the FSO needs to incorporate into the ICP a high-level of summarization of departmental policies and procedures to support its lower-level detail for its organizational areas to help ensure that the FSO meets its mission and sustains long-term viability. Also, the FSO needs to improve its internal control environment by appointing an internal control officer, improving its event identification and risk assessment in certain areas, and developing plans or responses to the identified risks. The FSO indicated that it concurs with the finding and will make all suggested revisions to the internal control plan.

**4. NON-GAAP FIXED ASSET ACCOUNTING AND REPORTING NEEDS IMPROVEMENT 18**

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The FSO's inventory and related policies and procedures disclosed that improvements are needed. We noted that the inventory list did not list the acquisition and serial numbers of the items. In addition, 252 items listed did not have the historical cost of the items and policies and procedures for purchasing and inventory do not contain directives pertaining to relocating items at the facility. The Office of the State Comptroller's regulations require that fixed assets be properly accounted for and safeguarded to ensure that they are being used as intended and available for use. Additionally, these regulations state that non-GAAP fixed assets must be recorded in a department's inventory along with the date of purchase, amount, description, location, and disposition of the fixed asset. The FSO indicated that it concurs with the finding and is currently taking corrective action.

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**APPENDIX 23**

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**CHAPTER 647, ACTS OF 1989, AN ACT RELATIVE TO IMPROVING THE INTERNAL CONTROLS WITHIN STATE AGENCIES**

## INTRODUCTION

### *Background*

The Franklin Sheriff's Office (FSO) was established as an independent state agency on July 1, 1997, as the result of the abolishment of Franklin County pursuant to Chapter 151 of the Acts of 1996. Chapter 127 of the Acts of 1999 amended the Massachusetts General Laws by adding Chapter 34B, which stipulated that the Franklin Sheriff became an employee of the Commonwealth, remained an elected official, and retained administrative and operational control over the FSO, the jail, and the house of correction. Chapter 151, Section 567 of the Acts of 1996, was further amended on July 25, 1997 by Chapter 48, Section 24 of the Acts of 1997. The effect of this statutory change removed the Franklin Sheriff from the jurisdiction of the Secretary of Public Safety.

The FSO ensures protection of the community by providing a safe and secure environment as well as correctional and educational services at its facilities. The FSO received \$9,650,782 and \$8,878,719 in funding for fiscal years 2009 and 2010, respectively, for the operation of the Jail, House of Correction, and any other statutorily authorized facility and functions. The FSO has approximately 166 employees. Its main facility, the Franklin County Sheriff's Office Jail and House of Correction, has an inmate capacity of 333, and during our audit period had an average inmate census of 291 inmates.

As presently structured, the FSO is responsible for running and overseeing all aspects of its programs and facilities, which consist of the FSO Jail and House of Correction, located on Elm Street in Greenfield, and the Franklin Community Corrections Center, located on Prospect Street in Greenfield. The FSO has an inmate support network, including a Community Service Inmate Work Program, and Juvenile Outreach Programs such as Drug Abuse Resistance Education (D.A.R.E), Senior Safety Program, Vocational Training Program, and Elderly Abuse and Protection (TRIAD).

In addition to its correctional programs, the FSO is responsible for the service of legal papers and notices through the Franklin Civil Process Division, located on Main Street in Greenfield. The Civil Process Division is under the full control of the Franklin Sheriff and employs a full-time director, a full-time administrative assistant, three full-time deputies, and one part-time deputy. All employees of the Civil Process Division are state employees and are paid from the FSO's state appropriation.

Chapter 26, Section 639, of the Acts of 2003 requires that starting in fiscal year 2004, the FSO must submit 50% of the increase in its fees to the Commonwealth. Effective February 1, 2004, Chapter 26, Section 649, of the Acts of 2003 requires the FSO to submit a report to the House and Senate Committees on Ways and Means detailing civil process fees charged by the Civil Process Division. The report submitted by the FSO showed that \$43,501 was remitted to the General Fund, representing fee increases for the period July 1, 2008 to June 30, 2009 and \$23,930 for the period July 1, 2009 to October 31, 2009.

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

In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, we audited certain activities at the FSO for the period July 1, 2008 to October 31, 2009. Our audit was conducted in accordance with applicable generally accepted government auditing standards and, accordingly, included such audit tests and procedures as we considered necessary. The objective of our audit was to review and examine internal controls over financial and program activities at FSO, including the Jail and House of Correction, the Pre-Release Center, Community Corrections Program, and the Civil Process Division. Our main objectives were to determine whether the 1) financial records are accurate, up-to-date, and maintained in accordance with established criteria; 2) office costs and expenditures, including payroll and administrative costs, are appropriate and reasonable; 3) controls over revenue and fees are proper and adequate; 4) inventory control systems are adequate to safeguard supplies and equipment; and 5) FSO's internal control structure is suitably designed and implemented to safeguard the Commonwealth's assets and is complying with the Comptroller's Internal Control Guide and Chapter 647 of the Acts of 1989.

Our audit methodology included interviewing FSO personnel, observing transaction processing, examining and tracing documentation through FSO's systems, conducting physical inspections and reviews of FSO's fixed assets and inventory, assembling various agency documentation, and performing other audit procedures deemed necessary.

As a result of our audit, except as noted in the Audit Results section of this audit report, we have determined that, for the areas tested, FSO has maintained adequate internal controls over its financial and program operations in accordance with prescribed requirements and has complied with applicable laws, rules, and regulations.

### ***Subsequent Events***

Subsequent to the completion of our audit, Chapter 61 of the Acts of 2009, An Act Transferring County Sheriffs to the Commonwealth, was approved by the Legislature on August 6, 2009, effective January 1, 2010. This law transfers Barnstable, Bristol, Dukes, Nantucket, Norfolk, Plymouth, and Suffolk County Sheriffs to the Commonwealth. Section 22 of the Act establishes a special commission to investigate and study the sheriff's offices throughout the Commonwealth and make recommendations for reorganization and consolidation of their operations, administration, regulation, governance, and finances, including recommending legislation. Section 22 delineates the composition of the special commission and its mission as follows:

*Notwithstanding any general or special law to the contrary, there shall be a special commission to consist of 9 members: 1 of whom shall be a member of the Massachusetts Sheriffs Association; 2 of whom shall be appointed by the speaker of the house of representatives; 1 of whom shall be appointed by the minority leader of the house of representatives; 2 of whom shall be appointed by the president of the senate; 1 of whom shall be appointed by the minority leader of the senate, and 2 of whom shall be appointed by the governor for the purpose of making an investigation and study relative to the reorganization or consolidation of sheriffs' offices, to make formal recommendations regarding such reorganization or consolidation and to recommend legislation, if any, to effectuate such recommendations relating to the reorganization, consolidation, operation, administration, regulation, governance and finances of sheriffs' offices...*

*The commission, as part of its review, analysis and study and in making such recommendations regarding the reorganization, consolidation, operation, administration, regulation, governance and finances of sheriffs' offices, shall focus on and consider the following issues, proposals and impacts:*

- (1) the possible consolidation, elimination or realignment of certain sheriffs' offices and the potential costs savings and other efficiencies that may be achieved by eliminating, consolidating and realigning certain sheriffs offices to achieve pay parity;*
- (2) any constitutional, statutory or regulatory changes or amendments that may be required in order to effectuate any such consolidation or reorganization;*
- (3) the reallocation of duties and responsibilities of sheriffs' office as a consequence of any such consolidation or reorganization;*
- (4) the best management practices including, but not limited to, administrative procedures, payroll systems, software updates, sheriff's ability to negotiate cost effective contracts and the current use of civil process funds, including the amount of civil process funds collected by each county sheriff and the actual disposition of said funds currently, and, in the event of consolidation, realignment, elimination or reorganization, the collection and use of civil process fees in the future;*
- (5) the consideration of any other issues, studies, proposals or impacts that, in the judgment of the commission, may be relevant, pertinent or material to the study, analysis and review of the commission; and*

*(6) The need for appropriate placements and services for female detainees and prisoners, including pre-release services, job placement services, family connection services and re-entry opportunities; provided however, the review shall consider the need and present adequacy of placement of female prisoners and detainees in each country [sic]; and provided further, that all departments, divisions, commissions, public bodies, authorities, boards, bureaus or agencies of the commonwealth shall cooperate with the commission for the purpose of providing information or professional expertise and skill relevant to the responsibilities of the commission subject to considerations of privilege or the public records law.*

*The commission shall submit a copy of its final report of its findings resulting from its study, review, analysis and consideration, including legislative recommendations, if any, to the governor, president of the senate, speaker of the house of representatives, the chairs of the house and senate committees on ways and means and the chairs of the joint committee on state administration and regulatory oversight and the clerks of the senate and house of representatives not later than December 31, 2010.*

The Office of the State Auditor (OSA) has conducted numerous audits of sheriff's offices that have been transferred to the Commonwealth prior to the passage of Chapter 61. Our audits have disclosed instances of inconsistencies amongst the sheriff's offices regarding their financial operations and the application of various conflicting laws, rules, and regulations and have made recommendations to address these issues. Our recommendations in this audit, where appropriate, will be directed to the special commission for its consideration and use during its study and investigation for the reorganization and consolidation of sheriff's offices throughout the Commonwealth.

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## AUDIT RESULTS

### 1. PRIOR AUDIT RESULTS RESOLVED

During our follow-up audit of the Franklin Sheriff's Office (FSO), we determined that the FSO has taken corrective action with regard to the (a) monitoring of its gasoline usage in FSO vehicles, (b) monitoring of employee work time and leave time, (c) recording of inmate transactions, and (d) updating of inmates' personal cash fund balances.

#### a. Improvements in Monitoring Gasoline Usage

Our two prior audit reports (Nos. 1999-1430-3 and 2004-1430-3S) disclosed that the FSO did not properly monitor gasoline usage. We found that employees did not post accurate odometer readings when fueling FSO vehicles at gasoline stations. When an employee used a FSO credit card to fuel a vehicle, the odometer reading of that vehicle should be entered on the gasoline pump's keypad. However, our review of monthly fuel usage showed that the odometer readings for vehicles were not always in sequential order.

Our follow-up audit disclosed that the FSO gasoline purchases are monitored and FSO employees are entering accurate odometer readings in order to properly account for gasoline usage.

#### b. Improvements in Monitoring Employee Work and Leave Time

Our prior audit (No. 2004-1430-3S) disclosed that improvements were needed in the monitoring of employee work and leave time. We noted that employees and supervisors did not always sign time cards. Additionally, improvements were needed with regards to employee and supervisor signatures on requests for compensatory time and employees were allowed to use their compensatory time in increments of less than one hour, contrary to the requirements of the collective bargaining agreement.

Our follow-up audit disclosed that the FSO has taken corrective action and now uses the Kronos electronic timekeeping system to track employee time and attendance. Employees at the facility are provided electronic pass cards and each employee has an identification number scanned into the card. Time is electronically recorded for each employee. At the end of the pay week, a report is sent to the employee's supervisor for signed approval.

Compensatory time records are properly signed and used in increments of one hour, in accordance with the collective bargaining agreement.

**c. Recording of Inmate Transactions Improved**

Our prior audits (No. 1999-1430-3 & 2004-1430-3S) disclosed that there was a \$12,000 variance between the inmate checking balance and the total inmates' personal cash fund balances. FSO officials stated they were aware of the variance, which was due to profits from canteen sales being commingled with the inmates' cash funds. Officials were confident that the inmates' personal funds were not being used for unintended purposes. An audit report performed by an Independent Public Accountant (IPA) confirmed this assertion, and the report made specific recommendations to address it. FSO officials stated that they were in the process of implementing the IPA's recommendations. Our follow-up audit disclosed that inmate canteen services are now contracted out rather than conducted by FSO. The FSO now reconciles on a monthly basis the inmate checking account balance to the inmates' personal cash fund balances. In addition, the FSO uses two computer programs to monitor financial activity relating to the account.

The "Keefe Commissary" computer program is used to maintain and monitor individual inmate account activity (deposits, withdrawals, and canteen purchases), canteen vendor information, and canteen purchases and sales.

Also, the "Microsoft Money" computer program is used to maintain and monitor all activity in the inmate account.

**d. Inmates' Personal Cash Fund Balances Are Now Updated**

Our prior audit of inmates' accounts disclosed that the inmates' personal cash fund balances needed to be updated. The FSO's list of inmates' personal cash fund balances showed that there were 905 inmates listed, even though the average inmate population at the FSO during our audit was 175 inmates. According to FSO officials, there were active, inactive, and negative balance accounts listed. Additionally, the inmates' personal cash fund balance list noting the last date of entry, deposit, or withdrawal was made to an inmates' account balance. We noted that 229 inmate accounts had no date listed. FSO officials stated that these represented inactive accounts with no activity since 1996.

Our follow-up audit disclosed that the FSO has implemented steps to resolve inactive inmate account balances. The FSO maintains a bank account at TD Bank North called the "Inmate Account." This account is used to maintain all funds held by the FSO on behalf of inmates. We reviewed all outstanding checks in the inmate account and found no checks outstanding for more than two years. FSO officials stated that any checks two years old or beyond are then turned over to the Office of the State Treasurer (OST). In December 2005, the FSO issued General Order #405, which includes policies and procedures regarding unclaimed funds. Section 15 of General Order #405 states that unclaimed funds belonging to inmates who have been inactive for two or more years shall be transferred to the OST on an annual basis (in November of each year).

## **2. PRIOR AUDIT RESULTS UNRESOLVED OR PARTIALLY RESOLVED**

During our prior audit, we determined that FSO had not fully resolved the prior audit issues regarding the (a) deposit of telephone commissions, and (b) organization of the civil processing function and the deposit of fees. As discussed below, our follow-up audit disclosed that these conditions have not been adequately resolved.

### **a. Clarification Still Needed Regarding the Deposit of Telephone Commissions**

Our prior audit reports (Nos. 1999-1430-3 and 2004-1430-3S) noted that the FSO receives commissions on telephone services to inmates and these commissions are deposited to the Inmate Benefit Fund. When the FSO was transferred from county government to the Commonwealth, uncertainty existed regarding where these funds should be deposited and which Massachusetts General Laws were applicable. Chapter 29, Section 2, of the General Laws states, in part:

*All revenue payable to the commonwealth shall be paid into the general fund, except revenue required by law to be paid into a fund other than the general fund and revenue for or on account of sinking funds, trust funds, trust deposits and agency funds, which funds shall be maintained and the revenue applied in accordance with law or the purposes of the fund.*

Chapter 29, Section 1, of the General Laws defines state revenues as follows:

*All income from state taxes, state agency fees, fines, assessments, charges, and other departmental revenues, retained revenues, federal grants, federal reimbursements, lottery receipts, court judgments and the earning on such income.*

However, Chapter 127, Section 3, of the General Laws states, in part:

*Any monies derived from interest earned upon the deposit of money and revenue generated by the sale or purchase of goods and services to persons in the correctional facilities may be expended for the general welfare of all the inmates at the discretion of the superintendent.*

Because revenue commissions may meet the revenue criteria of both laws, it is unclear whether they should be paid into the Commonwealth's General Fund or the FSO's Inmate Benefit Fund. Therefore, our prior audit reports recommended that the FSO seek legal clarification as to which law applies.

Our audit disclosed that corrective action had not been taken regarding telephone commissions. The FSO is still depositing telephone commission funds into the Inmate Benefit Fund, and there has been no clarification as to which General Law applies.

The FSO agrees with the Office of the State Auditor that there is a need for the Legislature to clarify this matter and until there is clarification, the FSO intends to continue to deposit telephone commissions into the Inmate Benefit Fund. During the audit period, the FSO collected \$128,836 in telephone commissions.

Subsequent to completion of our audit, Chapter 61 of the Acts of 2009 was approved by the Legislature on August 6, 2009, which transferred certain county sheriff's offices' operations (Barnstable, Bristol, Dukes, Nantucket, Norfolk, Plymouth, and Suffolk) to the Commonwealth. The law states that inmate telephone funds shall remain with the Office of the Sheriff. Chapter 61 of the Acts of 2009, Section 12(a)(b)(c), states, in part, as follows:

- (a) Notwithstanding any general or special law to the contrary and except for all counties the governments of which have been abolished by chapter 34B of the General Laws or other law, revenues of the office of sheriff in Barnstable, Bristol, Dukes, Nantucket, Norfolk, Plymouth and Suffolk counties for civil process, inmate telephone and commissary funds shall remain with the office of the sheriff.*
- (b) Notwithstanding any general or special law to the contrary, in order to encourage innovation and enterprise, each sheriff's office shall annually confer with the house and senate committees on ways and means regarding that sheriff's efforts to maximize and maintain grants, dedicated revenue accounts, revolving accounts, fee for service accounts and fees and payments from the federal, state, and local governments and other such accounts and regarding which revenue shall remain with the sheriff's office.*

*(c) Any sheriff who has developed a revenue source derived apart from the state treasury may retain that funding to address the needs of the citizens within that county.*

This law further complicates the matter due to the existence of a previously enacted law that may be inconsistent with the law cited above with respect to the deposit of telephone commissions.

### ***Recommendation***

Chapter 61, Section 22 establishes a special commission (See Introduction Section – Subsequent Events) to investigate and study the sheriff's offices throughout the Commonwealth and make recommendations for the reorganization and consolidation of their operation, administration, regulation, governance, and finances, including recommending legislation. The special commission should take into consideration the inconsistencies in the various laws regarding the deposition and uses of telephone commissions and recommend legislation for the consistent handling and use of telephone commissions.

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

*The FSO concurs with the findings that there is a need for the Legislature to clarify this matter, and as recommended, will work cooperatively with the special commission referenced in the report relative to this matter.*

*The FSO has held the position that the deposit of inmate telephone commissions to the inmate benefit fund is governed by MGL Chapter 127, Section 3 as revenue generated by the sale of goods or services to persons in correctional facilities, and that the Legislature has traditionally recognized the applicability of Chapter 127, Section 3 by including in appropriation language for county corrections language similar to that in the 2009 budget line item 8910-0000:*

*...provided further, that notwithstanding any special law to the contrary, no county treasurer shall retain revenues derived by the sheriffs from commissions on telephone service provided to inmates or detainees; provided further, that such revenues shall be retained by the sheriffs not subject to further appropriation for use in a canteen fund;*

*As noted in the report, the Legislature further recognized the applicability of Chapter 127, Section 3 by including in the Sheriff's Office transfer legislation (Chapter 61 of the Acts of 2009) Section 12(a) which explicitly provides that "...inmate telephone and commissary funds shall remain with the office of the sheriff." However, this language is only specific to seven of the fourteen Sheriffs – it does not include the Franklin County Sheriff's Office, leaving room for interpretation.*

**b. Clarification Still Needed Regarding the Civil Processing Function and the Deposit of Fees**

Deputy Sheriffs throughout the Commonwealth collect fees for their service of civil process conducted in accordance with Chapter 37, Section 11, of the Massachusetts General Laws, which states:

*Sheriffs and their deputies shall serve and execute, within their counties, all precepts lawfully issued to them and all other process required by law to be services by an officer. They may serve process in cases wherein a county, city, town, parish, religious society or fire or other district is a party or interested, although they are inhabitants or members thereof.*

The serving of civil process in accordance with Chapter 262 of the General Laws includes such things as serving summons, warrants, subpoenas, and other procedures requiring legal notification.

Chapter 26, Section 39, of the Acts of 2003 requires that starting in fiscal year 2004, the FSO submit 50% of the increase in its fees to the Commonwealth. The civil process division (CPD) remitted \$54,067 to the Commonwealth's General Fund for the audit period July 1, 2008 to October 31, 2009. During fiscal years 2009 and 2010, the CPD collected \$247,780 and \$83,332, respectively, in total revenue from civil processing activity.

On July 1, 1997, the sheriff's functions, duties, and responsibilities were transferred to the Commonwealth. Since the civil processing function is within the FSO's legislatively defined duties and responsibilities, fees collected and retained by the deputy sheriffs since the transfer should be considered Commonwealth revenue. Chapter 29, Section 1, of the General Laws defines "fees" as follows:

*"State revenue", all income from state taxes, state agency fees, fines, assessments, charges, and other departmental revenues, retained revenues, federal grants, federal reimbursements, lottery receipts, court judgments and the earnings on such income.*

Chapter 29, Section 2, of the General Laws requires that all Commonwealth revenue be paid into a Commonwealth fund as follows:

*All revenue payable to the commonwealth shall be paid into the general fund, except revenue required by law to be paid into a fund other than the general fund and revenue for or on account of sinking funds, trust funds, trust deposits*

*and agency funds, which funds shall be maintained and the revenue applied in accordance with law or the purposes of the fund.*

*All such revenue shall be deposited in and credited to the General fund or other state funds during the fiscal year in which it is received. In the event that a question arises as to the correct year to credit the receipt of revenues, the comptroller shall make a determination as to the correct fiscal year and the determination shall be conclusive.*

Our prior audit (2004-1430-3S) disclosed that civil processing fees retained by the CPD were “off line” and not deposited in the General Fund or some other fund, such as a retained revenue account, nor are they accounted for, reported, and recorded on the Massachusetts Management Accounting and Reporting System (MMARS), the state’s accounting management system that is designed to support the financial functions of the Commonwealth, which include all revenue and expenditure activity. As a state agency, the FSO’s financial activities should be managed through MMARS.

We recommended that the FSO review the accounting, reporting, processing, and management of civil processing fees and consult with the Office of the State Comptroller (OSC) and file legislation to ensure that civil processing fees are recorded in MMARS via a retained revenue account or some other appropriate Commonwealth accounting mechanism that complies with applicable laws, rules, and regulations.

In our follow-up audit, we found that although legislation has been filed to effect change to the methods and management of civil process fees, no legislation has been passed in regards to the accounting, reporting, processing, and management of civil process fees.

Not all sheriffs’ offices are handling civil processing fees in the same manner. The Essex and Middlesex Sheriff’s Offices have set up nonprofit entities to run their Civil Process Divisions. The Hampden County Sheriff’s Office had set up a for-profit corporation to handle its civil process functions. The Berkshire, Hampshire, and Worcester Sheriff’s Offices do not have separate nonprofit or for-profit corporations to process and handle civil process fees collected, similar to the FSO. Instead, these departments have Civil Process Divisions within their state organizational structure. The Office of the State Auditor (OSA) has reported on numerous occasions the major differences between these entities, and the need for the OSC and the Secretary of the Executive Office for Administration and Finance to

review the civil process operations for sheriff's offices that have been transferred to the Commonwealth.

House Bill No. 3769, An Act Relative to Civil Process Reform, has been filed to restructure the entire civil process system (currently with the Joint Committee on the Judiciary). Prior to our audit, Chapter 61 of the Acts of 2009 was approved by the Legislature on August 6, 2009 to transfer certain county sheriff's offices' operations (Barnstable, Bristol, Dukes, Nantucket, Norfolk, Plymouth, and Suffolk) to the Commonwealth. This law states that civil process revenues will remain with the Office of the Sheriff. Chapter 61 of the Acts of 2009, Section 12(a)(b)(c), states, in part, the following:

*(a) Notwithstanding any general or special law to the contrary and except for all counties the governments of which have been abolished by chapter 34B of the General Laws or other law, revenues of the office of sheriff in Barnstable, Bristol, Dukes, Nantucket, Norfolk, Plymouth and Suffolk counties for civil process, inmate telephone and commissary funds shall remain with the office of the sheriff.*

*(b) Notwithstanding any general or special law to the contrary, in order to encourage innovation and enterprise, each sheriff's office shall annually confer with the house and senate committees on ways and means regarding that sheriff's efforts to maximize and maintain grants, dedicated revenue accounts, revolving accounts, fee for service accounts and fees and payments from the federal, state, and local governments and other such accounts and regarding which revenue shall remain with the sheriff's office.*

*(c) Any sheriff who has developed a revenue source derived apart from the state treasury may retain that funding to address the needs of the citizens within that county.*

The proposed civil process reform legislation and transition of all other sheriff's offices into state government presents the Commonwealth with the opportunity to clarify inconsistencies in various laws, ensuring that the CPDs have uniform structures within each sheriff's office.

Also, our prior audit (2004-1430-3S) identified six employees, five of whom are paid directly through the FSO's state appropriation, and one part-time or "per diem" deputy paid from revenues generated from civil processing fees.

Chapter 34B, Section 13, of the General Laws directs that "an employee of a sheriff of an abolished county...Shall be an "employee" or "public employee" as defined in Section 1 of

Chapter 150E, and the sheriff of such county shall be an “employer” or “public employer” as defined in said Section 1 of said Chapter 150E...” Chapter 150E, Section 1, of the General Laws defines an employee as, “any person in the executive or judicial branch of a government unit employed by a public employer.” Therefore, the FSO needed to determine whether its part-time employees paid from civil processing fees should be classified as state employees, contract employees, or some other status that complies with applicable Commonwealth laws, rules, and regulations.

We recommended that the FSO review the status of all employees within the CPD with respect to existing legislation that governs the civil process function to ensure compliance with all applicable Commonwealth laws, rules, and regulations.

Our follow-up review disclosed that the FSO has resolved this issue; we found that the CPD currently employs six individuals: 1 full-time Director, 1 full-time Administrative Assistant, 3 full-time Deputy Sheriffs, and 1 part-time Deputy Sheriff. All employees are Commonwealth employees paid from the FSO’s main appropriation through the Commonwealth’s Human Resource/Compensation Management System.

### ***Recommendation***

The FSO should review the accounting, reporting, processing, and management of civil processing fees; consult with the OSC; and file legislation to ensure that civil processing fees are recorded in MMARS via a retained revenue account or some other appropriate Commonwealth accounting mechanism that is in compliance with applicable laws, rules, and regulations.

Chapter 61 of the Acts of 2009 establishes a special commission, as follows:

*For the purpose of making an investigation and study relative to the reorganization or consolidation of sheriffs’ offices, to make formal recommendations regarding such reorganization or consolidation and to recommend legislation, if any, to effectuate such recommendations relating to the reorganization, consolidation, operation, administration, regulation, governance and finances of the sheriff’s offices.*

The special commission should review the sheriff’s offices’ civil process functions and the deposit and use of fees and propose legislation to make them consistent with all sheriffs’ offices.

***Auditee's Response***

*The FSO concurs with the findings that there is a need for the Legislature to further clarify the Civil Process functions and manner by which the fees are retained by the Sheriff's Offices, and will continue to support such legislation.*

*House Bill 3769, An Act Relative to Civil Process Reform (filed on 1/12/2009) is currently before the Joint Committee on the Judiciary. This bill addresses the main issues noted in the report (standardized operations and handling of funds) and has been supported by the respondent. The FSO is also aware that this bill has received unanimous support from all fourteen Massachusetts Sheriffs through the Massachusetts Sheriff's Association.*

*In closing, the FSO will work cooperatively with the Office of the State Comptroller, the Legislature, or any special commission appointed in efforts to address reforms to the Civil Process functions.*

**3. IMPROVEMENTS AND ENHANCEMENTS NEEDED IN INTERNAL CONTROL PLAN**

The FSO has prepared and developed an Internal Control Plan (ICP) that is generally in compliance with Chapter 647 of the Acts of 1989 (An Act Relative to Improving the Internal Controls within State Agencies) and the Office of State Comptroller's guidelines. However, the FSO needs to incorporate into the ICP a high-level of summarization of departmental policies and procedures to support its lower-level detail for its organizational areas to help ensure that the FSO meets its mission and sustains long-term viability. Also, the FSO needs to improve its internal control environment by appointing an internal control officer, improving its event identification and risk assessment in certain areas, and developing plans or responses to the identified risks.

The FSO needs to update its ICP to be in compliance with the eight components of Enterprise Risk Management (ERM). For the ICP to be considered an effective high-level summarization, all eight components of the ERM must be present as described in the OSC Internal Control Guide. Specifically, we noted that the FSO did not adequately identify within its ICP all eight components of ERM. These components are described in the OSC Internal Control Guide as follows: Internal Environment, Objective Setting, Event Identification, Risk Assessment, Risk Response, Control Activities, Information and Communication, and Monitoring. Specifically, we noted that the FSO needs to address updates and improvements in the following areas:

***Internal Environment***

The internal environment is the tone of the organization, which among other things, determines an organization's "risk culture" and provides the basis for internal controls. Our review

disclosed that within its ICP, the FSO documents its mission, philosophy, and goals as well as its organizational structure by emphasizing the importance of internal controls to its employees through a statement of fiscal management and accountability. The FSO encourages sound management and fiscal practice by stressing the importance of compliance with laws and regulations applicable to all of its activities. Chapter 647 of the Acts of 1989 requires that a senior official, equivalent in title to an assistant or deputy to the department, in addition to his or her regular duties, be assigned the responsibility for the department's internal control. This official also has the responsibility to take timely corrective action on audit results and implement the audit recommendations. Identification of the responsibilities of this administrator regarding the establishment and function of these components will serve to improve and enhance the ICP.

### ***Event Identification, Risk Assessment, and Risk Response***

The OSC's Internal Control Guide defines event identification as both internal and external events that impact an organization's ability to achieve its objectives. We found that the FSO needs to better identify and prioritize which events, internally and externally, have an influence over the objectives and strategies used by the FSO in achieving its goals and objectives. Events that may have a negative impact represent risks (e.g. budget reductions, loss of revenue, program cutbacks), while those with a positive impact represent opportunities (e.g. new programs, new private grants, new funding). Identification and prioritization of such events tied into an effective risk assessment with an appropriate plan to respond to these events and risks will serve to enhance the existing ICP. The OSC's Internal Control Guide, Chapter 1, page 10, defines risk assessment as:

*A process to identify and analyze factors that may affect the achievement of a goal. In general, risk factors may include the control environment, size of organization, complexity, change, and results of previous reviews/audit. It is important to remember that not all risks are equal. Some risks are more likely to occur while others will have a greater impact. For example, risks to safety or security of individuals, data or personal information could have significant consequences. Once identified, the assessment regarding probability and significance of each risk is critical. The risk assessment design should be understandable, consider relevant risk factors and, to the extent possible, be objective.*

Our review disclosed that the FSO's ICP contains many well-developed features, including a risk assessment that clearly identifies its most relevant risks. General Order #346, Page 25, identifies five issues of risk that would prevent the FSO from achieving its mission, including: disorder management, transportation of prisoners, and access to information technology

resources, fire safety, and employee conduct. In addition, the FSO identified related controls and referenced these controls in its risk assessment. According to the OSC's Internal Control Guide, Chapter 1, Page 10, the ERM component of risk response will be determined in four basic categories, as follows:

*Risk responses fall into four basic categories: (1) accept the risk and monitor it, (2) avoid the risk by eliminating it, (3) reduce the risk by instituting controls, or (4) share the risk by partnering or entering into a strategic alliance with another department or external entity. Determining a risk response is an important decision. Because risk events by definition are uncertain, deciding whether to accept or avoid risk related activity can have significant consequences for an organization. By choosing to reduce risk an organization is committing to implement internal control activities, which generally consume resources.*

However, we found that the FSO did not address potential risks and document risk response within many other operational areas (Management and Administrative Services, Personnel, Business and Fiscal Management, Medical Services, and Facilities and Living Conditions). Also, the ICP does not identify or direct management and staff in determining what actions it will take to mitigate risks in these areas so that any interruption in its operational and programmatic activities will be minimal. Changes such as decreases in funding and appropriations, not attracting and retaining quality staff, staff turnover or an early retirement incentive program, financial fraud, etc. can be more appropriately addressed as impediments to its goals and objectives when addressed as potential risks to internal controls identified to mitigate risks.

### **Control Activities**

Control Activities are the structure, policies, and procedures that an organization establishes so that identified risks do not prevent the organization from reaching its objectives. The OSC's Internal Control Guide, Chapter 1, Page 10, states, in part, the following:

*A sound internal control plan will combine both preventive and detective controls to mitigate key risks. Preventive controls, as the term applies, work to prevent problems. However, since they may be time consuming and expensive, management should ensure that the benefits outweigh the cost. Examples of preventive controls include authorization lists, computer edits, segregation of duties, and prior supervisory approval. Detective controls do not prevent fraud or errors. They will identify that a problem has occurred. On the other hand, detective controls are more efficient in that they do not slow business processes. They are less effective because they can only identify an incident after the fact. Not stop it from happening. The existence of detective controls, however, can also serve to prevent irregularities.*

Our review disclosed that the FSO has established control activities and related policies and procedures for most of its operational activities within its ICP. However, we found that the FSO has not updated its ICP to include the control activities for its civil process division (CPD) and identifying the CPD's primary functions of serving process. Also, FSO has not indicated which employees are responsible for implementation and monitoring of control activities within all divisions at the FSO, including the CPD.

### ***Monitoring***

The FSO did not document its monitoring procedures. However, during our review we noted that these monitoring procedures were identified as internal and external inspections relating to inmate housing and activity areas of the jail and house of correction. The FSO did not document its monitoring procedures over the control activities of its fiscal and programmatic areas. Also, the ICP does not reference accountability either by responsibility or employee monitoring roles within the various departments, especially those that may have certain risks. The OSC's Internal Control Guide, Chapter 1, Page 14, defines the purpose of monitoring as:

*The review of an organization's activities and transactions to assess the quality of performance over time and to determine whether internal controls are effective.*

According to the OSC's Internal Control Guide, management should focus its monitoring efforts on achievement of the organization's mission, goals, and objectives. Management must consider whether internal controls are operating as intended and if they are properly modified when conditions change. The purpose of monitoring is to determine whether internal control is adequately designed, properly executed, and effective.

### ***Recommendation***

We recommend that the FSO should update and improve its ICP as follows:

- Update its description of the internal environment by identifying the internal control officer as the individual responsible for the implementation and monitoring of internal controls within the FSO.
- Prepare an updated high-level summarization of internal controls to include a reference to the lower-level internal control policies of the CPD.
- Identify which events, internally and externally, have an influence over the goals, objectives, and strategies used by the FSO in meeting its mission.

- Correlate its risk assessment to the FSO's mission, goals, and objectives. Review goals and objectives to determine if these priorities are still realistic and attainable given the current economic conditions and reduction in resources.
- Expand support areas to include risk response and risk mitigation steps. Include all departments, which will further assist the FSO in event identification and will serve to improve and enhance the ICP.
- Document monitoring activities and responsibilities to ensure that internal controls are implemented to mitigate fiscal and programmatic risks and are effective and function as needed. The FSO should cross-reference its monitoring procedures within the ICP to its departmental policies and procedures.

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

*The FSO concurs with the finding and will make all suggested revisions to the internal control plan to include:*

- *the internal control officer will be noted by position and name in the plan;*
- *a high-level summarization of internal controls, including a reference to the lower-level internal control policies, will be established and updated;*
- *potential internal and external events which could impact the agency's ability to meet its mission and goals will be further identified and assessed;*
- *an updated risk assessment will be correlated to the agency's mission, goals and objectives, and a determination made whether the stated goals and objectives remain realistic priorities;*
- *ensuring all internal departments are involved in risk assessments, and for planning appropriate response and mitigation processes; and*
- *documenting in the internal control plan current and evolving monitoring activities and responsibilities, cross-referenced to the agency's policies and procedures.*

#### **4. NON-GAAP FIXED ASSET ACCOUNTING AND REPORTING NEEDS IMPROVEMENT**

The FSO was not in full compliance with OSC regulations and its own internal control policies and procedures regarding the accounting and full reporting of non-GAAP (Generally Accepted Accounting Principles) fixed assets, equipment, and other inventory. It is the policy of the FSO to maintain a perpetual inventory of all GAAP and non-GAAP fixed assets in accordance with the policy, rules, and regulations promulgated by the Office of the State Comptroller (OSC). Our audit disclosed that although the FSO maintains a listing of its non-GAAP fixed assets

inventory, the listing did not contain all the required information for the FSO to be in full compliance with OSC regulations.

Non-GAAP fixed assets are defined as singular assets and include such items as vehicles, equipment, furniture, electronic devices, computer software, and all electrical and computer components with a useful life in excess of one year, and with an original cost of between \$1,000 and \$49,999. In addition, all buildings, roads, and other infrastructure with an original cost less than \$99,999 are non-GAAP fixed assets. The OSC's Internal Control Guide for Commonwealth Departments, Volume II, Chapter 3, requires that fixed assets be properly accounted for and safeguarded to ensure that they are being used as intended and available for use. These guidelines require, in part, minimum standards for maintaining sound controls, as follows:

- Departments are required to properly account for all fixed-asset transactions, including the proper recording and the reconciliation of a periodic inventory of all fixed assets. This physical reconciliation should be completed as of June 30<sup>th</sup> of each fiscal year.
- Non-GAAP fixed assets are comprised of all buildings and other assets, including computer software, with a historical cost between \$1,000 and the GAAP fixed asset thresholds noted above. Departments must maintain an inventory of these assets, either on the Fixed Asset Subsystem in MMARS, or an in-house system.
- Departments must maintain documentation of fixed assets, equipment, or other inventory in accordance with records-management requirements issued by the OSC and in accordance with records-disposal schedules, issued by the Records Conservation Board.
- Inventory monitoring systems should be in place to identify all fixed assets, equipment, or other inventories categorized as GAAP fixed assets, non-GAAP fixed assets, or any other appropriate category. These items should also include the departmental location of these items.

The OSC Fixed Asset Acquisition Policy issued July 1, 2004 and revised November 1, 2006, states that non-GAAP fixed assets must be recorded in a department's inventory and reconciled at least annually. This inventory can either be electronic or on paper, as long as it records the date of purchase, amount, description, location, and disposition of an item.

General Order No. 343 of the FSO's internal control policies and procedures requires that each non-GAAP fixed asset be recorded in the computer database maintained by a staff member designated by the Chief Financial Officer. The database shall include, to the extent known, the

following information: inventory control number; item description; location; manufacturer; model; serial number; and historical cost. If the historical cost is not known, a reasonable estimate or appraisal shall be used. These controls, when implemented, are sound business practices and basic procedures for effectively monitoring and safeguarding the FSO's assets.

Our audit disclosed that the FSO maintained a computerized listing of non-GAAP fixed asset inventory that included inventory control numbers, with the description and location of furniture and equipment. However, the computerized listing of non-GAAP items was not complete and did not contain all the attributes and field data for each item of inventory. The listing does not adequately provide management with a sound and reliable mechanism to control and monitor fixed assets.

The control mechanism should readily identify the age; condition; cost of original acquisition; verification of true identification by make, model, and serial number; and provide a summary or composite value of all items contained and maintained by the FSO. The present listing does not include identifying features such as historical cost data, serial numbers, and make and model numbers of many of the items on the listing.

Further, this inventory listing does not provide a basis for valuation of the total inventory for replacement and disposal purposes as the equipment becomes obsolete and unusable. Because data was not entered or was not complete in all fields, many items on the listing cannot be readily traced or referenced to the detail records of purchase invoices or source-funding accounts to verify when, from whom, and at what cost the items were purchased.

Specifically, we noted the following conditions in our audit testing:

- The FSO's inventory listing did not denote the acquisition date of all 1,065 items on the list. In addition, 252, or 24% of all items listed, did not have the historical cost recorded as required by OSC regulations and FSO internal control policies and procedures.
- Contrary to OSC regulations and FSO internal control policies and procedures, serial numbers for all items were not documented on the non-GAAP fixed assets inventory list. In addition, the list of 1,065 items did not identify the make or model number of 501, or 47%, of the total items.

- The vehicle inventory list is a separate listing. All vehicles are owned and operated by the FSO. The vehicles do not have the date of purchase, values, or assigned costs attributed to them.
- The FSO has not established a threshold for including items onto its master inventory control listing. FSO officials stated that this is to keep track of small low-value electronic items. This practice of keeping items on its inventory records appears time-consuming and may hamper efforts of protecting and securing more valuable items within the inventory, and is contrary to the \$1,000 threshold recommended by OSC regulations.
- The FSO's policies and procedures for purchasing and inventory do not contain directives pertaining to relocating and moving items through the multiple buildings at the jail and correctional facility.

In regard to these conditions, FSO officials disclosed that some items listed on the inventory were purchased a long time ago and procurement information such as cost and acquisition date is not available. In addition, the designated employee responsible for maintaining the inventory stated that she was not aware of the policies requiring the documentation of historical cost and serial numbers.

As a result of these conditions, the FSO is not effectively controlling its assets in compliance with OSC regulations and its own internal control policies and procedures. If deficiencies are not addressed, the FSO is possibly exposing its fixed assets to future loss or misuse.

### ***Recommendation***

To properly control and maintain its non-GAAP fixed asset inventory, the FSO needs to update its master inventory list to coincide with its own internal control policies and procedures as well as the OSC guidelines. Moreover, the following steps should be taken to ensure that the FSO is in compliance with OSC regulations and its own internal control policies and procedures: (1) update the master listing to include the historical cost of each item (inventory recording documents should be compared to purchase orders and sales invoices for agreement to ensure that a value is given to all items on the inventory list); (2) record on the master inventory listing the serial numbers, make, and model number for each item; (3) maintain one master inventory listing for all non-GAAP fixed assets that will be the official inventory listing and reconciled to the accounting records of the agency; (4) establish a minimum dollar threshold for recording non-GAAP items on the master inventory list (this should be documented in the FSO internal control policies and procedures); and (5) establish policies and procedures for transferring non-

GAAP items from one location to another (this will provide an audit trail for the agency's non-GAAP fixed assets). In addition, the OSC's Internal Control Guide and Fixed Assets Acquisition Policy should be used as a reference to update the FSO's policies.

***Auditee's Response***

*The FSO concurs with the finding in the report, and is currently taking the following action:*

- *subsequent to the audit, the agency purchased a new computerized inventory program and scanning system that will enhance the inventory process;*
- *as recommended, the master inventory is being updated to include more specific information about each asset, such as serial number, acquisition date, historical cost, etc.;*
- *the agency policy regarding Non-GAAP Fixed Assets is being revised as recommended. However, the FSO also believes that it is also important to record and periodically inventory certain assets that cost less than \$1,000 (such as cameras, PDA's, two-way radios, GPS's, and other similar electronic devices). As such, the respondent will include in the Non-GAAP Fixed Assets policy a procedure to systematically account for these types of items.*

## APPENDIX

## 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 Furrman*, Speaker.

In Senate, December 22, 1989.

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

January 3, 1990.

Approved,

*Richard H. Kiker*, Governor.