



**Commonwealth of Massachusetts  
Management Letter  
June 30, 2009**



**KPMG LLP**  
Two Financial Center  
60 South Street  
Boston, MA 02111

Telephone +1 617 988 1000  
Fax +1 617 507 8321  
Internet [www.us.kpmg.com](http://www.us.kpmg.com)

December 23, 2009

The Comptroller's Advisory Board  
Commonwealth of Massachusetts  
Boston, Massachusetts

Advisory Board Members:

We have audited the basic financial statements of the Commonwealth of Massachusetts (the Commonwealth) as of and for the year ended June 30, 2009, and have issued our report thereon dated December 23, 2009. In planning and performing our audit of the basic financial statements of the Commonwealth, in accordance with auditing standards generally accepted in the United States of America, we considered the Commonwealth's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commonwealth's internal control. Accordingly, we do not express an opinion on the effectiveness of the Commonwealth's internal control.

During our audit, we noted certain matters involving internal control and other operational matters that are presented for your consideration. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve internal control or result in other operating efficiencies and are summarized on the attached schedule of observations.

The Commonwealth's written responses to our comments and recommendations have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

In addition, we identified certain deficiencies in internal control that we consider to be significant deficiencies, and in accordance with *Government Auditing Standards* communicated them in writing to the Commonwealth in a separate report dated December 23, 2009.

Our audit procedures are designed primarily to enable us to form opinions on the basic financial statements, and therefore may not bring to light all weaknesses in policies or procedures that may exist. We aim, however, to use our knowledge of the Commonwealth's organization gained during our work to make comments and suggestions that we hope will be useful to you.

We would be pleased to discuss these comments and recommendations with you at any time.



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This communication is intended solely for the information and use of management of the Commonwealth, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

KPMG LLP

# Commonwealth of Massachusetts

## Schedule of Observations

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### **Timeliness of the Closing Process**

#### *Observation*

The Commonwealth's fiscal year ends on June 30. General Laws requires an accounts payable period ending September 15<sup>th</sup>. The closing process is such that auditable fund trial balances are not available until early to mid-October, 30 days after the close of the accounts payable period. Changes enacted into law during fiscal year 2009 have alleviated some of the time compression associated with the preparation of the statutory basis financial report. While the efforts made by the Comptroller's office have helped streamline the closing process, additional work remains to be done. The closing process remains highly dependent on the coordination of information from various sources. The time required to assemble and compile that information to allow for sufficient analysis could be improved.

#### *Recommendation*

The Comptroller's staff should continue to review the current organizational structure, including roles and responsibilities, to ensure that there is an appropriate balance of responsibilities and an appropriate level of skills in the respective functions of the Comptroller's office to expedite the completion of financial reporting. We continue to suggest that consideration be given as to whether a hard close of the Commonwealth's financial records takes place at interim dates throughout the year such that certain account balances, capital assets for example, are not reconciled on just an annual basis. While it may not be practical to perform a hard close on an entitywide basis, there are many accounts within the control of the Comptroller's office for which an interim hard close would facilitate the closing process at year end. As part of the process described above, management should assess opportunities to streamline the documentation of account balances to expedite the closing process.

#### *Management's Corrective Action Plan*

In 2009, closing was made more difficult due to the late filing of a supplemental budget (passed on October 29, 2009). With many changes to accounts and funds within that supplemental budget, closing was hampered. We also performed a number of clean up adjustments within accounts that did not affect balances or operations, but took time to analyze and implement.

That said, in 2010, we have already started to work with the Secretary for Administration and Finance as well as the legislature to close earlier. We are also revitalizing our scheduling tracking system to tighten up dates as much as possible.

#### *Responsible Official*

Eric S. Berman, CPA, Deputy Comptroller and BJ Trivedi, Bureau Director, Financial Reporting and Analysis Bureau

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### **Department of Revenue Cash Reconciliations**

#### *Observation*

The Department of Revenue (DOR) performs bank reconciliations for its tax collection and tax refunding accounts on a monthly or in the case of certain high volume accounts daily basis. The reconciliations are performed by Revenue Accounting Unit (RAU) staff members. During test work, we noted that the reconciliations are not always performed in a timely manner. Additionally, we noted that these reconciliations are not always reviewed by RAU management on a consistent or timely basis.

#### *Recommendation*

Bank reconciliations should be prepared within 30 days of month end. Additionally, all reconciliations should be reviewed by a member of RAU management for accuracy of beginning and ending balances, support for reconciling items, and overall reasonableness. As evidence of review, the reviewer should sign and date the reconciliation.

#### *Management's Corrective Action Plan*

The RAU is instituting the following process:

1. Implement a notification system from the preparer to management confirming the completed reconciliation or notice on issues preventing the reconciliation from being completed. Notification of any outstanding issues should occur as soon as the preparer is aware there is a problem.
2. Management will review and signoff of each month's reconciliation. All reconciliations will be checked for accuracy of beginning and ending balances, supporting documentation, and overall reasonableness. If unforeseen delays become apparent, the preparer and/or management must document the reason for the delay with a description of the efforts to resolve problems.
3. Revenue Accounting will standardize a signoff sheet that includes date and signature lines for the preparer and reviewer, as well as a space for any comments/status reports, etc.
4. This process will be formally communicated to all affected staff in detail, specifying the reconciliation and signoff process.

#### *Responsible Official*

Paul Naves, Chief Financial Officer

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### **Essex Sheriff's Departmental Review and Approval of Payroll**

#### *Observation*

According to Comptroller guidelines, each department within the Commonwealth is required to have its chief financial officer or an authorized signatory review and approve the dollar amount of the payroll for their department each pay cycle. During our audit, we selected a sample of departments over a variety of different pay periods. We found that the Essex Sheriff's Department (the Department) did not have documentation of a review or approval for the pay period selected.

#### *Recommendation*

We recommend that the Department take corrective action to ensure that controls over payroll review and approval are designed and operating effectively and are in accordance with Comptroller guidelines.

#### *Management's Corrective Action Plan*

The Chief Financial Officer now signs the Payroll Expenditure Approval Form for each pay period.

#### *Responsible Official*

Mike McCarthy, Chief Financial Officer

# Commonwealth of Massachusetts

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### **Commission for the Deaf and Hard of Hearing Departmental Review and Approval of Payroll**

#### *Observation*

According to Comptroller guidelines, each department within the Commonwealth is required to have its chief financial officer or an authorized signatory review and approve the dollar amount of the payroll for their department each pay cycle. During our audit, we selected a sample of departments over a variety of different pay periods. We found that the Commission for the Deaf and Hard of Hearing (the Department) did not have documentation of a review or approval for the pay period selected.

#### *Recommendation*

We recommend that the Department take corrective action to ensure that controls over payroll review and approval are designed and operating effectively and are in accordance with Comptroller guidelines.

#### *Management's Corrective Action Plan*

In accordance with the Commonwealth's Payroll Expenditure Policy and the State Finance Law, MCDHH has been certifying payroll expenditures on bi-weekly basis since April 2009 after the new CFO came on board. Each pay cycle a warehouse query, run from the LCM database, is reviewed and signed by the CFO, as an authorized signatory. The signed copy is kept on file and will be available upon request. Our agency's internal controls have been reviewed to reflect the changes. We believe these actions are responsive to the recommendations during your fiscal year 2009 review.

#### *Responsible Official*

Sehin Mekuria, Chief Financial Officer

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### **Department of Transitional Assistance Departmental Review and Approval of Payroll**

#### *Observation*

According to Comptroller guidelines, each department within the Commonwealth is required to have its chief financial officer or an authorized signatory review and approve the dollar amount of the payroll for their department each pay cycle. During our audit, we selected a sample of departments over a variety of different pay periods. We found that the Department of Transitional Assistance (the Department) did not have documentation of a review or approval for the pay period selected.

#### *Recommendation*

We recommend that the Department take corrective action to ensure that controls over payroll review and approval are designed and operating effectively and are in accordance with Comptroller guidelines.

#### *Management's Corrective Action Plan*

The Department of Transitional Assistance (DTA) operates under a Service Level Agreement (SLA) with the Executive Office of Health and Human Services (EOHHS) regarding certain administrative activities, designated as Core Administrative Activities. The Secretary designates as Core Administrative Activities certain financial operations, human resources, information technology, and leased space management and Capital oversight. One of the functions of the centralized Human Resource unit is payroll processing. EOHHS actually processes the DTA's payroll and DTA gathers and approves the time logs.

DTA will work with EOHHS and the Comptroller to develop a payroll approval procedure that fits with the centralized model and addresses the Comptroller's guidelines in this area.

#### *Responsible Official*

Carol Moran, Chief Financial Officer

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### **Accounting and Financial Reporting of Retainage Related to Capital Projects**

#### *Observation*

The Commonwealth routinely enters into contracts for the construction of capital assets. When these contracts require payments over a period of time, the contract will often include a “retainage” clause. This allows the Commonwealth to hold back a portion of the payment to ensure a good faith effort is made by the contractor to complete the project.

The accounting and financial reporting policies and procedures, which have been established to record capital assets, were also intended to include retainage costs. However, it was noted during test work that for several departments capital assets are only recognized at the time actual spending occurs. Rather than recognize the increase in the capital asset at the time the retainage was accrued, the retainage portion of the asset is not recognized until the actual payment is made. In at least one instance, the department was tracking encumbrances outside of MMARS in a spreadsheet. The overall effect of this practice is that encumbrances and the payables associated with those encumbrances will not always match the capitalization period of the associated costs.

#### *Recommendation*

Departments should follow the existing retainage policy and enter balances into MMARS throughout the construction period to properly record the value of assets and payables. Controls should be reviewed to ensure that departments are properly entering retainage into MMARS and not simply tracking it outside of MMARS and entering the value as a part of final payments on projects.

#### *Management's Corrective Action Plan*

The retainage policy implemented through MMARS provides the control and reporting that are sought. It is now clear that departments generally have not adopted the policy or practice it through MMARS. Through desk reviews, this office will reach out to departments to implement or increase compliance.

#### *Responsible Official*

Kathy Sheppard, Deputy Comptroller

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### **Accounting for Amortization of Bond Premiums and Discounts**

#### *Observation*

The Treasurer's Office (TRE) is responsible for the bond issuance details; however, once completed the transaction details are provided to the Office of the State Comptroller (OSC) to facilitate appropriate accounting entries. The amount of the premium/discount for serial bonds is provided to the OSC from TRE. The information provided to the OSC also includes the details of the premium/discount related to each maturity within the series bonds if applicable.

Through discussions with the OSC and TRE, it was determined that the details of the premium/discount related to each maturity within the series bonds were being utilized by the OSC as the basis for its amortization schedule. The result of this method is that in certain circumstances the premiums/discounts are not being amortized over the life of the bond but rather are written off at time of bond maturity.

#### *Recommendation*

We recommend that policies, processes, and controls be developed to ensure that when debt is issued by the Commonwealth the appropriate accounting entries are made and that amortization schedules are developed in accordance with Generally Accepted Accounting Principles. Amortization schedules should be reviewed and approved by management at the time they are developed.

#### *Management's Corrective Action Plan*

We believe this is inconclusive in GASB Standards. Premium and discount information is received from the Commonwealth's underwriters as part of a bond issuance and input into our debt management system. Amortization occurs with each principle payment. However, because of our debt structure, level principle, and principle repayment starting within a year are not assured.

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GASB 34, paragraph 146 has been cited as justification of a method. That paragraph (as amended by GASB 37) is as follows:

146. The requirements of APB Opinions No. 12, Omnibus Opinion—1967, and No. 21, Interest on Receivables and Payables, as amended, require deferral and amortization of debt issue premium or discount. These Opinions may be applied prospectively to governmental activities in the statement of net assets and the statement of activities, except for governmental activity debt that is deep-discount or zero-coupon debt.<sup>1</sup> Finally, Statement 23, which requires deferral and amortization of the difference between the reacquisition price and the net carrying amount of old debt in debt-refunding transactions, may be applied prospectively by governmental activities. The retroactive effect of applying those standards is not required to be considered in determining beginning net assets for governmental activities.

APB Opinion 12, paragraphs 16 and 17 are as follows:

### **AMORTIZATION OF DEBT DISCOUNT AND EXPENSE OR PREMIUM**

16. Questions have been raised as to the appropriateness of the “interest” method of periodic amortization of discount and expense or premium on debt (i.e., the difference between the net proceeds, after expense, received upon issuance of debt and the amount repayable at its maturity) over its term. The objective of the interest method is to arrive at a periodic interest cost (including amortization), which will represent a level effective rate on the sum of the amount of the debt (plus or minus) the unamortized premium or discount and expense at the beginning of each period. The difference between the periodic interest cost so calculated and the nominal interest on the outstanding amount of the debt is the amount of periodic amortization.
17. In the Board’s opinion, the interest method of amortization is theoretically sound and an acceptable method.<sup>2</sup>

However, the recently issued GASB Statement No. 55 does not allow APB Opinions to be used as justification for a question in GAAP as it is not part of the Governmental GAAP hierarchy. Another justification has been raised in GASB Interpretation 6. According to GASB Interpretation 6 further discusses the notion of systematic and rational. However, it discusses it as part of the rationalization of depreciating an asset.

We do not believe that there is justification for the Commonwealth to re-amortize over 100 bond issues to smooth the allocation of these amounts. Because of so many issues, on a global basis, even though amortization may not occur for years into an issue, because other issues are maturing, the amounts that are maturing on an annual basis from year to year are relatively comparable.

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<sup>1</sup>Footnote 65 of GASB 34 refers to “deep discount” as debt is sold at a discount of 20% or more from its face or par value at the time it is issued. Zero-coupon debt is originally sold at far below par value and pays no interest until it matures.

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We will continue to further document our methodology and work with the auditor to reach a practical resolution to these concerns.

*Responsible Official*

BJ Trivedi, Financial Reporting and Analysis Bureau

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### **Group Insurance Commission Evaluation of Service Providers**

#### *Observation*

The Commonwealth offers a variety of health and welfare plans to employees and retirees. These are administered through the Group Insurance Commission (GIC). GIC contracts with third-party administrators (TPA) to perform routine tasks including benefit payments.

For certain of these TPAs, the Commonwealth receives an evaluation of the internal controls and their effectiveness; these reports are commonly referred to as SAS 70 reports. We noted that one TPA did not have a SAS 70 report prepared. This exposes GIC to the risk that ineligible or inaccurate benefit payments could be processed by the TPAs if adequate controls are not in place.

#### *Recommendation*

We recommend that GIC require its TPAs to have appropriate oversight in place. This can take the form of SAS 70 reports or other monitoring activities. These monitoring activities should be performed on an on-going basis throughout the year.

#### *Management's Corrective Action Plan*

The GIC has consistently maintained appropriate oversight of the SAS 70 reporting process. For example, after being notified May 27, 2009 by KPMG of the beginning of the fiscal year 2009 audit process, we contacted our self-insured plans June 4, 2009 on the timing of their SAS 70 reports, and consistently tracked and monitored their progress on delivering those reports according to schedule. One vendor delivered their report late this year. Our plan for corrective action is that we will require all SAS 70 reports be delivered no later than December 1<sup>st</sup> of the year being reported.

#### *Responsible Official*

Kathleen Glynn, Director of Policy and Planning for GIC

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### **Compliance with Comptroller Policies and Procedures**

#### *Observation*

The Office of the State Comptroller (OSC) is responsible for the implementation and enforcement of policies and procedures designed to enhance the Commonwealth's internal control over financial reporting. OSC has developed an Internal Control Questionnaire (ICQ) in order to monitor compliance with these policies and procedures and to gain comfort over the departmental control environments. The ICQ has great potential as a tool to assess and monitor both departmental control risk and financial reporting risk; however, this tool is currently under utilized. During the past fiscal year, improvements were made by the Comptroller's Quality Assurance Bureau (QAB), the group responsible for administering the ICQ, to organize ICQ results into more analytically driven reports and perform limited follow-up with departments based on responses. The reports and reviews performed were an important step in making the ICQ process more robust and effective; however, we feel that there remains the potential for even greater utilization of this tool if the results are made available to all bureaus to assist them in their ongoing monitoring activities.

#### *Recommendation*

We recommend that the QAB increase the frequency of their departmental reviews to ensure departmental compliance with OSC policies and procedures continues. In addition, we recommend that the QAB develop processes and procedures to make the responses to the ICQ available to other bureaus within OSC. This will enhance the ability to focus resources on those departments and agencies most in need of assistance.

#### *Management's Corrective Action Plan*

For the fiscal year 2010 version of the Internal Control Questionnaire, the QAB will forward questionnaire results to each bureau in the Office of the Comptroller. QAB will then coordinate the Comptroller's responses to department anomalies and indicators of non-compliance in conjunction with business bureaus responsible for particular policy areas.

#### *Responsible Official*

Peter Scavotto, Director, Quality Assurance Bureau, Comptroller's Office

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### **Employment Records**

#### *Observation*

Throughout the Commonwealth, departments are responsible for setting policies and procedures regarding employee terminations thus allowing each department to create documents and procedures that are appropriate to their operating environment. In addition, each department is responsible for working with information technology, security, and human resources to ensure that when an individual ceases to be employed by the department that all appropriate systems are updated in a timely manner to prevent unauthorized access or overpayments. Departments are responsible for maintaining the documentation supporting employee terminations. Human Resource Division (HRD) provides guidance to departments under the control of the Governor to ensure that all departments are aware of the appropriate controls necessary to ensure that terminations are handled appropriately. We selected a sample of 40 terminations from 18 different departments and noted that for one of the selections the department did not follow their own departmental policy and in another case the department did not provide sufficient evidence of the controls in place over employee terminations.

#### *Recommendation*

We recommend that the Commonwealth consider the design and effectiveness of the current policies in place regarding terminated employees. The policies and procedures for each department should address the risks to all Commonwealth systems and each department should maintain appropriate evidence of the controls operating effectiveness.

#### *Management's Corrective Action Plans*

#### **Documentation:**

For agencies under control of the Governor, the oversight for the documentation supporting employee terminations would, and does, come from HRD. For agencies within the Legislative or the Judiciary branches and independent agencies, the authority rests directly with the department heads.

#### *Responsible Officials*

HRD Policy Unit is responsible for Executive Branch departments. Department Heads are responsible for agencies within the Legislative and the Judiciary branches as well as independent agencies.

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### **System Access:**

The Comptroller's Statewide Enterprise Systems Security Review and Approval Policy states that it is the responsibility of each department's Security Officer for the "immediate de-activation of a user's access" to enterprise systems for any situation requiring such action.

### *Responsible Officials*

Each department's Security Officer

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### **Workers' Compensation Accrual**

#### *Observation*

The Commonwealth self-insures for its workers' compensation insurance coverage. This means that the Commonwealth is responsible for the full cost of paying claims of injured workers. In order to ensure that the full extent of the liability is properly reflected in its financial statements, the Commonwealth engages an actuary to perform an analysis of workers' compensation claims. This analysis is then used to develop an accrual, for financial reporting purposes, to reflect the ultimate cost of insuring its workers from the time of the incident.

In performing the actuarial calculations, the Commonwealth's third-party actuary uses a variety of actuarial methods to arrive at the estimated loss. However, the actuary does not use a case review methodology as part of its estimate. Use of a case review methodology is considered a best practice.

#### *Recommendation*

We recommend that the Commonwealth review with their third-party actuary the methods used to prepare the workers' compensation accrual. They should ensure that the best estimate be determined and that all relevant information is available for the actuary to consider in making their assessment.

#### *Management's Corrective Action Plan*

HRD will follow the above recommended action.

#### *Responsible Officials*

Mike Chandrankunnel and Brian Hickey

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### **Prior Service Credits**

#### *Observation*

The Commonwealth administers a variety of health and welfare programs. At the same time, employees of the Commonwealth routinely transfer employment to municipal employers during the course of their careers. The Commonwealth will routinely accept the service credits for employment at another municipality when determining eligibility for one of its own pension, or health and welfare plans. While a process is in place for the transfer of service credits for pension eligibility, there does not appear to be a consistent, documented policy, or statute on how eligibility determinations are made for Other Postemployment Benefits (OPEB). In addition, there are no formal agreements between the Commonwealth and the municipal employers with respect to prior service credits for OPEB.

#### *Recommendation*

We recommend that the Commonwealth review its policy of accepting prior service credits. We further recommend that formal, written policies, and procedures be developed to properly reflect the intent of the transferability of employment. There should be a written agreement upon transfer of employment, and consideration should be given to amounts accrued or accruable for the employees' prior service.

#### *Management's Corrective Action Plan*

The Group Insurance Commission will study this issue as a potential change that will require legislation. Because of the different vesting periods and eligibility rules between pensions and retiree healthcare, the migration of potential legislation from Massachusetts General Laws 32 section 3(8)(c) (pensions statutes regarding transfers from municipalities to the Commonwealth and vice versa) to any new statute to resolve this issue will be challenging and problematic. We will potentially recommend a study be done to find a solution.

#### *Responsible Official*

Robert Johnson, Deputy Director

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### **Accuracy of Information Maintained by the Teachers' Retirement System**

#### *Observation*

The Teacher's Retirement Board (TR Board) is responsible for maintaining member information for all active, inactive, and retired employees who contribute to and participate in the Massachusetts Teachers' Retirement System (MTRS). The database of information is gathered from many different sources and in some cases in various different formats. The system that is currently used is significantly aged and in some cases does not provide management with appropriate levels of information and in other cases contain corrupted or incomplete data. In addition to servicing the needs of the MTRS, the information contained in the member system is also utilized by PERAC to calculate a projected pension liability, a significant accounting estimate that is part of the financial reporting process. To compensate for the anomalies in the data, PERAC makes adjustments to its actuarial model before finalizing its results, results that ultimately impact future funding requirements for the Commonwealth. The TR Board is well into the design process for their new system and will need to carefully consider the accuracy of the information to be transferred from the legacy system.

#### *Recommendation*

We recommend that the TR Board conduct a review to identify inconsistent, inaccurate, or corrupted data within the current member systems. Once the review is complete, we recommend that the data be scrubbed prior to transfer to the new system. We would also recommend that the TR Board enforce strict guidelines on external entities that provide information to the system to reduce the level of inaccurate or inconsistent member data. Finally, as the TR Board continues through the process of system design, we recommend that they consider future information and control needs when designing these new systems.

#### *Management's Corrective Action Plan*

Starting in 2007, MTRS established a dedicated Data Cleansing and Conversion team (Team) in preparation of replacing our legacy system with a new line of business application. The Team consists of three (3) full-time employees: the Legacy Administrator and two ORACLE Database Administrators. MTRS also purchased a software package to assist in the profiling and scrubbing of data and documenting validations. Additionally, in order to minimize the merging of inconsistent or inaccurate data to our legacy system, MTRS tightened edits for all information received from the 415 school districts. In June 2008 and still ongoing, the Team has been working closely with our new line of business vendor and members of MTRS's Project Management Office to develop a data cleansing plan to address issues prior to transferring data to the new line of business application. The new line of business application requirements includes designing and implementing security controls and procedures for both internal and external entities. These controls will reduce the level of inaccurate and inconsistent member data.

#### *Responsible Official*

Joan Schloss, MTRS Executive Director

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### **Accuracy of Information Maintained by the State Retirement System**

#### *Observation*

The State Retirement Board (SR Board) is responsible for maintaining member information for all active, inactive, and retired employees who contribute to and participate in the State Retirement System. The database of information is gathered from several different sources and in some cases in various different formats. The system that is currently used is significantly aged and in some cases does not provide management with appropriate levels of information and in other cases contains incomplete data. In addition to servicing the needs of the State Retirement System, the information is also utilized by two actuarial groups (PERAC and Aon) to calculate a projected pension liability and other post employment benefits liability each of which are significant accounting estimates that are calculated as part of the financial reporting process. To compensate for the anomalies in the data, PERAC makes adjustments to its actuarial model before finalizing its results, results that ultimately impact future funding requirements for the Commonwealth. The SR Board is currently in the procurement process for a new system and has undertaken various reviews to ensure that data on the existing system is accurate; however, most comprehensive reviews are not performed until a participant retires.

#### *Recommendation*

We recommend that the SR Board continue to review and identify inconsistent, inaccurate, or corrupted data within the current member system. We would also recommend that the SR Board enforce strict guidelines on external entities that provide information to the system to reduce the level of inaccurate or inconsistent member data. Finally, as the SR Board continues through the process of system design we recommend that they consider future information and control needs when designing these new systems.

#### *Management's Corrective Action Plan*

Earlier this year after a months-long procurement process, the SR Board commenced a multi-year project to replace its existing computer system. As part of the new system implementation, the SR Board engaged a vendor to provide data analysis, cleansing, and migration services.

All the data contained in the SR Board's current legacy system is being reviewed as part of an overall cleansing effort. Inaccurate or incomplete data is being identified and a comprehensive data reconciliation strategy is underway. The result will be more consistent and accurate data for migration to the new LOB system. This will have a positive short-term impact on the quality of data submitted to actuarial groups

As part of this system implementation, guidelines requiring external agencies to provide correct and accurate information and demographic data will be strictly enforced. Inaccurate or inconsistent data submissions will be returned to external agencies and will not be accepted until reviewed and corrected. This control will ensure improved data management.

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The new system is being maintained for the “Board’s” internal requirements, for the requirements of outside actuarial groups and for management agencies. This design will allow a more flexible approach for retrieving information.

*Responsible Official*

Robert Minue, Deputy Director State Retirement Board

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### **User Access Controls and Internal Control**

#### *Observation*

Access via membership a certain security role in the MMARS application is provided by OSC to individuals after obtaining documented approval by the authorized department security officer. This access provides the user with access rights that result in segregation of duties conflicts as the users can initiate, process, and record transactions without intervention by another user.

Manual approval and monitoring controls designed to prevent and/or detect inappropriate activity via these accounts are the responsibility of department management. The number of users with this level of access to MMARS appears excessive as there are approximately 500 user accounts across all departments.

Lack of adequate enforcement of segregation of duties via logical access restrictions within the MMARS application increases the risk that unauthorized and/or inappropriate transactions are processed. The lack of an effective process for monitoring the activity of users who have this level of access increases the risk that unauthorized and/or inappropriate transactions are not detected timely or at all.

#### *Recommendation*

OSC should consider implementing a monitoring control to monitor 100% of transactions that can be processed by users with this type of access, or for defined risk thresholds and frequency.

#### *Management's Corrective Action Plan*

The Office of the Comptroller has enhanced its Internal Control guidance to highlight the potential for misuse of powerful access. Internal control/risk management training addresses the importance of mitigating controls where users require powerful access to complete their job duties. Statewide meetings such as the Closing and Opening Meeting and CFO Conference highlight the risks and the importance of oversight of activity by these individuals. The Office of the Comptroller uses the annual meeting with Department Security Officers to highlight the importance of limiting user access to reflect routine job responsibilities and to emphasize the need for monitoring activities of users with powerful access.

The educational approach continued with a targeted outreach program at the beginning of fiscal year 2010 to individual departments with the goal of reducing the number of these types of users. Monthly reports are available to departments that list user access and provide information on the number/percentage of these types of users as well as others with potentially risky access.

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The Office of the Comptroller identified departments where the number of these types of users seemed high given the total number of users in the department. In fiscal year 2010, there has been a campaign to work individually with departments to reduce the number of powerful users. The Office works with Department Security Officers to evaluate activity for users with powerful access. The campaign also includes development of user activity reports that show activity by UAID, highlighting those where the user entered documents that appear to present a segregation-of-duties risk. This data will be available in the Commonwealth Information Warehouse, which will have parameter driven queries that allow departments to review data for specific users and date ranges.

### *Responsible Official*

Joan Shea, Deputy Comptroller

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### **Password Configuration**

#### *Observation*

Password length, password history requirements, and password complexity requirements have not been configured for end-user database passwords.

Without a system-configured password policy, passwords could become more susceptible to compromise, enabling unauthorized access to financial information.

#### *Recommendation*

OSC should consider systematically enforcing end-user database password parameters for length, complexity, lockout, expiration, etc.

#### *Management's Corrective Action Plan*

The Office is evaluating modifying this configuration and weighing the risks of adding more complexity, which could lead to increased written lists, given that most users have multiple UAIDs and passwords. The Office of the Comptroller is working with teams to develop a consistent set of password configurations so users can coordinate passwords across enterprise systems.

#### *Responsible Official*

Joan Shea, Deputy Comptroller

# Commonwealth of Massachusetts

## Schedule of Observations

June 30, 2009

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### **User Access Change Controls**

#### *Observation*

ITD has implemented a communication process to ensure that OSC notifies ITD of any changes to the security officer role.

#### *Recommendation*

ITD should consider reconciling the list obtained on a periodic basis to verify that only authorized users are detailed. ITD should also consider formally documenting this reconciliation and review process.

#### *Management's Corrective Action Plan*

On a monthly basis ITD Security Services will review the list of current users and their back-ups. Security Services will validate the file against their database of users and back-ups.

#### *Responsible Official*

Dan Walsh, Director of Security Assets and Design