



Commonwealth of Massachusetts  
Office of the State Auditor  
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*Making government work better*

Official Audit Report – Issued February 8, 2012

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## Northwestern District Attorney's Office

For the period July 1, 2010 through April 30, 2011



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## **TABLE OF CONTENTS/EXECUTIVE SUMMARY**

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### **INTRODUCTION**

**1**

The Northwestern District Attorney's Office (NWD) was established under the provisions of Chapter 12, Section 13, of the Massachusetts General Laws, which provides for the administration of criminal law and the defense of civil actions brought against the Commonwealth in accordance with Chapter 258 of the General Laws (claims and indemnity procedures for the Commonwealth, its municipalities, counties and districts, and the officers and employees thereof). As of April 30, 2011, the NWD had 79 employees, including prosecutors/assistant district attorneys and administrative and program staff employees, who represent and serve approximately 241,000 citizens of the Commonwealth in criminal and civil proceedings, within a jurisdiction of 46 cities and towns in the geographic areas of Franklin and Hampshire counties and the town of Athol in Worcester County. To carry out its functions and responsibilities, the NWD maintains administrative offices in Northampton and Greenfield and has satellite offices in Hadley and Orange.

In accordance with Chapter 11, Section 12, of the General Laws, and in consideration of the election of a new District Attorney, the Office of the State Auditor conducted an audit of the status of financial activities, accounts, and functions and the related systems and control environment of the NWD as of the transition date of January 5, 2011, which included a review of transactions prior to and subsequent to the transition date for fiscal year 2011. The purpose of our review was to inform the new District Attorney of the status of fiscal and administrative operations as of the date he assumed office, to enhance the transition from the prior administration, and to identify systems and internal accounting and administrative controls needing corrective action and improvement. In addition, our audit focused on issues that were identified in our prior audit (No. 2007-1260-3S) of the NWD.

As a result of our audit of the status of financial activities, accounts, and functions of the NWD for the period July 1, 2010 through April 30, 2011, we have identified certain operations of the prior administration that need improvements in the area of fiscal and administrative internal controls. The recommendations in our report are intended to assist the new administration in implementing changes to its internal control structure and fiscal and administrative operations to ensure that they are adequate and that the NWD is run in an economical, effective, and efficient manner and in compliance with all applicable laws, rules, and regulations for the areas tested.

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### **AUDIT RESULTS**

**4**

#### **1. PRIOR AUDIT RESULT PARTIALLY RESOLVED – INTERNAL CONTROL PLAN UPDATING AND IMPROVEMENTS STILL NEEDED**

**4**

Our prior audit report (No. 2007-1260-3S), which examined controls over certain operations of the NWD for the period July 1, 2005 through August 31, 2006, noted that the NWD needed to update its Internal Control Plan (ICP) to comply with the Office of State Comptroller's (OSC) guidelines and Chapter 647 of the Acts of 1989. Our follow-up review found that the NWD has implemented some of our prior recommendations, but further work is still needed to improve its internal control plan.

**2. EQUIPMENT INVENTORY ACCOUNTING AND REPORTING NEEDS IMPROVEMENT 5**

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Our audit found that the NWD has internal control policies and procedures in place for tracking equipment inventory, but it still needs to make additional improvements to comply with Office of the State Comptroller (OSC) regulations and its own internal control policies. It is important for the NWD to maintain current and accurate inventories of items to document that the items purchased were placed in operation and under the control of the NWD. Maintenance of equipment inventories is also required to comply with Office of the State Comptroller and the NWD's internal control policies.

**3. INTERNAL CONTROLS OVER GENERAL OPERATING ADMINISTRATIVE EXPENSES NOT EFFECTIVELY IMPLEMENTED 8**

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Our audit found that NWD did not comply with its internal control plan, which requires office equipment purchases over \$500 to be approved by the District Attorney. Seven purchases totaling \$20,600 that were over \$500 provided no evidence that the District Attorney approved those purchases.

## INTRODUCTION

### *Background*

The Northwestern District Attorney's Office (NWD) was established under the provisions of Chapter 12, Section 13, of the Massachusetts General Laws, which provides for the administration of criminal law and the defense of civil actions brought against the Commonwealth in accordance with Chapter 258 of the General Laws (claims and indemnity procedures for the Commonwealth, its municipalities, counties and districts, and the officers and employees thereof). As of April 30, 2011, the NWD had 79 employees, including prosecutors/assistant district attorneys and administrative and program staff employees, who represent and serve approximately 241,000 citizens of the Commonwealth in criminal and civil proceedings, within a jurisdiction of 46 cities and towns in the geographic areas of Franklin and Hampshire counties and the town of Athol in Worcester County. To carry out its functions and responsibilities, the NWD maintains administrative offices in Northampton and Greenfield and has satellite offices in Hadley and Orange.

For fiscal year 2011, the NWD received state maintenance appropriations totaling \$4,746,396 to fund its administrative operations. In addition, the NWD received \$274,224 in special state appropriations and funding from other sources to support various programs, including state police overtime for investigations, crisis and violence intervention, protection of elders and persons with other disabilities, sexual abuse intervention network, consumer protection, violence against women, and other programs.

Pursuant to the NWD's mission of the administration of the criminal laws of the Commonwealth, the NWD deposited \$166,388 during the period July 1, 2010 through April 30, 2011 in court-awarded forfeited funds with the Office of the State Treasurer. Each case must be fully adjudicated before the asset is considered forfeited. These funds may be used for many purposes as set forth in Chapter 94C, Section 47, of the General Laws, such as defraying the costs of protracted investigations, providing the NWD with technical equipment or expertise, providing matching funds to obtain federal grants, or such other law enforcement purposes as the District Attorney deems appropriate. The District Attorney may also expend up to 10% of the funds for drug rehabilitation, drug education, and other anti-drug or neighborhood crime watch programs which further law enforcement purposes.

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

In accordance with Chapter 11, Section 12, of the General Laws, and in consideration of the election of a new District Attorney, the Office of the State Auditor conducted an audit of the status of financial activities, accounts, and functions and the related systems and control environment of the NWD as of the transition date of January 5, 2011, which included a review of transactions prior to and subsequent to the transition date for fiscal year 2011.

We conducted this performance audit in accordance with applicable generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The purpose of our review was to inform the new District Attorney of the status of fiscal and administrative operations as of the date he assumed office, to enhance the transition from the prior administration to the new administration, and to identify systems and internal accounting and administrative controls needing corrective action and improvement. In addition, our audit focused on issues that were identified in our prior audit (No. 2007-1260-3S). The recommendations in the report are intended to assist the new administration in implementing its internal control structure to ensure that it is adequate to minimize errors, losses, shortages, or illegal acts from occurring.

The objectives of our audit were to:

- Review and examine fiscal operations to determine the status of NWD accounts, activities, and records.
- Review and examine fiscal year 2011 spending from July 1, 2010 through April 30, 2011 and perform a comparison of budget to actual expenditures to determine the sufficiency of funds to meet the NWD's obligations for the remainder of the fiscal year.
- Review the NWD's internal control plan to determine whether it is up-to-date, suitably designed and implemented to safeguard Commonwealth assets, and in compliance with the Office of the State Comptroller's Internal Control Guide for Departments and Chapter 647 of the Acts of 1989.
- Review inventory controls over supplies and equipment to determine their adequacy.
- Identify annual costs by services and activities that the NWD performs.

- Review selected revenue (forfeited funds), expenditure, advance, and payroll transactions to verify that these transactions are appropriately accounted for, recorded, and safeguarded in accordance with established criteria.
- Follow up on the issues contained in our prior audit of the NWD (No. 2007-1260-3S).

To accomplish our objectives, we conducted interviews with management and staff and reviewed prior audit reports, spending plans, applicable laws and regulations, and fiscal monitoring reports. We also obtained and reviewed policies and procedures, accounting records, and supporting source documents and performed tests of these records and transactions, where necessary. At the conclusion of our audit, we met with the Director of Operations and the Chief Financial Officer to discuss the contents of the report.

As a result of our audit of the status of financial activities, accounts, and functions of the NWD for the period July 1, 2010 through April 30, 2011, we have identified certain operations of the prior administration that need improvements in the area of fiscal and administrative internal controls (see Audit Results section of this report). The recommendations in our report are intended to assist the new administration in implementing changes to its internal control structure and fiscal and administrative operations to ensure that they are adequate and that the NWD is run in an economical, effective, and efficient manner and in compliance with all applicable laws, rules, and regulations for the areas tested.

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## AUDIT RESULTS

### 1. PRIOR AUDIT RESULT PARTIALLY RESOLVED – INTERNAL CONTROL PLAN UPDATING AND IMPROVEMENTS STILL NEEDED

Our prior audit report (No. 2007-1260-3S), which examined financial and management controls over certain operations of the Northwestern District Attorney’s Office (NWD) for the period July 1, 2005 through August 31, 2006, noted that the NWD needed to update its Internal Control Plan (ICP) to comply with the Office of State Comptroller’s (OSC) guidelines and Chapter 647 of the Acts of 1989.

Accordingly, our prior audit recommended that the NWD emphasize “tone at the top” expectations of staff for integrity and ethical standards; link internal controls to the respective risks, consider referencing all administrative and programmatic areas, review the risk assessment and update internal control policies as appropriate, and more clearly define information and communication of activities for internal control purposes. Our current audit found that the above recommendations were implemented.

However, the following prior audit recommendations have not yet been implemented: include more information on control activities to mitigate program risks in the NWD’s operational areas of case management, victim witness, and child abuse units; ensure that supporting documents identified in the ICP are available; update the plan to indicate what monitoring takes place; designate an Internal Control Officer; ensure that risks are evaluated at least annually and internal controls are updated as a result of the risk assessment; and document the distribution of the ICP.

The NWD’s Chief Financial Officer (CFO) stated that the remaining changes recommended in our prior audit have not been fully implemented due to a changeover in administration and staff turnover. In addition, some positions were added with new responsibilities, such as Director of Operations.

#### ***Recommendation***

We recommend that the NWD continue to enhance its ICP by:

- Updating and revising its ICP to include a more comprehensive identification of its control activities used to mitigate its program risks identified in the areas of case management, victim witness, and child abuse units.

- Ensuring that all supporting documents identified in the ICP are readily available to both management and staff for daily use to assess the integrity of the internal control structure and overall operations.
- Describing how and by whom the ICP and its related control activities are to be monitored.
- Identifying the Internal Control Officer as the individual responsible for documenting changes in the ICP and delegating authority regarding monitoring procedures.
- Ensuring that the internal control system is evaluated at least annually or when conditions warrant, that any necessary changes are documented and implemented, and that sufficient controls are in place to address these changes.
- Identifying who the plan is distributed to internally and add language ensuring the availability of the ICP to all parties as required by Chapter 647 of the Acts of 1989.

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

The Northwest District Attorney stated, in part:

*I understand and appreciate the importance of a strong ICP for my agency. Therefore, I have designated my Director of Operations to be my Internal Control Officer. While updating the ICP, the Internal Control Officer will incorporate the recommended enhancements listed in the audit report to the ICP.*

## **2. EQUIPMENT INVENTORY ACCOUNTING AND REPORTING NEEDS IMPROVEMENT**

Our audit found that the NWD has internal control policies and procedures in place for tracking equipment inventory, but it still needs to make additional improvements to comply with OSC regulations and its own internal control policies. The NWD maintains two inventory lists: one for furniture and equipment inventory and one for computer-related inventory, rather than maintaining one master list. Approximately 60% of the 1,558 furniture and equipment inventory items do not contain either a date of purchase or historical cost information. Also, about 50% of the 481 computer-related items did not record a purchase date, about 60% did not record a purchase price, and 15% of the items could not be located. In addition, there is no evidence to substantiate that an annual inventory of computer or computer-related equipment was performed or reconciled to agency records, as required by the OSC.

Non-GAAP fixed assets are defined as singular assets and include such items as vehicles, equipment, furniture, electronic devices, computer software, and all electrical computer components with a useful life in excess of one year, and with an original cost of between \$1,000 and \$49,999. 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 they are available and used as intended. 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 physical reconciliation of a periodic inventory of all fixed assets to be completed as of June 30<sup>th</sup> of each fiscal year.
- 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.

NWD's internal control policies and procedures state that the NWD Accounting Clerk maintains the inventory and conducts an annual physical inventory of all items except computers, which are inventoried by the Management Information Systems (MIS) Coordinator.

The prior administration maintained two computerized listings of non-GAAP fixed asset inventory: one for office furniture and equipment and another list for computer-related items. However, we determined that the listing of computer-related information technology (IT) equipment was not readily available for review. According to the MIS Coordinator, who started in January 2011 with the new administration, various lists were incomplete and he could not determine if these lists provided an accurate count of computer-related items. He sorted and combined the multiple lists and noticed that these lists did not contain all the attributes and field data for each item of inventory necessary for the item to be readily identified and accounted for within the NWD inventory system. Because data was not entered or was not complete in all fields, many items on the listing cannot be readily traced or referenced to detailed records of purchase invoices or source-funding accounts to verify when, from whom, and at what cost the items were purchased. In addition, there is no evidence that any of these lists had been reconciled or that annual inventories were conducted to verify location and existence, contrary to sound business practices and OSC guidelines.

Regarding the missing purchase date and historical cost information from inventory records, NWD employees will need to research old records and attempt to determine whether this information will

be available. With respect to maintaining two inventory lists (one for furniture and equipment and one for computer-related items), the NWD should consider merging the two lists and charging the Accounting Clerk, a more independent party than the (MIS) Coordinator, with its maintenance.

Lastly, with regard to the 15% (72 items) of computer-related inventory items that cannot be located, nine of the 72 items were purchased within the last two years. According to the MIS Coordinator, the remaining items were purchased between June 2001 to June 2008 (and possibly earlier) as no information is recorded for purchase date on some items. Many of these items are old desktop computers, computer monitors, or laptops that had been previously disposed of because they were no longer working.

The NWD needs to maintain current and accurate inventories of items to document that the items purchased were placed in operation and under the control of the NWD's Office. Equipment inventories must also be maintained in accordance with OSC guidelines and the NWD's internal control policies.

### ***Recommendation***

While the new administration has taken affirmative corrective action to properly control and maintain its non-GAAP fixed asset inventory of computers, the NWD needs to continue to improve its inventory procedures. We recommend that the NWD (1) research inventory purchase date and cost information, if available, for inventory items missing this information, (2) consider merging the two inventory lists of furniture and equipment and computer-related items into one master list, (3) consider updating its internal control plan to make the Accounting Clerk responsible for maintaining the master inventory list and conducting the annual physical inventory, and (4) deleting old items from the inventory list that cannot be located and have probably been disposed of in past years.

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

The Northwest District Attorney stated, in part:

*I also recognize the need to update our inventory system by merging the two current inventory lists of furniture/equipment and computer equipment to one master list. We are currently developing a database which will track and merge all relative data from both inventory lists which will ensure greater inventory control for the agency.*

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### **3. INTERNAL CONTROLS OVER GENERAL OPERATING ADMINISTRATIVE EXPENSES NOT EFFECTIVELY IMPLEMENTED**

Our audit found that NWD did not comply with its internal control plan, which requires office equipment purchases over \$500 to be approved by the District Attorney. Seven purchases totaling \$20,600 that were over \$500 provided no evidence that the District Attorney approved those purchases.

NWD's internal control plan regarding the procurement of office furniture/equipment states:

*All purchasing of office furniture/equipment will be handled by the Chief Financial Officer. The Chief Financial Officer will maintain a "Wish List" of office equipment for employees. Dependent on the budget, the Chief Financial Officer will prioritize the wish list and order what is deemed necessary. All major office equipment purchases over five hundred dollars (\$500) will be directly approved by the District Attorney.*

We selected and reviewed documentation relative to 13 transactions totaling \$54,383 and found that, in seven instances totaling \$20,600, NWD had not effectively enforced the prior approvals required by its internal controls. During our review, we identified five transactions made during the prior administration without proper approvals, while two expenditures were made during the current administration. These expenditures included such items as laptop computers, laptop cases and data travelers, a copier for one of its satellite offices, laser printers, security equipment, and end-of-year office supplies. In following up on these results, we spoke to the Chief Financial Officer regarding the undocumented approvals. She stated that she had obtained verbal approval from the District Attorney and noted that the District Attorney may not always be available to sign documentation in the time frame needed to process the purchase documents.

Although the District Attorney may have given his/her approval regarding the expenditure, without documented approval there is no assurance that the NWD is in compliance with its internal control policies.

#### ***Recommendation***

The NWD should review its internal control policies and procedures and determine if its internal control plan should be modified to allow other upper management employees to authorize expenditures over \$500 in the absence of the District Attorney. If current procedures remain in place, the Chief Fiscal Officer should implement procedures to comply with those requirements.

***Auditee's Response***

The Northwestern District Attorney stated, in part:

*Our ICP will include our updated policy on procurement of office furniture, allowing upper management employees to authorize furniture/equipment expenditures.*