



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

Making government work better

Official Audit Report – Issued December 17, 2015

Office of the State Treasurer and Receiver General
For the period July 1, 2014 through January 19, 2015





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Suzanne M. Bump

Making government work better

December 17, 2015

Deborah B. Goldberg, Treasurer and Receiver General
Office of the State Treasurer and Receiver General
State House, Room 227
Boston, MA 02133

Dear Treasurer Goldberg:

I am pleased to provide this performance audit of the Office of the State Treasurer and Receiver General. This report details the audit objectives, scope, methodology, findings, and recommendations for the audit period, July 1, 2014 through January 19, 2015. My audit staff discussed the contents of this report with management of the agency, whose comments are reflected in this report.

I would also like to express my appreciation to the Office of the State Treasurer and Receiver General for the cooperation and assistance provided to my staff during the audit.

Sincerely,

A handwritten signature in blue ink, appearing to read "Suzanne M. Bump".

Suzanne M. Bump
Auditor of the Commonwealth

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LIST OF ABBREVIATIONS

ABCC	Alcoholic Beverages Control Commission
CMR	Code of Massachusetts Regulations
GAAP	generally accepted accounting principles
ICP	internal control plan
MMARS	Massachusetts Management Accounting and Reporting System
OSA	Office of the State Auditor
OSC	Office of the State Comptroller
OSD	Operational Services Division
OST	Office of the State Treasurer and Receiver General
UPCF	Unpaid Check Fund

EXECUTIVE SUMMARY

The State Treasurer and Receiver General, an elected constitutional officer of the Commonwealth, has direct jurisdiction over the Office of the State Treasurer and Receiver General (OST), the State Board of Retirement, the Alcoholic Beverages Control Commission (ABCC), and the Veterans' Welcome Home Bonus program.

In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, and in consideration of the recent election of a new State Treasurer and Receiver General, the Office of the State Auditor (OSA) has conducted a performance audit of the status of certain financial activities, accounts, functions, and related internal control systems of OST, as of the transition date of January 19, 2015, which included reviews of transactions and events before the transition date for fiscal year 2015 and any later follow-up related to those transactions and events.

The purposes of our audit were to inform the new State Treasurer and Receiver General of the status of certain fiscal and administrative operations as of the date she assumed office, to enhance the transition from the prior administration, and to identify any internal controls needing improvement or noncompliance with laws or regulations that needed to be addressed and resolved in the areas reviewed.

Below is a summary of our findings and recommendations, with links to each page listed.

Finding 1 Page 8	OST did not account for, record, report, and reconcile its fixed assets in accordance with state requirements and did not perform an annual physical inventory.
Recommendation Page 10	OST management should perform, review, and document an annual physical inventory and reconciliation of its generally accepted accounting principles (GAAP) and non-GAAP fixed assets against the books and records it maintains, either on the Fixed Asset Subsystem or internally.
Finding 2 Page 10	ABCC's bank-account activity was not completely reconciled to the state's Massachusetts Management Accounting and Reporting System.

Recommendations <u>Page 11</u>	<ol style="list-style-type: none">1. The reconciliation accountant should ensure that reconciliations are performed in accordance with established procedures and the Office of the State Comptroller's policy.2. ABCC and OST management should update the Bank & ABCC Revenue Account Reconciliation Procedure to include the effective date and to define all roles and responsibilities, including the assignment of supervisory and approval requirements to enable management and other personnel to understand and carry out their internal control responsibilities.
Finding 3 <u>Page 11</u>	OST did not report missing unclaimed property to OSA.
Recommendations <u>Page 12</u>	<ol style="list-style-type: none">1. For missing unclaimed property, OST should immediately complete, and file with OSA, a Chapter 647 form that includes all required information and notes whether an internal investigation is ongoing.2. OST should update its internal control plans, policies, and procedures to incorporate the reporting requirements of Chapter 647 of the Acts of 1989 regarding unaccounted-for variances, losses, shortages, or thefts of funds or property.
Finding 4 <u>Page 13</u>	OST did not send the Governor a semiannual list of banks that were qualified to do business with the Commonwealth as required by the General Laws.
Recommendation <u>Page 13</u>	OST should establish written policies and procedures to ensure that a list of qualified banks is provided to the Governor at least once every six months.

OVERVIEW OF AUDITED ENTITY

The State Treasurer and Receiver General is an independently elected constitutional officer of the Commonwealth. The Office of the State Treasurer and Receiver General (OST) is responsible for receiving, managing, and investing all funds paid to the Commonwealth.

OST's fiscal year 2015 state budget appropriation was approximately \$15.4 million. The budget included appropriations funding the administration of OST and the Alcoholic Beverages Control Commission (ABCC), ABCC investigation and enforcement, financial literacy programs, the Veterans' Welcome Home Bonus Program, bonus payments to war veterans, and line-of-duty death benefits for public-safety employees.

The State Treasurer is the chair of the Massachusetts State Board of Retirement, the Massachusetts State Lottery Commission, the Massachusetts School Building Authority, the Massachusetts Clean Water Trust, and the Massachusetts Pension Reserves Investment Management Board and is the sole trustee of the Commonwealth's Deferred Compensation Plan. OST is responsible for a variety of important financial functions, as established by Chapter 10, Sections 1 through 74, 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; overseeing tax-deferred retirement savings accounts for approximately 263,000 government workers; processing and paying the Commonwealth's bills in concert with the Office of the State Comptroller; managing the Unpaid Check Fund; receiving, safeguarding, and disposing of unclaimed property; and making local aid distributions.

During our audit period, OST received state appropriations as shown below.

Appropriation Name	Description	Amount (in thousands)
Office of the State Treasurer and Receiver General	Expenses related to general OST administration	\$ 9,621
Welcome Home Bill Bonus Payments	Bonus payments provided to veterans who are currently serving or have completed qualified active service since September 11, 2001	2,804

Appropriation Name	Description	Amount (in thousands)
Alcoholic Beverages Control Commission	Expenses related to payroll, office and administrative supplies, and facility-related expenses	2,313
Public Safety Employees' Line-of-Duty Death Benefits	One-time death benefit payment of \$150,000 made for public-safety employees killed in the line of duty	300
Financial Literacy Programs	Services provided through seminars and conferences aimed at helping citizens plan and attain their financial goals	160
ABCC Investigation and Enforcement	Overtime associated with investigation and enforcement activities	150
Bonus Payments to War Veterans	Bonus payments made to veterans of World War II, the Korean War, and the Vietnam War, and survivors of deceased veterans of these wars	45
Total		\$ 15,393

See Appendix A for further detail on these programs.

AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY

In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, and in consideration of the election of a new State Treasurer and Receiver General, the Office of the State Auditor (OSA) has conducted a performance audit of certain financial activities, accounts, functions, and related internal control systems of the Office of the State Treasurer and Receiver General (OST) for the period July 1, 2014 through January 19, 2015. Because of issues identified during our review of unaccounted-for unclaimed property, we extended our audit period in that area through April 30, 2015.

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.

Below is a list of our audit objectives, indicating each question we intended our audit to answer; the conclusion we reached regarding each objective; and, if applicable, where each objective is discussed in the audit findings.

Objective	Conclusion
1. Did OST update its internal control plans (ICPs) to be consistent with the requirements of the Office of the State Comptroller's (OSC's) Internal Control Guide?	<u>Yes; see Other Matters</u>
2. Did OST comply with the requirements of Chapter 647 of the Acts of 1989 by reporting all instances of unaccounted-for variances, losses, shortages, or thefts of funds or property to OSA?	<u>No; see Findings 1 and 3</u>
3. Did OST reconcile its bank accounts accurately and promptly, and did it comply with informational filing requirements established by state law?	<u>Partially; see Findings 2 and 4</u>
4. Did OST have appropriate budgeting practices and controls in place to allow it to meet its operational needs through the end of fiscal year 2015?	<u>Yes</u>

Objective	Conclusion
5. Did OST have adequate internal controls in place to ensure that all unclaimed tangible and intangible property was received, recorded, and disbursed in compliance with Chapter 200A, Section 7, of the General Laws and with 960 Code of Massachusetts Regulations (CMR) 4.00?	Yes
6. Did OST develop policies and procedures related to reconciliations between the Unpaid Check Fund (UPCF) database and the Massachusetts Management Accounting and Reporting System (MMARS)?	Yes

To achieve our audit objectives, we gained an understanding of the internal controls we deemed significant to our audit objectives and evaluated the design and effectiveness of those controls. To assess the reliability of data, we performed a data-reliability assessment of MMARS and of OST's internally developed reporting systems for unclaimed property and the UPCF. We determined that the data were sufficiently reliable for the purposes of our report.

We reviewed state laws, regulations, policies, and procedures that were applicable to our audit objectives.

We reviewed our prior audit report (No. 2011-0085-11S) to determine whether any weaknesses in internal controls had been identified that pertained to our current audit objectives.

We reviewed ICPs that were applicable to our audit objectives using the OSC Internal Control Guide's evaluation criteria.

We interviewed senior OST officials and legal counsel regarding any known instances of fraud or lost or stolen property that were reportable under Chapter 647 of the Acts of 1989 and that occurred during our audit period.

We reviewed bank reconciliations performed by OST for the 17 bank accounts it uses to make payments on behalf of the Commonwealth to ensure that reconciliations were conducted on time and in accordance with the schedule in the OST Cash Management Account Reconciliation Policy. To test controls over 7 of the accounts, which are reconciled daily, we selected a non-statistical sample of 98 reconciliations. To test controls over the remaining 10 bank accounts, which are reconciled monthly, we selected a non-statistical sample of 20 reconciliations.

We reviewed the budgeting practices and controls that OST has in place to allow it to meet its operational needs through the end of fiscal year 2015. We identified seven appropriation accounts for which OST has direct oversight and reviewed the budget-management process with OST's chief financial officer. We identified controls over budget-management practices, including the monitoring and approval process used during the fiscal year. Finally, we obtained OST budget reports to determine whether spending, as of January 19, 2015, was consistent with fiscal year 2015 budget projections.

We reviewed the internal controls over unclaimed tangible and intangible property¹ to ensure that receipts and disbursements were recorded in compliance with Chapter 200A, Section 7, of the General Laws and with 960 CMR 4.00. Our tests of controls included a non-statistical random sample of 25 unclaimed-property receipts and 61 claims paid during our audit period.

We reviewed the accuracy of the inventory list for unclaimed tangible property by selecting a judgmental sample of 36 out of approximately 10,000 inventory lots.² We traced 18 lots from the inventory list to the assigned inventory locations and 18 lots from the identified inventory locations to the inventory list.

To follow up on our prior audit finding (in Audit Report No. 2011-0085-11S), we reviewed OST's current procedures and controls over the UPCF to determine whether the agency had developed policies and procedures related to reconciliations between the UPCF database and MMARS.

Whenever sampling was used, we applied a non-statistical approach; consequently, the results of our tests cannot be projected over the entire population and therefore only apply to the items selected.

1. In contrast to tangible property, intangible property includes items such as money, stocks, and pensions.

2. Inventory items can be packaged singly or grouped with similar items. Items or groups of items are referred to as "lots."

DETAILED AUDIT FINDINGS WITH AUDITEE'S RESPONSE

1. The Office of the State Treasurer and Receiver General did not properly maintain, reconcile, and perform an annual inventory of fixed assets.

The Office of the State Treasurer and Receiver General (OST) did not completely account for, record, report, and reconcile its generally accepted accounting principles (GAAP) and non-GAAP fixed assets³ in accordance with state requirements and did not properly document performance of an annual physical inventory. Inventory inaccuracies can result in the misstatement of the Commonwealth's capital assets in the Comprehensive Annual Financial Report.⁴ In addition, without performing, reconciling, and documenting an annual physical inventory of its GAAP and non-GAAP fixed assets, OST cannot ensure that its fixed assets are properly safeguarded against loss, theft, and misuse.

All state agencies are required to record all GAAP fixed assets in the Fixed Asset Subsystem within the state's Massachusetts Management Accounting and Reporting System (MMARS). OST, although not required to do so, has also elected to record its non-GAAP fixed assets in MMARS. It also maintains a separate internal inventory list that includes its non-GAAP fixed assets. However, we noted that the non-GAAP assets on this list did not reconcile to the MMARS Fixed Asset Subsystem. In addition, OST did not properly perform an annual inventory of its GAAP and non-GAAP fixed assets.

We compared the most recent MMARS fixed-asset data (as of December 31, 2014) with the most recent OST inventory list (as of June 30, 2014). The OST list documented 22 passenger sedans with a total purchase price of \$163,400 (no purchase price was recorded for 15 of 22 sedans). The MMARS Fixed Asset Subsystem list showed only 10 passenger sedans, with a total purchase price of \$177,347. After we notified OST management of this variance, OST conducted its own analysis and adjusted its internal inventory list and the Fixed Asset Subsystem to reflect the correct total: 14 passenger sedans, with a total purchase price of \$302,916, all assigned to the Alcoholic Beverages Control Commission (ABCC).

Non-GAAP fixed assets were understated in the MMARS Fixed Asset Subsystem by \$125,569.

3. See Appendix B for the Office of the State Comptroller and Operational Services Division's definitions of GAAP and non-GAAP fixed assets.
4. The Comprehensive Annual Financial Report is prepared by the Office of the State Comptroller, audited by independent certified public accountants, and published each December for the fiscal year ended June 30.

Further, OST's internal inventory list did not consistently document each item's purchase date and price. For example, as noted above, as of December 31, 2014, OST's internal inventory list included passenger sedans; the purchase price was not recorded for 68% of the sedans, and the purchase date was not recorded for 73%. In addition, OST's inventory list of information-technology items (e.g., laptops, monitors, power supplies, servers) did not include fields for the purchase date or price.

Authoritative Guidance

The Fixed Assets—Accounting and Management Policy issued jointly by the Office of the State Comptroller (OSC) and the Operational Services Division (OSD) requires all departments to take an annual inventory of GAAP and non-GAAP fixed assets and reconcile it “against the books and records maintained by the Department, either on the Fixed Asset Subsystem or other documented methods.” In addition, OSC's fiscal year 2015 GAAP Instructions for Departments require that departments retain records of having performed inventories of their non-GAAP fixed assets for internal and external audit purposes.

In addition, OSC and OSD's Fixed Assets—Acquisition Policy requires that a department's inventory of non-GAAP fixed assets include the “date of purchase, amount, description, location and disposition of an item.”

Reasons for Noncompliance

When we asked OST management for a reason for these issues, they indicated that OST had conducted an annual inventory and reconciliation of its fixed assets. However, the documentation provided was not sufficient to demonstrate this.

In addition, OST staff stated that no supervisory reviews or approvals were required for its annual inventory.

Finally, until late 2014, OST did not have documented procedures to ensure compliance with OSC and OSD requirements for fixed assets. (As of December 16, 2014, OST adopted an inventory control policy and procedure, Administration and Finance—General and Fixed Asset Inventory Policy.)

Recommendation

OST management should perform, review, and document an annual physical inventory and reconciliation of its GAAP and non-GAAP fixed assets against the books and records it maintains, either on the Fixed Asset Subsystem or internally.

Auditee's Response

OST agrees. These recordkeeping errors which were found during this audit have been corrected.

OST is in the process of updating policies and procedures to more accurately reflect the Commonwealth's policies and procedures that govern fixed assets.

2. ABCC's bank-account activity was not completely reconciled to MMARS.

Complete reconciliations of monthly bank-account activity were not properly performed for ABCC. Specifically, the ABCC reconciliation accountant was verifying that cash deposits agreed to revenue recorded in the MMARS sweep account,⁵ but cash allocations from the MMARS sweep account to various MMARS revenue budget accounts were not being reconciled to ensure that all revenue collected was properly classified in MMARS. Although monthly reconciliation reviews were performed, they did not include a verification of revenue classification.

Without reconciling monthly bank statement activity to all MMARS activity, OST may not detect or correct revenue misclassification in a timely manner.

Authoritative Guidance

OSC's Cash Recognition and Reconciliation Policy states, in part,

Daily system assurance must be performed by departments to ensure that there is a matching deposit for each cash transaction. This process involves comparing the results from all sources that produce or contain payments and deposit information, and ensuring that they match. These information sources should include any delegated system reports, all relevant MMARS tables and/or reports, and . . . reports [from a central database of state-agency information].

OST's Bank & ABCC Revenue Account Reconciliation procedure states that "the reconciliation process consists of: comparing cash balances in the general ledger cash accounts [i.e., MMARS] to the amounts reported on the bank statements."

5. Each day, funds representing ABCC's previous day's bank deposits are automatically transferred (swept) by OST to an authorized MMARS account.

Reasons for Lack of Reconciliations

The reconciliation accountant for the ABCC bank-account reconciliations did not follow established procedures. The responsibility of performing account reconciliations was transitioned from the OST Cash Management Department to ABCC in July 2014. The Bank & ABCC Revenue Account Reconciliation Procedure was created before this transition but did not have an effective date to ensure that it was implemented. It included responsibilities for the timely review and approval of all reconciliations, but no individuals were assigned these responsibilities. During the transition period, ABCC and OST management did not provide adequate oversight to ensure that reconciliations were conducted according to the established procedure and OSC policy.

Recommendations

1. The reconciliation accountant should ensure that reconciliations are performed in accordance with established procedures and OSC policy.
2. ABCC and OST management should update the Bank & ABCC Revenue Account Reconciliation Procedure to include the effective date and to define all roles and responsibilities, including the assignment of supervisory and approval requirements to enable management and other personnel to understand and carry out their internal control responsibilities.

Auditee's Response

All of the ABCC's license and transaction fees are processed via its lockbox or e-pay for credit cards and automatically deposited into its sweep account. Daily, the bank sends an electronic file to the OSC, which is uploaded directly into MMARS to create accounting transactions.

Thereafter, the ABCC performs monthly and yearly reconciliations. There are two steps to completing the monthly ABCC reconciliation. First, the bank activity is compared to the funds swept into MMARS and second, bank deposits are compared to the revenue transaction classifications in MMARS. This second step was improperly performed by the ABCC. The ABCC was performing this step annually instead of monthly.

At the end of FY15, and as part of the OST's year-end close process, all revenue accounts are reviewed to determine they are properly reconciled to cash activity. For FY15, this was completed and no variance was found. The ABCC staff has been retrained and detailed procedures are being updated.

3. OST did not report unaccounted-for variances, losses, shortages, or thefts to the Office of the State Auditor.

OST did not report missing unclaimed property to the Office of the State Auditor (OSA). Twenty-nine lots of unclaimed property have been unaccounted for since the division's relocation in January 2015. The

missing unclaimed property included \$3,647 in cash, 23 collectable coins, two pieces of jewelry, and other property. Rather than reporting the missing property to OSA, OST conducted its own investigation, which was still ongoing during the audit period. Not reporting variances, losses, shortages, or thefts of funds or property immediately to OSA can prevent or delay an independent assessment and recommendations regarding potential internal control weaknesses that may have contributed to or caused the problem.

OST's Unclaimed Property Division relocated its inventory of 10,443 lots of unclaimed property in January 2015. The inventory was moved from OST's site in Chelsea to its new location in Boston. After the move, 97 lots were found to be missing. Thirty-six lots delivered to Boston had not been scanned on departure from Chelsea. An additional 30 lots were removed from inventory because of search warrants or were sold without being removed from the system. Finally, 2 lots—both life-insurance policies—had not been removed from the inventory reports because of system limitations. As of April 30, 2015, OST could not account for the remaining 29 lots.

Authoritative Guidance

Chapter 647 of the Acts of 1989 (An Act Relative to Improving the Internal Controls within State Agencies) states, "All unaccounted for variances, losses, shortages or thefts of funds or property shall be immediately reported to the state auditor's office."

Reason for Noncompliance

OST's internal control plans (ICPs), policies, and procedures did not address reporting requirements related to unaccounted-for variances, losses, shortages, or thefts of funds or property. While OST told us that it required all instances of unaccounted-for variances, losses, shortages, or thefts of funds or property to be reported to OSA, management indicated that their efforts to locate the missing items were still ongoing.

Recommendation

1. For missing unclaimed property, OST should immediately complete, and file with OSA, a Chapter 647 form that includes all required information and notes whether an internal investigation is ongoing.
2. OST should update its ICPs, policies, and procedures to incorporate the reporting requirements of Chapter 647 of the Acts of 1989 regarding unaccounted-for variances, losses, shortages, or thefts of funds or property.

Auditee's Response

Since April 30, 2015, four items have been accounted for. On October 2 and 6, 2015, OST reported the remaining 25 items to the OSA, which continue to be under investigation. OST is in the process of updating policies, procedures and internal control plans to reflect the reporting requirements of Chapter 647 of the Acts of 1989.

4. OST did not send the Governor a semiannual list of banks qualified to do business with the Commonwealth.

Throughout our audit period, OST did not send the Governor a list of banks that were qualified to do business with the Commonwealth. The most recent list of qualified banks sent to the Governor was dated February 18, 2014.

After the Governor approves it, the list of qualified banks is made available to state officers, departments, institutions, and other agencies within the Commonwealth, informing them of which banks can receive deposits of public money. Without an up-to-date list of approved banks, public funds might be deposited into banks that do not meet all of the legal criteria for conducting business with the Commonwealth.

Authoritative Guidance

Chapter 29, Section 34, of the Massachusetts General Laws requires that the State Treasurer publish a list of qualified banks and transmit it to the Governor at least once every six months.

Reasons for Noncompliance

OST management stated that this list had not been generated and transmitted to the Governor because the office's staff was limited and had been assigned other, higher-priority, tasks. Additionally, OST had no documented policy and procedure defining the responsibilities and accountability associated with submitting this list.

Recommendation

OST should establish written policies and procedures to ensure that a list of qualified banks is provided to the Governor at least once every six months.

Auditee's Response

All banks with which the Commonwealth does business are qualified, and have been qualified since February 18, 2014.

The required bank list is expected to be completed and submitted to the Governor on October 16, 2015.

A policy and procedure will be developed to address the timely submission of the required bank list to the Governor.

OTHER MATTERS

In its Internal Control Guide, the Office of the State Comptroller (OSC) lists 16 evaluation points (Appendix C) that it suggests agencies use in developing their internal control plans (ICPs). These evaluation points are intended to assist agencies in establishing and maintaining an effective internal control structure. The Office of the State Treasurer and Receiver General (OST) consists of various departments, boards, and commissions, each with its own ICP. During our audit, we noted that none of the 9 OST ICPs we reviewed addressed all 16 of OSC's points. More specifically, none of them addressed the method that should be used to report internal control issues such as unresolved reconciling items and policy violations; reporting of any unaccounted-for variances, losses, shortages, or thefts to the Office of the State Auditor (OSA); or department personnel to whom the ICPs should be distributed.

If processes to enable personnel to understand and carry out their responsibilities are not clearly defined and in place, then any matters of significance relating to internal control, including instances of internal control weakness and noncompliance, may go unreported and eliminate the opportunity for management to identify and address the cause and take timely corrective action. Further, not reporting unaccounted-for variances, losses, shortages, or thefts immediately to OSA could prevent OSA from conducting a timely, independent assessment to determine the internal control weakness that contributed to or caused the condition and to make recommendations to address the weakness. In addition, although 9 of OST's 11 ICPs were published and available to all employees on the OST intranet, the other 2 ICPs were being updated and had not been posted to the intranet; this could result in reduced awareness of internal control requirements. Although it is not required to do so, we believe that in order to improve the overall effectiveness of its ICPs, OST should consider using all 16 evaluation points in the OSC Internal Control Guide in developing its ICPs.

During our audit, we discussed this matter with OST's internal control officer, who was aware of these issues and was engaged in an ongoing effort to update, standardize, and publish all ICPs.

APPENDIX A

Office of the State Treasurer and Receiver General State Budget Appropriation Fiscal Year 2015

General Operations (\$9.6 million)

This appropriation account is used primarily for expenses related to the general administration of the Office of the State Treasurer and Receiver General (OST). Payroll expenditures account for approximately \$6.1 million of the \$9.6 million appropriation, and they support various operations, including those of the Unclaimed Property Division, the State Board of Retirement, the Deferred Compensation Plan, the Debt Management Department, the Financial Education Department, the Cash Management Department, the Veterans' Bonus Division, and the Massachusetts Clean Water Trust.

Alcoholic Beverages Control Commission Operations / Investigation and Enforcement (\$2.5 million)

The appropriation for the Alcoholic Beverages Control Commission (ABCC) is used primarily for expenses related to payroll; office and administrative supplies; facility-related expenses; and overtime associated with investigation and enforcement activities. In addition to its appropriation, ABCC also receives revenue from licensing fees. Fiscal year 2014 licensing revenue, which was submitted to the Commonwealth's General Fund, totaled \$4.3 million.

According to its annual report for fiscal year 2014, ABCC issued approximately 11,000 state and 11,500 retail alcoholic beverage licenses in calendar year 2013. State licenses permit the holder to manufacture, import, store, and transport alcoholic beverages. Retail licenses permit the holder to sell alcoholic beverages at restaurants, taverns, clubs, hotels, package stores, convenience stores, and supermarkets.

ABCC is also responsible for supervision, investigation, and enforcement in matters involving alcoholic beverages, including their manufacture, import, export, storage, transportation, sale, and consumption.

Financial Literacy Program (\$160 thousand)

The purpose of the Financial Literacy Program is to provide Massachusetts residents with financial knowledge. The services are provided through seminars and conferences and are aimed at helping citizens attain their financial goals.

Veterans' Welcome Home Bonus Program (\$2.8 million)

The Welcome Home Bonus program provides bonus payments to veterans who are currently serving or have completed qualified active service since September 11, 2001. A veteran is eligible to receive bonus payments if s/he meets certain eligibility requirements. Applicants for this bonus program must have resided in Massachusetts for the six months immediately before they entered the Armed Forces. Bonus payments range from \$250 to \$1,000.

Bonus Payments to War Veterans (\$45 thousand)

Bonus payments are made to war veterans of World War II, the Korean War, and the Vietnam War, and survivors of deceased veterans of these wars, who meet specific eligibility requirements. These payments range from \$100 to \$500.

Public-Safety Employees' Line-of-Duty Death Benefits (\$300 thousand)

A one-time death benefit payment of \$150,000 is made for public-safety employees killed in the line of duty. Public-safety employees covered under this benefit include firefighters, reserve providers of emergency medical service who are members of the police or fire department, police officers, public prosecutors, municipal or public emergency medical technicians, and correction officers.

APPENDIX B

Definitions of Generally Accepted Accounting Principles (GAAP) and Non-GAAP Fixed Assets⁶

GAAP Fixed Assets

*GAAP Fixed Assets are defined as **singular assets** (including infrastructure) with the following characteristics:*

- **All land**, regardless of cost. . . .
- **All works of art and historical treasures**, regardless of cost, acquired or donated to a department after July 1, 2001. . . .
- **Vehicles, equipment, furniture, computer software, and all electrical and computer components** with a useful life in excess of one year and with an historical cost **in excess of \$49,999**.
- **Buildings purchased or constructed** . . . with an historical cost of **greater than \$99,999**.
- **All road infrastructures** with an historical cost **in excess of \$99,999** per lane mile for road assets. . . .
- **All computer software**, whether internally or externally developed, should be capitalized depending on its cost. . . . Software costs above \$50,000, but below \$1,000,000, are considered a GAAP fixed asset.

Non-GAAP Fixed Assets

*Non-GAAP fixed assets are defined as **singular assets** (including infrastructure) with the following characteristics:*

- **Vehicles, equipment, furniture, computer software, and all electrical and computer components** with (1) a useful life of more than one year and (2) with **an original cost between \$1,000 and \$49,999**.
- **Buildings and other infrastructure** with an **original cost between \$1,000 and \$99,999**.
- **Road infrastructure** with a **cost of less than \$99,999 per lane mile** for roads and bridges.
- **Software costs below \$50,000**.

6. Quoted from the Office of the State Comptroller and Operational Services Division's Fixed Assets—Acquisition Policy.

APPENDIX C

Internal Control Guide Evaluation Points⁷

1. Does the department have a written internal control plan? If so, when was it last updated?
2. Is the internal control plan a high-level summarization, on a department-wide basis, of the department's risks and of the controls used by the department to mitigate those risks?
3. Is the internal control plan supported by low-level detail such as departmental policies and procedures?
4. Was the department head and senior management instrumental in developing the plan?
5. Does the plan include the [Enterprise Risk Management] components of:
 - a. Internal Environment
 - b. Objective Setting
 - c. Event Identification
 - d. Risk Assessment
 - e. Risk Response
 - f. Control Activities
 - g. Information and Communication
 - h. Monitoring
6. Does the internal control plan include a department-wide risk assessment? Or, does the risk assessment include only fiscal? Are any business areas missing from the risk assessment?
7. Do risks appear to match the stated mission, goals, and/or objectives?
8. Does the risk assessment identify the most significant areas that could keep the department from attaining its mission, goals and objectives?
9. Are the stated risks cross-referenced to internal controls?
10. Do the policies, procedures and organizational structure (control activities) actively attempt to control the risks that were identified in the risk assessment?
11. Does the internal control plan include information explaining how and when management monitors the objectives and activities contained in the plan?

7. Excerpted from the 2007 version of the Office of the State Comptroller's Internal Control Guide.

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- 12. Does the internal control plan describe the method that should be used by staff to report internal control issues such as unresolved reconciling items and policy violations?*
 - 13. Does the internal control plan indicate to whom in the department the internal control plan is distributed?*
 - 14. Has the department trained employees in internal controls within the past year? Have employees attended the internal control training provided by the Office of the Comptroller?*
 - 15. Has the department established unit(s) whose primary responsibility is internal audit, quality assurance, internal control or quality control? If yes, how many staff are assigned? What do they review? To whom do they report?*
 - 16. Does the internal control plan describe the process to report unaccounted for variances, losses, shortages or theft of funds or property to the Office of the State Auditor?*