Commonwealth of Massachusetts

Reports on Compliance and Internal Controls in Accordance with Government Auditing Standards and the Requirements of OMB Circular A-133 and the Schedule of Expenditures of Federal Awards

For the Fiscal Year Ended June 30, 2005

Martin J. Benison, CGFM
State Comptroller

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Due to its size, Boston is a very accessible city, but it may be that its reputation as a walking city relies on the creation of one of America's first historic walking tours, the Freedom Trail.

Sixteen historic sites, all significant in this country's early struggle for freedom, are connected by a 2.5 mile red brick line that not only links one place to another, but the past to the present. What makes the sites on the Freedom Trail so special is that they are not recreations or adaptations. They are real. Each one has a role in the beginning of a nation, each one connects us to the spirit of Boston's early patriots whose hearts were ignited by the spark of liberty.

The Freedom Trail Foundation was established in 1958 and continues to work to preserve this perfect introduction to Colonial Revolutionary Boston, conducting tours with spirited costumed historic characters telling stories about the people, the places, the events and the drama of the American Revolution, and sharing lively anecdotes about the vitality of contemporary Boston.

To travel back to Revolutionary Boston — to understand the people, the events, and ideals of the 18th century — is a great leap for us today. But the sites along the Freedom Trail do speak eloquently of that time. Bostonians and other colonists shared a notion of liberty that was precious and worth fighting for. The Freedom Trail sites include scenes of those critical events in Boston's and the nation's struggles for freedom.

Unless otherwise noted, all photography and content courtesy of the Freedom Trail Foundation.

Special thanks to Mimi La Camera, President of the Freedom Trail Foundation,
the National Park Service
and to photographer Steve Dunwell.

Cover: *Bartlett's Illustrated Map of Boston, Places of Amusement & Its Architectural Features, 1871*
Courtesy of the State Library of Massachusetts

Special thanks to Jim Guan of the Office of the Comptroller for his photography and assistance.

Commonwealth of Massachusetts Reports on Compliance and Internal Controls in Accordance with Government Auditing Standards and the Requirements of OMB Circular A-133 and the Schedule of Expenditures of Federal Awards for the Year Ended June 30, 2005

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CONSTITUTIONAL OFFICERS

Mitt Romney
Governor

Kerry Healey
Lieutenant Governor

William F. Galvin
Secretary of State

Thomas F. Reilly
Attorney General

Timothy P. Cahill
Treasurer and Receiver-General

A. Joseph DeNucci
Auditor

LEGISLATIVE OFFICERS

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President of the Senate

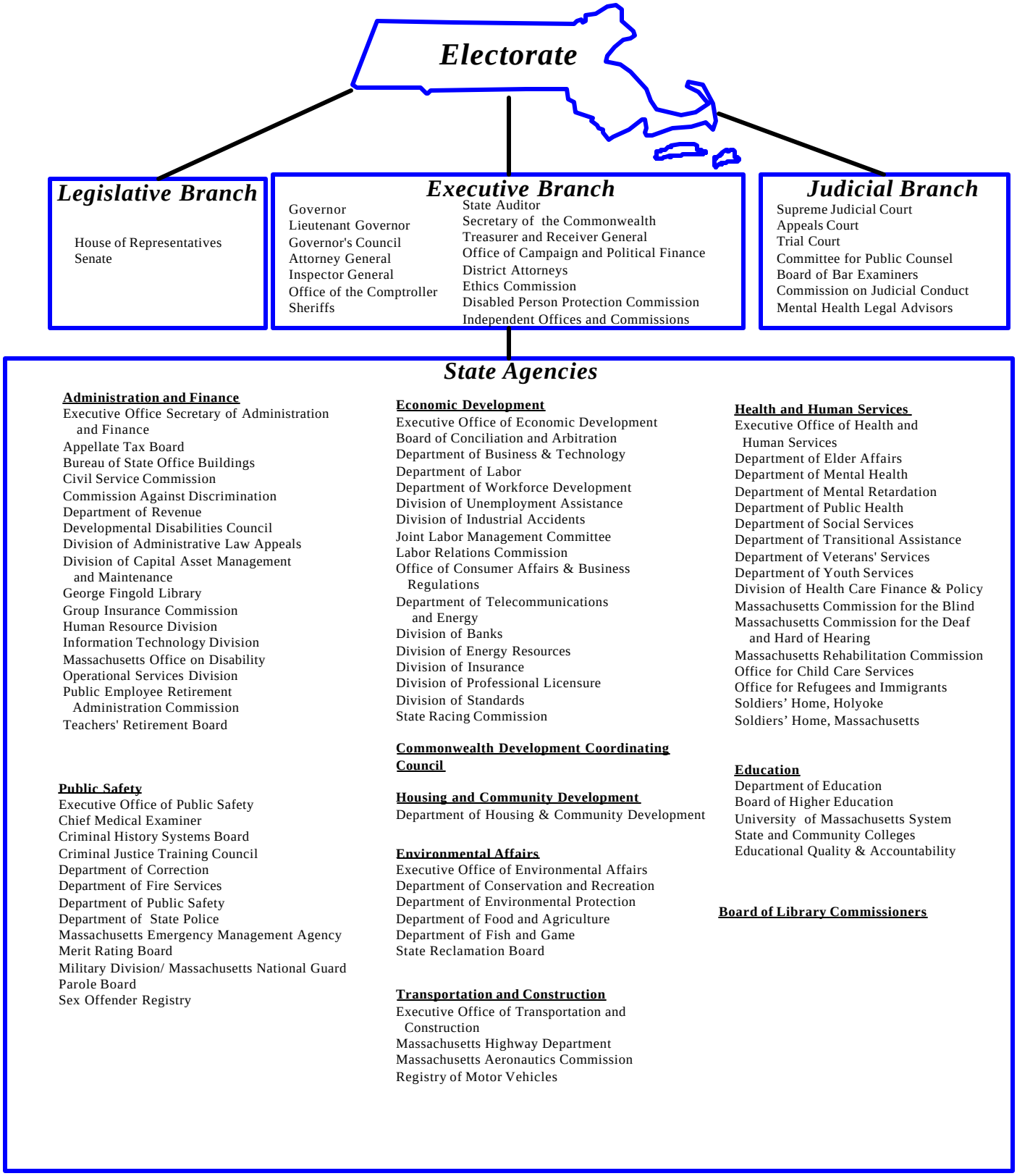
Salvatore F. DiMasi
Speaker of the House

JUDICIAL OFFICERS

Margaret H. Marshall
Chief Justice, Supreme Judicial Court

Christopher J. Armstrong
Chief Justice, Appeals Court

Robert A. Mulligan
Chief Justice for Administration and Management, Trial Court



**As of June 30, 2005*

ADVISORY BOARD TO THE COMPTROLLER

Thomas H. Trimarco (Chair)
Secretary for Administration and Finance

A. Joseph DeNucci
Auditor

Timothy P. Cahill
Treasurer and Receiver-General

Robert A. Mulligan
Chief Justice for Administration and Management, Trial Court

Thomas F. Reilly
Attorney General

Thomas M. Whitney
Gubernatorial Appointee

Mel Alan Barkan
Gubernatorial Appointee

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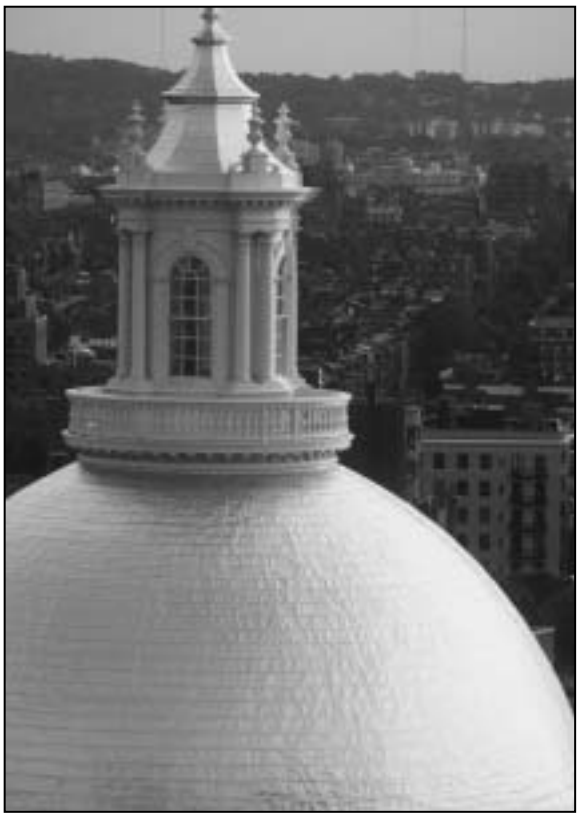
SECTION I

Independent Auditor's Report

Boston Common



The State House Dome
Photograph by Steve Dunwell

Park Street Church
Photograph by Steve Dunwell

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED UPON THE AUDIT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Mr. Martin Benison, Comptroller
The Commonwealth of Massachusetts

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Massachusetts ("Commonwealth") as of and for the year ended June 30, 2005, which collectively comprise the Commonwealth's basic financial statements and have issued our report thereon dated December 22, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the Commonwealth's internal control over financial reporting, applicable to the governmental activities, business-type activities, aggregate discretely presented component units, each major fund and the aggregate remaining funds information of the Commonwealth included within the scope of our audit as described in our report referred to above, in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation relating to the governmental activities, business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth whose financial statements are included with the scope of our audit that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Commonwealth's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in Part II of the accompanying Schedule of Findings and Questioned Costs as Finding Number 4.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Commonwealth's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, applicable to the Commonwealth for those matters relating to the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth included within the scope of our audit, as described in our report referred to above, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Accordingly our testing of compliance did not extend to tests of compliance with laws, regulations, contracts and grant agreements for the governmental activities, business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth whose financial statements were audited by other auditors. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

We noted certain matters that we reported to management of the Commonwealth in a separate letter dated December 22, 2005.

This report is intended solely for the information of management, the Honorable Members of the General Court and the federal awarding agencies, and pass-through grantor entities and is not intended to be and should not be used by anyone other than these specified parties.

December 22, 2005

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER COMPLIANCE APPLICABLE TO EACH MAJOR FEDERAL AWARD PROGRAM AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Mr. Martin Benison, Comptroller
The Commonwealth of Massachusetts

COMPLIANCE

We have audited the compliance of the Commonwealth of Massachusetts (the "Commonwealth"), for only those matters relating to compliance of the governmental activities, business-type activities, aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth included within the scope of our audit as described in our report on the basic financial statements dated December 22, 2005, and as further described in Note 2 to the Schedule of Expenditures of Federal Awards, with the types of compliance requirements described in the *U.S. Office of Management and Budget ("OMB") Circular A-133 Compliance Supplement* that are applicable to each of its major Federal programs for the year ended June 30, 2005. Our testing of compliance did not extend to tests of compliance with laws, regulations, contracts and grants for the governmental activities, business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth whose financial statements were audited by other auditors. The Commonwealths' major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grant agreements applicable to each of its major Federal programs is the responsibility of the management of the Commonwealth. Our responsibility is to express an opinion on the Commonwealth's compliance based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Commonwealth's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Commonwealth's compliance with those requirements.

In our opinion, the portion of the Commonwealth included within the scope of our audit, complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended June 30, 2005. However, the results of our auditing procedures disclosed other instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in Part III of Section II, the Schedule of Findings and Questioned Costs and Section V as listed in the table of contents.

INTERNAL CONTROL OVER COMPLIANCE

The management of the Commonwealth is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grant agreements applicable to Federal programs. In planning and performing our audit, we considered the Commonwealth's internal control over compliance with requirements that could have a direct and material effect on a major federal program, applicable only to the governmental activities, business-type activities, aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the Commonwealth included within the scope of our audit as described in our report on the basic financial statements dated December 22, 2005 in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the Commonwealth's internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grant agreements that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

We have audited the basic financial statements of the governmental activities, business-type activities, aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the Commonwealth as of and for the year ended June 30, 2005, which collectively comprise the Commonwealth's basic financial statements, and have issued our report thereon dated December 22, 2005. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. This schedule is the responsibility of the Commonwealth's management. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information of management, the Honorable Members of the General Court and federal awarding agencies, and pass-through grantor entities and is not intended to be and should not be used by anyone other than these specified parties.

December 22, 2005

SECTION II

Schedule of Findings and Questioned Costs

Granary Burying Ground
Photograph by Steve Dunwell

King's Chapel

Benjamin Franklin's Statue

Site of the First Public School

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Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2005

I. Summary of Auditor's Results

We have audited the financial statements of the Commonwealth of Massachusetts as of and for the year ended June 30, 2005 and have issued our reports thereon dated December 22, 2005. We conducted our audit in accordance with generally accepted auditing standards, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and with the requirements of the *U.S. Office of Management and Budget (OMB) Circular A-133*. The results of our audit are as follows:

Type of report issued on the financial statements: Unqualified opinion

Reportable conditions in internal control disclosed by the audit of the financial statements: Yes

Material noncompliance disclosed by the audit of the financial statements: No

Reportable conditions in internal control over major programs: No

Type of report issued on compliance for major programs: Unqualified opinion

Audit findings required to be reported under Section .510(a) of OMB Circular A-133: Yes

Major Programs Funding Source	Program	CFDA No.
Agriculture	Food Stamps Program	10.551(a)
Agriculture	State Admin. Matching-Food Stamps	10.561(a)
Agriculture	School Breakfast Program	10.553(b)*
Agriculture	National School Lunch Program	10.555(b)
Agriculture	Special Milk Program for Children	10.556(b)*
Agriculture	Summer Food Service Program	10.559(b)
Homeland Security	State Domestic Preparedness Equipment Support	97.004
Homeland Security	Public Assistance Grants	97.036
Justice	Juvenile Accountability Incentive Block Grants	16.523
Justice	Byrne Formula Grant Program	16.579
Transportation	Highway Planning & Construction	20.205
Education	Title I Program	84.010
Education	Special Education-State Grants	84.027(d)
Education	Special Education-Preschool Grants	84.173(d)
Education	Improving Teacher Quality – State Grants	84.367
Education	FSEOG Program	84.007(e)
Education	FFEL Program	84.032(e)
Education	Federal Work-Study Program	84.033(e)
Education	Federal Perkins Loan Program	84.038(e)
Education	Federal Pell Grant Program	84.063(e)
Education	Federal Direct Loan Program	84.268(e)

*Refer to Note 1 to the Schedule of Expenditures of Federal Awards.

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2005

I. Summary of Auditor's Results (Continued)

Health & Human Services	HEAL Program	93.108(e)
Health & Human Services	HPSL Program	93.342(e)
Health & Human Services	Nursing Student Loan Program	93.364(e)
Health & Human Services	EFNS Program	93.820(e)
Health & Human Services	Special Programs for the Aging, Title III, Part B	93.044(f)
Health & Human Services	Special Programs for the Aging, Title III, Part C	93.045(f)
Health & Human Services	Nutrition Services Incentive Program	93.053(f)
Health & Human Services	Child Support Enforcement Program	93.563
Health & Human Services	TANF Block Grant	93.558
Health & Human Services	Foster Care Program	93.658
Health & Human Services	Centers for Disease Control-Investigations/Technical Assistance	93.283
Health & Human Services	State Children's Health Insurance Program	93.767
Health & Human Services	Medical Assistance Program	93.778(h)
Health & Human Services	State Medicaid Fraud Control Units	93.775(h)
Health & Human Services	State Survey and Certification of Health Care Providers and Suppliers	93.777(h)
Health & Human Services	SAPT Block Grant	93.959
(a) Cluster of Programs	(e) Cluster of Programs	
(b) Cluster of Programs	(f) Cluster of Programs	
(c) Cluster of Programs	(g) Cluster of Programs	
(d) Cluster of Programs	(h) Cluster of Programs	

Dollar threshold used to distinguish Type A and Type B programs: $29,972,533

Qualification of auditee as a low-risk auditee: No

Introduction

The findings and recommendations detailed in Sections IV and V of this volume, and summarized in the schedule below, have been reviewed with representatives of the departments from which the observations arose and with representatives from the Office of the Comptroller. In order to assist the reader in understanding both the departmental compliance with laws and regulations and the adequacy of the internal control structure, the findings have been grouped by department and categorized as to whether they concern the department's federal program compliance or the internal control structure used in administering federal award programs. *(Part III of this Schedule)*

In addition, the findings concerning compliance with Massachusetts General Laws and on the internal control structure based on the study and evaluation of the accounting system as part of the examination of the General Purpose Financial Statements contained in the Comprehensive Annual Financial Reports (CAFR), are summarized below in Part II and detailed in Section IV.

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2005

I. Summary of Auditor's Results (Continued)

At the end of each finding involving federal programs, detailed in Section V, is a parenthetical disclosure indicating the federal agency or agencies providing the funding for the program(s) to which the finding is applicable and the applicable Catalog of Federal Domestic Assistance number(s).

Corrective action plans and/or departmental responses to the findings and recommendations have been provided by the department's representatives and reflect plans and responses as of December 22, 2005.

In the event a finding is repeated from the prior Single Audit report or a report prepared in prior years by other auditors performing audits of federal programs, the parenthetical disclosure at the end of the finding also indicates the year the finding first was reported, the finding number in the most recently issued prior report and, if applicable, the federal audit agency issuing the report so that the reader may cross-reference the current finding to the prior reports.

Under a cooperative agreement for the Commonwealth's Single Audit, the Office of the State Auditor, in order to provide the necessary audit coverage for the student financial assistance programs not audited by independent accounting firms and to assist in the audit of major programs, conducted the audit procedures at four Commonwealth institutions of higher education and three departments. While the findings resulting from these audits are incorporated in this report, the Office of the State Auditor will also issue its own separate reports with the results of these audits.

Questioned costs as a result of the fiscal year 2005 statewide single audit

The study and evaluation of the various departments' compliance with laws and regulations resulted in the identification of questioned costs totaling $18,068,051. For those instances where costs were questioned, the specific costs have been identified in findings reported on the following pages.

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2005

II. Findings Related to the Financial Statements

Reportable Conditions	**Questioned Costs**	**Program and CFDA #**
Office of the State Treasurer use and reconciliation of the Float Fund. *(Finding No. 4 – Office of the State Treasurer and Office of the Comptroller)*	-	-
Noncompliance Findings		
Collection of accounts receivable needs improvement. *(Finding No. 1 – Department of Mental Retardation)*	-	-
Internal control over fixed assets needs improvement. *(Finding No. 2 – Department of Social Services)*	-	-
Recording of adjustments and uncollectibles needs enhancement. *(Finding No. 3 – Department of Motor Vehicles)*	-	-
Internal control plan in need of improvement. *(Finding No. 5 – Bridgewater State College, No. 10 – Middlesex Community College)*	-	-
Non-Appropriated fund activity and balances not reconciled in a timely manner. *(Finding No. 6– Bridgewater State College, No. 9 – Massachusetts College of Liberal Arts, No. 11– Roxbury Community College)*	-	-
Investigation and audit of a reported possible theft of funds (*Finding No. 7 – Bridgewater State College*)	-	-
Internal control plan needs to be updated *(Finding No. 8 – Massachusetts College of Liberal Arts)*	-	-
Improvements needed in the reconciliation of account receivable *(Finding No. 12 – Springfield Technical Community College)*	-	-
Noncompliance with Chapter 647 reporting requirements. *(Finding No. 13 – Worcester State College)*	-	-

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2005

III. Findings and Questioned Costs for Federal Awards (Continued)

Noncompliance Findings	Questioned Costs	Program and CFDA #
Excess indirect costs not adjusted in a timely manner. *(Finding No. 14 – Office of the Comptroller)*	-	Unemployment Insurance 17.225; Senior Community Service Employment Program 17.235; Work Investment Act (WIA) Adult Program 17.258; Disabled Veterans Outreach Program17.801; Adult Education State Grant Program 84.002; State Grants for Innovative Programs 84.298; Teacher Quality Enhancement Grants 84.336; Improving Teacher Quality State Grants 84.367; Grants for State Assessments and Related Activities 84.369; Special Programs for the Aging, Title III, Part B, Grants for Supportive Services and Senior Centers 93.044; Title III Nutrition Services Incentive Program 93.053; Child Support Enforcement 93.563; Basic Center Grant 93.623; Medical Hospital Insurance 93.773; Medical Assistance Program 93.778; Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations 93.779; State Domestic Preparedness Equipment Support Program 97.004
Errors noted in the statewide cost allocation plan. *(Finding No. 15 – Office of the Comptroller)*	-	Unknown federal programs
Documentation supporting the statewide cost allocation plan needs improvement. *(Finding No. 16 – Office of the Comptroller)*	-	Unknown federal programs
Payroll adjustments could not be made *(Finding No. 17 – Department of Education)*	-	Title I Grants to Local Education Agencies 84.010; Special Education 84.027
Vocational education program maintenance of effort requirements not met. (*Finding No. 18 – Department of Education)*	$18,068,051	Vocational Education 84.048

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2005

III. Findings and Questioned Costs for Federal Awards (Continued)

Noncompliance Findings	**Questioned Costs**	**Program and CFDA #**
Monitoring of subrecipients needs to continue to improve. (*Finding No. 19–Department of Education, No. 41 - Executive Office of Public Safety*)	-	Title I Grants to Local Education Agencies 84.010; Special Education 84.027; Improving Teacher Quality State Grants 84.367; National School Lunch Program 10.555 Byrne Formula Grant Program 16.579; Juvenile Accountability Incentive Block Grant 16.523; State Domestic Preparedness Equipment Support 97.004
Measurement of LEA cash needs improvement. *(Finding No. 20 – Department of Education)*	-	Title I Program 84.010
Failure to take action on sub-receipient questioned costs. *(Finding No. 21 – Department of Education)*		Title I Grants to Local Education Agencies 84.010; Special Education 84.027
Inadequate administrative expenditure procedures. *(Finding No. 22 – Department of Education)*	-	Title I Program 84.010; Improving Teacher Quality State Grants 84.367
Supporting documentation for monitoring payment to area agencies needs to be improved. *(Finding No. 23 – Department of Elder Affairs)*	-	Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers 93.044; Special Programs for the Aging – Title III, Part C - Nutrition Services 93.045; Nutrition Services Incentive Program 93.053
Fiscal Year 2004/2005 Cost allocation plan not finalized. (*Finding No. 24– Department of Elder Affairs)*	-	Nutrition Services Incentive Program 10.570; Senior Community Service Employment Program 17.235; Eisenhower Professional Development State Grants 84.281; Reading Excellence Act 84.338; Special Programs for the Aging, Title III, Part B 93.044; Special Programs for the Aging-Title IV and Title II, Discretionary Projects 93.048; CMS Research, Demonstrations and Evaluations 93.779; Maternal and Child Health Services Block Grants to States 93.994

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2005

III. Findings and Questioned Costs for Federal Awards (Continued)

Noncompliance Findings	Questioned Costs	Program and CFDA #
Monitoring of audit findings relating to area agencies on aging needs improvement. *(Finding No. 25 – Department of Elder Affairs)*	-	Special Programs for the Aging, Title III, Part B 93.044; Special Programs for the Aging, Title III, Part C 93.045; Nutrition Services Incentive Program 93.053
Lack of documentation to support payroll charges. *(Finding No. 26 – Department of Elder Affairs)*	-	Special Programs for the Aging, Title III, Part B 93.044
Lack of Semi-Annual Certifications for employees whose payroll is charged to federal awards. (*Finding No. 27 – Department of Elder Affairs)*	-	Special Programs for the Aging Title III, Part C93.045
Ineffective case tracking and management system. *(Finding No. 28 – DOR/Division of Child Support Enforcement)*	-	Child Support Enforcement Program 93.563
Non-compliance with legal requirements for open fair appeal hearings. *(Finding No. 29 – Department of Social Services)*	-	Foster Care Program 93.658
Controls over FamilyNet and home licensing report data need improvement. *(Finding No. 30 – Department of Social Services)*	-	Foster Care Program 93.658
Timeliness of CORI checks needs improvement. (*Finding No. 31 – Department of Social Services)*	-	Foster Care Program 93.658
The process for home licensing needs improvement. (*Finding No. 32 – Department of Social Services*)	-	Foster Care Program 93.658
Food Stamps Status of Claims Against Household Report filed with inaccurate data. (*Finding No. 33 – Department of Transitional Assistance*)	-	Food Stamps Program 10.551
The Department's investigation and recoveries of food stamp fraud needs to be improved *(Finding No. 34 – Department of Transitional Assistance)*	-	Food Stamps Program 10.551
Failure to perform federal tax information match. *(Finding No. 35 – Department of Transitional Assistance)*	-	Temporary Assistance for Needy Families 93.558
Missing income eligibility documentation. *(Finding No. 36 – Executive Office of Health and Human Services/Office of Medicaid)*	-	State Children's Health Insurance Program 93.767

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2005

III. Findings and Questioned Costs for Federal Awards (Continued)

Noncompliance Findings	Questioned Costs	Program and CFDA #
Provider application not signed by the Office of Medicaid. *(Finding No. 37 – Executive Office of Health and Human Services/Office of Medicaid)*	-	Medical Assistance Program 93.778
Improper claim of costs associated with the Virtual Gateway implementation. *(Finding No. 38 – Executive Office of Health and Human Services/Office of Medicaid)*	-	Medical Assistance Program 93.778
Draw Downs of federal cash need better monitoring. (*Finding No. 39 – Executive Office of Public Safety*)	-	State Domestic Preparedness Equipment Support 97.004
Improvements needed over reconciliations. (*Finding No. 40 – Executive Office of Public Safety*)	-	Byrne Formula Grant Program 16.579; Juvenile Accountability Incentive Block Grant 16.523; State Domestic Preparedness Equipment Support 97.004
Salaries allocated to federally -funded programs are not supported by proper documentation. (*Finding No. 42 – Executive Office of Public Safety*)		Byrne Formula Grant Program 16.579; Juvenile Accountability Incentive Block Grant 16.523; State Domestic Preparedness Equipment Support 16.007/97.004
Subrecipient identification and award documents need improvement. *(Finding No. 43 – Massachusetts Highway Department)*	-	Highway Planning and Construction 20.205
Proceeds from the sale of federally funded property not deposited or transferred on a timely basis. *(Finding No. 44 – Massachusetts Highway Department)*	-	Highway Planning and Construction 20.205
Documentation of debarment and suspension compliance Needs Improvement. *(Finding No. 45 – Massachusetts Highway Department)*	-	Highway Planning and Construction 20.205
Untimely student exit counseling sessions and inadequate coordination between College departments for the administration of the Federal Perkins Loan Program. *(Finding No. 46 – Bridgewater State College)*	-	Federal Perkins Loan Program 84.038
Fraudulent time records submitted by a student in College's work-study program. *(Finding No. 47 – Bridgewater State College)*	-	Federal Work-Study Program 84.033

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2005

III. Findings and Questioned Costs for Federal Awards (Continued)

Noncompliance Findings	Questioned Costs	Program and CFDA #
Cash Management with Rule and Regulations. *(Finding No. 48 – Bridgewater State College)*	-	Federal Perkins Loans Program 84.038
Aggregate loan limit for federal perkins loans exceeded. *(Finding No. 49 – Middlesex Community College)*	-	Federal Perkins Loans Program 84.038
Outstanding checks need to be transferred to the Office of the State Treasurer's Unpaid Check Fund. *(Finding No. 50 – Middlesex Community College)*	-	Federal Supplemental Educational Opportunity Grant 84.007 Federal Work-Study Program 84.033, Federal Pell Grant Program 84.063
Roxbury Community College administration needs improvement. *(Finding No. 51 – Roxbury Community College)*	-	Federal Pell Grant Program 84.063; Federal Work-Study Program 84.033; Federal Supplemental Educational Opportunity Grants 84.007
Total Questioned Costs	$18,068,051	

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SECTION III

Summary of Schedule of Prior Year Audit Findings

Old Corner Bookstore Building

Old State House

Photograph by Steve Dunwell

Faneuil Hall

Old South Meeting House

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Commonwealth of Massachusetts
Office of the Comptroller
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Summary Schedule of Prior Audit Findings

Report on Compliance and Internal Control in Accordance with Government Auditing Standards and the Requirements of OMB Circular A-133 and the Schedule of Expenditures of Federal Awards for the Fiscal Year Ended June 30, 2005.

The following schedule contains the finding number and title, segregated by Commonwealth department, for each of the findings included in the fiscal year 2004 (FY2004) Report. If the finding repeated as a result of the fiscal year 2005 (FY2005) audit, the current year finding is referenced after the FY2005 status of the FY2004 findings. The letters under the heading Corrective Action indicate the following:

F Full (the corrective action plan was fully implemented)
P Partial (the corrective action plan was partially implemented and the finding repeated)

Department	*Corrective Action*
Massachusetts Commission Against Discrimination	
Finding Number 1: Late Recording Of Fixed Assets	F
Division of Capital Asset Management	
Finding Number 2: Late Recording of Fixed Assets	F
Department of Mental Retardation	
Finding Number 3: Collection of Accounts Receivable Needs Improvement	P-1
Procedures have been developed to deal with deceased customer accounts and collection and write off procedures. DMR is in the process of collecting the outstanding client account.	
Department of Social Services	
Finding Number 4: Internal Controls over Fixed Assets Need Improvement	P-2
The department has made significant progress towards the implementation of the Corrective Action Plan for the finding. While the hiring of an additional staff person to support the inventory process has not yet occurred, approval has been obtained and this process should move forward during the summer months. In the interim, these functions have been managed by a combination of existing Building Services and Help Desk staff and the Regional and Administrative Managers.	
Progress towards completing the additional steps identified in the CAP for the finding is as follows: A baseline count of fixed assets of all DSS locations was completed during the period of 10/04 and 12/04. This information was submitted to the Central Office inventory. Coordinator and the existing inventory database were updated to reflect the results.	

Inventory tags were provided to all offices with instructions to apply all newly procured items required to be inventoried and report these items to the inventory coordinator for inclusion in the existing database.

Offices have been provided with instructions to submit the following information to the inventory coordinator for any new furniture procurements: copy of signed delivery slip, copy of MMARS encumbrance (PC) with accounting/commodity information, and a copy of the invoice.

DSS has procured new web-based asset management software that will enable the use of bar-coding technology to record and track all assets to be included in the inventory and eliminate the cumbersome process currently in place. Installation was completed during the week of May 23, 2005 and pilot use of the technology has begun at DSS Central Office. It is anticipated that during FY06, this technology will be used to manage assets at Central Office and a minimum of 2 of the DSS regions. As experience with the tool grows, use will expand to the remainign4 regions, with a goal of statewide implementation completed no later than the 2nd quarter of FY07. The existing inventory process will be phased oft as each new region is converted to the new system.

Throughout FY 05, a process has been implemented to remove unusable items from the existing inventory. The process includes the following steps:

The Regional, Area, or Central Office unit managers completes OSD Form 25 identifying items deemed unusable by the location, signs, and submits to Central Office inventory coordinator.

The inventory coordinator determines if there is a need for these items at another location. If yes, transfer is arranged; if no, the form 25 is submitted to the State Surplus Officer seeking approval to dispose of the items.

Upon receipt of the approval, arrangements are made to dispose of the surplus items.

Soldiers' Home in Holyoke

Finding Number 5: Imp rovements Needed in the Reconciliation of Soldiers' Home Records to the Commonwealth's Accounts Receivable System F

Office of Child Care Services

Finding Number 6: Internal Controls over Travel Reimbursement Need Improvement F

Finding Number 7: Internal Controls over Inventory/Fixed Assets Need to be Improved F

Registry of Motor Vehicles

Finding Number 8: Recording of Adjustments and Uncollectibles Needs Enhancements P-3

The Registry has completed the adjustment of the of the BARS receivable to the recommended cap. The initial adjustment was completed in October of 2004 and has been periodically adjusted during this fiscal year to maintain that cap.

The Registry has continued to pursue guidance from the Comptroller's Office to determine the proper procedure to writing off old receivables while maintaining the citation record on a driver's driving record. The RMV is sure this can be accomplished in new MMARS without having to eliminate the citation from the driver record and will complete the write offs as soon as the Comptroller's Office confirms the process.

Office of State Treasurer

Finding Number 9: Office of the State Treasurer's Use and Reconciliation of Float Fund P-4

The first stage of the corrective action plan was the cutover from the "Old Float Fund" designated as Fund 613 on MMARS and 0613 on NewMMARS to the "New Float Fund," 0614. Fund 0614 includes subfunds based on bank accounts, but the cutover was not straightforward because many

of those bank accounts included activity from fiscal year 2004 and 2005 simultaneously. This was particularly true during the month of July, so many adjustments had to be made to the original bookings to funds 0613 and 0614 based on these timing errors. Complicating factors during this time period included:

- The NewMMARS paid check functionality is currently not being used. Initial plans for reconciling between 0613 and 0614 assumed the use of this functionality, so adjustments had to be made.
- The accounts payable period activity was done in fund 0614 not 0613

Following the startup period for NewMMARS efforts have been made to reconcile fund 0614 regularly on a going forward basis. The following sub-funds have been reconciled through the end of March: 0026 – ACH Settlement Account, 0083 - Bond Account, 0117 - Tax Shelter Annuity, 0125 - Legislative Travel, 0133 - State Retirement, 0158 - Teachers Retirement, 0174 - Legislative Payroll, 0182 - HR/CMS Payroll, 0398 - NewMMARS DMA Medicaid, 0505 - NewMMARS Vendor.

Five sub-funds still have not been reconciled as of March 31, because they involve more significant timing and other adjustment issues. However, significant adjustments have been identified and in some cases booked in these funds.

Several bank accounts and corresponding subfunds of fund 0614 are operated by outside agencies, such as DOR and RMV. In addition to TRE not having access to the individual check issue files of these agencies, efforts to reconcile these accounts is often complicated by unique methods used by the agencies in posting information about the payments to MMARS, either in terms of timing or through aggregate methods such as memo posting. We have just started working with outside agencies. The Department of Revenue has begun its reconciliation process and a letter has been sent out to all agencies that have sub-funds in fund 0614. It is expected that in FY06, these accounts will either be reconciled independently of float or be shut down and business moved to direct MMARS payments.

The target date for completing these reconciliations is September 15. With the exception of Fund 0613 and Fund 0614-0059, we hope to complete all other reconciliations by September 1. These funds must be reconciled last because any miscellaneous adjustments or errors will default to these funds.

Bridgewater State College

Finding Number 10: Internal Control Plan in Need of Improvements P-5

BSC has updated its internal control plan to include a high level summarization on a department wide basis of the College's risks which included identifying controls that were generally in place within various areas of operations. There areas included the procedures for implementing the five components of internal control (control environment, risk assessment, control activities, information and communication, and monitoring).

Roxbury Community College

Finding Number 11: Non-Appropriated Fund Activity and Balances not Reconciled in a Timely Manner P-11

The Trust Fund entries through period 11 (May 31st) have been input in MMARS. Since docdirect no longer provides a monthly report to be used for a monthly reconciliation, the College has prepared a continuous side-by-side comparison listing of transactions of MMARS trust fund entries and College trust fund entries. The total of each revenue code and subject code for both MMARS and College are shown and the reconciling entry, if any, is calculated.

Finding Number 12: Inadequate Controls over the Payment of Reggie Lewis Center's Utility Bills F

Springfield Technical Community College

Finding Number 13: Improvements Needed in the Reconciliation of College Records to the Commonwealth's Accounts Receivable System P-12

The College has not been able to comply with the BARS monthly posting requirement due to workload issues resulting from the unexpected loss of two key staff individuals in the Accounting Department in December 2004.

However several adjustments to RE documents were made during the fiscal year that reflect the Student Account Billing, Payment and Receivable activity for the year.

During Fiscal 2005 the College did submit a write off request to the State Comptroller's Office and it was approved for write off.

The College is in the process of making some changes to the Accounting Department workload and a new individual will be trained to maintain the monthly BARS reporting and compliance starting in July 2005.

Worcester State College

Finding Number 14: Noncompliance with Chapter 647 of the Acts of 1989 Reporting Requirements P-13

During FY 2005 the college has put in place a system to report all lost or stolen property or funds to the Office of the State Auditor in accordance with Chapter 647 of the Acts of 1989.

During the academic year, employees were reminded of their obligation to secure equipment and valuables in their possession.

During FY 2005 we have proceeded with the OneCard implementation process. Beginning July 1, 2005, we will begin phase III of this implementation. Phase III is the security access installation for buildings on lower campus. During this phase the academic and administrative buildings will be evaluated and fitted with enhanced security access systems.

Office of the Comptroller

Finding Number 15: Excess Indirect Costs Charged not Adjusted in a Timely Manner- F

Finding Number 16: Additional Costs Included in the Statewide Cost Allocation Plan F

Finding Number 17: Documentation Supporting the Statewide Cost Allocation Agreement Needs Improvement P-16

The supporting documentation for the SWCAP will include the recommendations identified in Finding #16 of the FY2005 audit. This additional information will be developed beginning with the FY2006 SWCAP.

Department of Education

Finding Number 18: Inadequate Administrative Expenditures Procedures P-22

Regarding the exceptions mentioned in this finding were items that were processed using our budgeting method for allocating costs relating to multiple programs. This practice has ceased starting with FY2005 with the implementation of our cost allocation plan. These types of transactions will not reoccur.

Regarding the phone expenses for international calls, we have discussed with the appropriate staff in particular and all staff that review invoices in general to ensure greater vigilance with the review of these documents to ensure compliance with procurement and payment regulations.

Regarding the travel vouchers authorizations; we have reviewed the approval levels for these instances and have changed the signature approval level for expenditures where appropriate. We have additionally held group of individual training to re-emphasize to all what the process is and who is authorized for certain functions.

Finding Number 19: Cost Allocation Plan Needed F

Finding Number 20: Vocational Education Program Maintenance of Effort Requirements not Met P-18

The Department was fully aware that the State would not be able to meet the FY2004 Vocational Education (Voc Ed) maintenance of effort due to the State's budget deficit in FY2003 and the reduction to the Department's state funding from FY2002 to FY2003.

We requested a one -year waiver to the Voc Ed maintenance of effort from Secretary Paige in March of 2004 as allowed in Title III, part A, Section 311 (b) (2) of the Carl D. Perkins Vocational and Technical Education Act of 1998. Subsequently, USED requested additional information about the State's total revenues for fiscal years 1999 through 2003. The information was provided to USED in August of 2004. We have not received any further communications from USED regarding our waiver request.

It is anticipated that the State will not meet the FY2005 Voc Ed maintenance of effort given the budget cuts to elementary education in the two state appropriations (Foundation Aid and Regional Transportation) that are used to meet the annual maintenance of effort requirement. The two appropriations were reduced from FY2003 to FY2004 by $151 million and $15 million, respectively.

Finding Number 21: Reallocation of Title I Funds in Excess of the 15% Carryover and Measurement of Local Education Agency (LEA) Cash Needs Improvement P-20

The Title I office, through numerous workshops, mailings, and other communications, strongly urged recipients to submit grant final reports on time, and to closely monitor spending to avoid excess carryover as much as possible. Waivers were granted where appropriate, excess funds were returned in a much more timely manner, and funds were made available for reallocation.

Grants Management noted an increase in the number of grant reports submitted on time, and a decrease in the number reporting and seeking waivers for excess carryover.

We have initiated discussions with the US Department of Education regarding cash awards to sub grantees and were referred to EDGAR Part 80: Subpart C; Section 80.20 (a)(7) Cash Management. We consider that “reasonable procedures” have been established and followed for sub grantees since neither we nor they have ever been subject to citations on this topic. The findings as stated in their titles have been addressed. We also contend that regardless of how we fund the sub recipients that these two issues are separate from an “excess cash” issue and have been dealt with as such.

We are also of the opinion that the cash flow and granting issue is so central to our overall operations and is by itself so important that it should be discussed and debated solely on it’s own merits, and not as a mere subcomponent of another topic. The stand-alone issue of our granting process has never been listed as a finding in an audit report.

Any underlying questions on the system would exist irrespective of the issues that caused the two prior year findings.

Finding Number 22: Questionable Advance to a Local Education Agency (LEA) F

Finding Number 23: Improvements Needed in the Calculation of Adequate Yearly Progress (AYP) F

Department of Revenue/Child Support Enforcement

Finding Number 24: Ineffective Case Tracking and Management System P-28

The Division implemented the case ownership model in January and February of 2005. There are three categories of case ownership, one for cases who need a child support order established; one for cases where an order exists; and one for cases where another state is involved in the case because one of the parties lives outside of Massachusetts. A series of meetings have been held with managers, supervisors and line staff to review implementation issues.

The Division has contracted with a vendor to provide additional electronic locate services. We have sent a total of 22,000 individuals for research, including custodial and non-custodial parents. We have received new information back on 13,500, including 2,000 reported as being deceased. It is too early to have a full assessment of the project. We are comparing the information returned with prior location attempts to review the contract's effectiveness; the early results have been encouraging.

The Division has signed a Statement of Work with a vendor to design and implement automated workflow management, imaging and documents generation and management. This will route work more efficiently to case workers, improve supervisory oversight, strengthen quality control and provide management and staff with more real time information about case status and what actions are needed on a case. An imaging/document management system that electronically captures, stores, retrieves and distributes documents and the data on those documents will streamline case processing activities, minimize manual data entry, allow CSE to address customer issues quickly by providing direct access to documents and eliminate the search for paper. The benefit of imaging/document management will cut across all offices/units within CSE as workers from across the state can easily access the same document. The imaging/document management system will be integrated into CSE's automated system, COMETS, so that workers can retrieve documents without leaving the main system, thereby providing all necessary information at a glance. Workflow support will be incorporated to route documents and direct completion of tasks, enabling CSE to respond better to parents' requests for service.

Workflow support will be incorporated into the imaging/document management system mentioned above and will enable CSE to implement the redesigned business processes to increase staff efficiency and timely response to need for action. Most child support work is organized around document management, tracking and imaging systems can be tailored to support this kind of activity. Workflow tools provide structure, efficiency, and accountability to business processes by enforcing rules for the routing of documents/information and the completion of associated tasks. Federal regulations mandate that child support cases be processed according to federal timeframes and that the worker must be automatically notified of the next appropriate action when manual intervention is required. By utilizing these workflow tools, CSE can ensure that all federal timeframes and regulations are met. In addition, the imaging/document management/workflow system will be integrated into the COMETS mainframe so that automated processes can be utilized whenever possible and will be seamlessly integrated into the manual processes. By streamlining workflow and ensuring that appropriate steps are taken in a case, CSE will be in a strong position to improve on five key federal performance measures that maximize the amount of federal incentives returned to the state, while better serving the customer's needs. Work started in late June with a completion date of 14 to 18 months out.

The Division has started a detailed review of all interfaces with partner agencies with an emphasis on state human service agencies such as the Department of Transitional Assistance, Department of Public Health, Department of Social Services and MassHealth. The state's Executive of Human Services has assigned a project manager to assist the Division in writing business requirement for the interfaces and to assess the human services agencies' readiness to modify their interfaces.

To support the workflow management and interface project, the Division has obtained longer term financing for these project through the state's information technology bond fund.

Department of Public Health

Finding Number 25: Independent Peer Reviews not Conducted F

Massachusetts Highway Department

Finding Number 26: Subrecipient Identification and Award Documents Need Improvement P-43

Mass Highway is using standard contract language in all new subrecipient agreements, including program name, identifying CFDA number, and audit requirements.

Finding Number 27: Monitoring of Davis-Bacon Compliance Needs Improvement F

Finding Number 28: Inaccurate Recording of Payroll, Accrued Leave and Relocation F

Department of Social Services

Finding Number 29: Timeliness of Criminal Offense Record Information (CORI) Checks Needs Improvement P-31

FY2005 has seen the development and implementation of certain BRC/CORI related enhancements to the Department's FamilyNet system. These include the automatic generation (absent the need of a staff member needing to create the request) of certain types of BRC/CORI Requests. The requests being automatically created by FamilyNet include the registration of Interest Requests when prospective new foster or adoptive resource records are being added to the resource system and requests for updated BRC/CORI checks when the current foster and adoptive resources have new household members added to the records. Additionally, programming edits have been fully taken effect that prevent home study approvals from being entered into FamilyNet on resources where the most recent BRC/CORI Request is more than 45 days old. This change necessitates the requesting and processing of a new BRC/CORI check in order to get the home(s) approved in FamilyNet. These changes coupled with the continued production of the DSS RTP 195 report each month, the subsequent preparation and distribution of Area and Region specific detailed reports and the follow-up by field office staff have contributed to the continuing decline in the number of foster and adoptive resources that have not been subject to BRC/CORI checks or that have checks that are overdue. To illustrate, the DSS RPT 195 for the date of May 2, 2005 noted 33 of 4606 (0.0072%) of listed providers having overdue BRC/CORI Request Checks, with 26 of them being one month or less overdue and only one (1) provider with an active placement Service Referral in a foster resource that has not been subjected to a BRC/CORI check (this provider is in North Carolina and subject to procedures covered by the Interstate Compact). As of June 1, 2005 a review of our data reveals that there were no overdue BRC/CORI report checks.

Similar efforts have been made to address the issue of concentrated foster care resources that have not been subject to BRC/CORI checks or that have checks that are overdue. Integrated Planning staff, Information Technology staff and BRC/CORI unit staffs continue to work closely to adapt the DSS RPT 196 report in order to accurately reflect provider compliance. (For example, changes instituted in April improved the validity of information available about active foster homes.) In addition, a series of trainings have been held with provider agencies to make sure that provide staff are aware of the requirements and are utilizing the DSS FamilyNet System correctly. The DSS RPT 196 report continues to be produced monthly, and is broken down by provider agency. These provider specific reports are then sent to each concentrated provider by the Integrated Planning Unit with the follow-up telephone calls to assess provider follow through. The DSS RPT 196 for the date of May 2, 2005 shows 52 of 1728 listed providers (3%) having BRC/CORI request checks overdue for one month or more. In March 2004, this same report had shown 12% of providers with BRC/CORI requests checks overdue for one month or more. This percent was reduced in September 2004 to 9%. The drop of 3% in May 2005 shows an encouraging continuation in the decline of overdue BRC/CORI request checks. The May 2, 2005 report also shows 4 providers with active placement service referrals in a resource that had not been subject to a BRC/CORI check. All 4 situations have either been resolved or are in the process of being resolved. (The BRC/CORI on one has been completed; the second is no longer an active resource; the third did have a BRC/CORI check requested but had made the request under the name of the spouse- the provider is rectifying this; and the fourth was listed in error and has been removed from the list.)

Program design work on our new Family Networks contracted system includes efforts to even further improve provider compliance with BRC/CORI requirements by improving provider access to our FamilyNet system.

Finding Number 30: The Process for Home Licensing Needs Improvement P-32

July 2005 Update: During the past year, significant enhancements to the family resource windows in FamilyNet have been implemented. These enhancements directly facilitate or simplify the input of information into the system, improve data extraction from the system, or auto-generate annual functions (which previous required annual staff entry). The coordination of the continued enhancement to both the FamilyNet system and the reports generated from FamilyNet continue between the IT department and the Adoption and Foster Care staff.

Foster Care and Adoptive staff from Central Office meets regularly with Regional and Area staff to review reports and the family resource reports are sorted and distributed to the family resource filed staff and managers on a monthly basis. Central family resource staff has trained regional and area staff in utilization of the reports and continue to meet regularly to review recommendations regarding enhancements to FamilyNet and the reports. Central, regional, and area staffs are utilizing the family resource reports both to assure compliance with regulation is met and to plan workload for staff.

Six recruitment Supervisors have been hired and have begun work with the field to recruit foster families to meet the targeted placement needs of the offices. Additional support regarding recruitment should be implemented shortly which will allow area staff greater time availability for completion of family resource task requirements.

Finding Number 31: Controls Over FamilyNet and Home Licensing Report Data Need Improvement P-30

July 2005 Update: During the past year, significant enhancements to the family resource windows in FamilyNet have been implemented. These enhancements directly facilitate or simplify the input of information into the system, improve data extraction from the system, or auto-generate annual functions (which previously required annual staff entry). The coordination of the continued enhancement to both the FamilyNet system and the reports generated from FamilyNet continue between the IT department and the Adoption and Foster Care staff.

Foster Care and Adoptive staff from Central Office meets regularly with Regional and Area staff to review reports and the family resource reports are sorted and distributed to the family resource filed staff and managers on a monthly basis. Central family resource staff has trained regional and area staff in utilization of the reports and continue to meet regularly to review recommendations regarding enhancements to FamilyNet and the reports. Central, regional, and area staffs are utilizing the family resource reports both to assure compliance with regulation is met and to plan workload for staff.

Six recruitment Supervisors have been hired and have begun work with the file to recruit foster families to meet the targeted placement needs of the offices. Additional support regarding recruitment should be implemented shortly which will allow area staff greater time availability for completion of family resource task requirements.

Finding Number 32: Non-Compliance with Legal Requirements for Open Fair Appeal Hearings P-29

The Department requested an additional 3 fair hearing officer positions in the FY06 budget. To date that request has been supported and funding has been allocated for these positions in FY06 through the Senate Ways & Means budget. The final state budget is currently in conference.

The Department set up a 6-month sabbatical opportunity for agency supervisors to work in the Fair Hearing unit. The posting for this position was sent out Mid May and the agency is awaiting responses.

The Department was not able to resolve all of the cases requested prior to 2001. There remain just over 100, the majority of which are special investigations unit cases. The cases from SIU are prioritized based on whether the agency decision had a direct impact on a person's job or whether the decision involves the removal of a foster child. Therefore, if a request on a SIU case is made

in 2005 that impacts a person's job, that request will take priority over a request from even 2001 that did not impact a person's job.

The Department is utilizing the monthly doc direct report to check for and correct data errors. To held in preventing one common error, the fair hearing unit worked with the IT unit to develop an edit to prevent duplicate docket numbers from being entered.

Finding Number 33: Improvements Needed for the Documentation of Judicial Determinations F

Executive Office of Health and Human Services

Finding Number 34: Untimely Filing of Plan of Care and Level of Care Documents F

Finding Number 35: No Communication of Feasible Alternatives F

Finding Number 36: Draw Downs of Federal Cash Need Better Monitoring F

Finding Number 37: The Recording of Aged Accounts Receivable Needs to be Reviewed on a Timelier Basis F

Finding Number 38: Procedures Used in the Preparation of the Information for GAAP Reporting Purposes Need to be Documented F

Department of Elder Affairs

Finding Number 39: Federal Reports were not Reconciled with the Commonwealth's Accounting System F

Finding Number 40: Fiscal Year 2004 Cost Allocation Plan not Finalized P–24

A DCAP plan was submitted to the Office of the State Comptroller for 2004. A revised DCAP plan and methodology is being prepared with assistance from Public Consulting Group, Inc. Elder Affairs anticipates submission for methodology approval within the next few weeks. A final methodology for 2005 will be established shortly. The methodology for 2006 has already been developed and has been submitted to DHS for approval.

Finding Number 41: Monitoring of Area Agencies Needs to Continue to Improve F

Finding Number 42: Monitoring of Audit Findings Relating to Area Agencies on Aging Needs Improvement P-25

The planned consolidation of UFR/Audit review functions with standardized vendor risk indicators is not yet complete. EOHHS has established the indicators and are in the process of implementing Provider Data Management (PDM). PDM collects and reports baseline demographic, contract and service data associated with each Purchase of Service Provider. Additionally, functionality of the system includes connection to Office of the State Comptroller's UFR database. Each vendors UFR is scored against a series of vendor risk indicators electronically. Staffing of the central audit unit has not yet been completed. Elder Affairs Director of Accounting & Contracts recently completed a review of POS vendor UFR's to identify any findings. Those items are presently under review. Formal review of provider audit findings and UFR submissions is being conducted by the Federal Grants Accountant/Contracts Manager.

Finding Number 43: Lack of Documentation to Support Payroll Charges to Federal Awards P-26

The missing retired employee physical records were not recovered. At the time of the audit, Elder Affairs was undergoing two changes:

Physical and operational consolidation of Human Resources operations from Elder Affairs to the Executive Office of Health & Human Services. This included the boxing and physical relocation of all employee records to 600 Washington St, Boston, MA.

Elder Affairs conducted substantial physical office renovations to the entire office. This involved temporary physical relocation of all filing systems.

We acknowledge that we are unable to find the retired employee's physical record as a result of our renovation and human resource consolidation efforts last year. We believe that the payroll documentation which exists within the Commonwealth's Human Resource data system (HRCMS) and the internal controls which govern all Commonwealth employee payroll transactions are sufficient evidence that the payroll costs were incurred and were applied appropriately to Ana specific activities. We have verified that all active status employee records are safe and secure at our Human Resources office located at 600 Washington St, Boston, MA.

In a letter dated August 10, 2005, Elder Affairs notified Ms. Irma Tetzloff, Acting Regional Administrator of the Administration on Aging of this status and stated that we "respectfully request that you reconsider Finding Number 43 which includes a repayment of $10,000 to reconcile payroll charges associated with the retired employees' expenses for the audit period. We would be happy to provide period specific payroll information from HRCMS for your review as directed." To date, Elder Affairs has received no formal written response to this request.

Executive Office of Public Safety

Finding Number 44: Contract and Payment Vouchers not in Compliance with Commonwealth Policies F

Finding Number 45: Salaries Allocated to Federally-Funded Programs are not Supported by Proper Documentation P-42

Due to NewMMARS and additional staff turnover in the position identified to be responsible for tracking percentage changes as written in by staff, the EOPS did not monitor employee sign in for the first half of SFY05. However, a letter from EOPS senior staff was written to all EOPS staff to request that staff sign off on the percentages budgeted for the year as accurate, or if not accurate to amend the letter.

Finding Number 46: Excess Federal Cash on Hand at Grantor and Subrecipient Levels F

Finding Number 47: Inadequate Supporting Documentation for Expenditures F

Finding Number 48: Monitoring of Subrecipients Needs Improvement P-41

The EOPS Programs Division continues to perform fiscal and programmatic site visits evaluations. The EOPS Programs Division continues to request and keep on file, A-133 reports for sub-grantees. However, the EOPS Programs Division has not developed a system to evaluate the A-133 reports and issue decisions on findings.

Finding Number 49: Payment Vouchers Approved after Disbursement of Funds F

Finding Number 50: Improvements Needed over Reconciliations P-40

Many changes in the reconciliation process arose due to NewMMARS. The reports and spreadsheets the Program Division used to use are obsolete. There were no standardized reports until accounting period 10 for New MMARS. However, the EOPS has made the new drawdown process a section in the internal control guide, and will use the new system for all Fiscal Years going forward. The Program Division will utilize the accounts payable period to clean up the first 10 accounting periods of SFY05.

Finding Number 51: Federal Investigation of Byrne Formula Grant Activities F

Finding Number 52: Internal Controls over Federal Draw Downs Need to be Improved P-39

The Program Division has developed a bench marking report for homeland security funds, that is updated monthly and shows how much money has been spent, and how much has been drawn. If another situation arises where there are large discrepancies this report will show that.

The Programs Division has developed a database that will track all grants that come into EOPS and it has a section for all of the special conditions associated with the grant, a description of the special conditions, when it was cleared, and who cleared it. This data base will be used for SFY06 going forward.

Office of Child Care Services

Finding Number 53: Internal Controls over Bill Payments Need Improvements F

Department of Transitional Assistance

Finding Number 54: Food Stamps Status of Claims Against Household Report Filed with Inaccurate Data P-33

The Department agreed with the actions recommended by FNS and developed and submitted a Corrective Action Plan (CAP) to FNS (as amended October 8, 2004 and submitted to FNS October 13, 2004) to meet FNS requirements. It is the intent of this Department to fully comply with all applicable statutory and regulatory provisions to ensure that the Massachusetts food stamp recipient claims management system provides both an effective and efficient process for collecting overpayments. As such, the following describes the CAP provisions:

Finding 1: Over-Payment adjustments are incorrectly reported on Line 3b. Line 14 is incorrectly used to report payments from Electronic Benefit (EBT) accounts.
Corrections to the FNS 209 Report were completed and implemented with submission of the report for the 4th Quarter 2004 on November 8, 2004. The report was reviewed by FNS and accepted. This finding was reviewed by FNS in February 2005 and closed by FNS on 4/2/05 because it was successfully completed.

Finding 2: BEACON systematically places numerous active food stamp debts "In Queue" rather than automatically collecting through allotment reduction. These claims are not being collected timely due to the "In Queue" status.
All food stamp claims in the "In Queue" status were identified.
Necessary systems changes to prevent inappropriate assignment to the "In Queue" status were implemented in the April 2005 BEACON release. This corrective action is complete.

Finding 3: BEACON is not updating information once claim and payment types transfer from one category to another.
Necessary systems changes and enhancements to modify the method used to change payment type based on eligibility were implemented with the April 2005 BEACON release. This finding was reviewed by FNS in February, 2005 and closed by FNS on 4/2/05 because it was successfully completed.

Corrections to the FNS 209 Report for transfers were completed and implemented with submission of the report for the 4th Quarter 2004 on November 8, 2004. This finding was reviewed by FNS in February 2005 and closed by FNS on 4/2/05 because it was successfully completed.

Finding 4: The Department does not establish claims on all overpayments discovered through the Quality Control system as required by 7 CFR 273.18(e)(2)(ii).
Internal management controls and procedures have been developed and implemented to pursue all overpayments identified through the Quality Control system. This finding was reviewed by FNS in February 2005 and closed by FNS on 4/2/05 because it was successfully completed.

Finding 5: The Department does not meet the requirements of 7 CFR 273.18(a)(3) which require results in claims collections similar to national rates of collection. The Department's collections declined by 47.48% between 2001 and 2003.

The Department has developed and submitted to FNS on July 8, 2005 a policy for terminating inactive accounts for review by the FNS and the Massachusetts Office of the Comptroller. This

policy will be incorporated into the agency Claims Management Plan within sixty days from receipt of approval from the federal and state oversight agencies.

Subsequent to approval from FNS and the State Comptroller, the Department will evaluate all delinquent accounts against the write-off policy and provide a file of potential terminated claims to the Massachusetts Office of the Comptroller for approval by October 1, 2005.

A write-off policy for on-going claims management that meets FNS and state requirements will be developed and implemented within sixty days from receipt of approval from the federal and state oversight agencies.

Finding 6: The Department does not compromise claims as required by 7 CFR 273.18(e)(7).
The Department reviewed state, federal, and department policy and completed an analysis of policy and operational requirements for review and approval by the executive staff in March, 2005. Revisions to Department policy will be drafted and distributed for public comment by September 30, 2005. By December 31, 2005, the Department will modify the agency Claims Management Plan.

Finding 7: The Department does not refer delinquent debts to the Treasury Offset Program (TOP) in a timely manner as specified in 7 CFR 273.18(n)(1).
The Department is committed to more frequent submission of delinquent debt to TOP and will certify delinquent debt on a semi-annual basis for claims submitted for the address request of January 2005 and July 2005. These claims will be processed using the current manual system. The first quarterly automated address submission will take place in October 2005.

Finding Number 55: The BEACON System Lacks the Appropriate Segregation of Duties F

Bunker Hill Community College

Finding Number 56: Outstanding Checks Need to be Transferred to the Office of the State Treasurer's Unpaid Check Fund F

Finding Number 57: Controls Needed Regarding Distribution of College Work-Study Paychecks F

Bridgewater State College

Finding Number 58: Fraudulent Time Records Submitted by a Student in the College Work-Study Program P-47

BSC updated its policies and procedures for the FWS Program. Included in these updates were steps to improve monitoring the awards to students, the status of the awards as the academic year progresses and the monitoring of timesheets for authorized signatures. These new policies and procedures require that the authorized staff deliver student timesheets to the FWS office (not the students), timesheets are only written in pen, and an authorized signature is maintained by the FWS office staff to ensure that all signatures are authorized. These updated policies and procedures were communicated to all College departments participating in the FWS program and staff were advised of their responsibilities with regard to payroll polices and procedures and student employees practices.

Finding Number 59: Student Loan Disbursement not Made in Required Timeframe F

Finding Number 60: Untimely Student Exit Counseling Sessions and Inadequate Coordination between College Departments for the Administration of the Federal Perkins Loan Program P-46

Bridgewater State College implemented special follow-up procedures to ensure that the exit interview counseling is provided to students ceasing to meet the enrolment requirements of the Federal Perkins Loan Program.

1. Approximately one month prior to graduation, the Financial Aid Office sends letters to all students expected to graduate. FA office also e-mails all the borrowers the letters
2. The Perkins Loan Office requests from the Office of Student Records, a report of students expected to graduate. This request is made for graduations; January, May, and August. The Perkins Loan Office identifies the students who have been disbursed a Perkins Student Loan while enrolled at BSC.
3. The Perkins Loan Office submits a list of the Perkins recipients to the billing agency, the University Accounting Service (UAS). The Billing Agency sends an e-mail to the borrowers informing them it is time to log on the website stated in the e-mail and they are required to complete their exit counseling for the Perkins Loan. Disbursement/s received while enrolled at BSC. UAS sends an additional four e-mails to the borrower one week apart. If the borrower does not complete the on-line exit interview counseling after the fifth e-mail, UAS sends BSC the borrowers exit interview packet. BSC mails the packet to the borrower.
4. The Financial Aid Office specialist is developing a reliable report that will identify financial aid recipients who withdraw from BSC.
5. The Fiscal Affairs information technology liaison is examining records for the creation of a report.

Finding Number 61: Improvements Needed in the Implementation and Updating of Quality Assurance Systems for the Direct Student Loan Program F

Roxbury Community College

Finding Number 62: Roxbury Community College Administration Needs Improvement P-51

A number of items are mentioned in Finding #62; a review of progress is as follows:

Timely reconciliation of non-appropriated funds and documentation of adjustments: This finding will be follow-up by the state auditor visit on August 29th. The college has entered the non-appropriated funds on MMARS this year and has reconciled them on a monthly basis even without the old MMARS report (H 110).

Full implementation of Jenzebar: All data is now entered into Jenzebar. The general ledger is operational and will be the subject of a follow-up visit by the state auditors on August 29th. The accounts receivable records have also been implemented; an accurate accounting of receivables is now available in Jenzebar.

Improve the administration, documentation, and oversight of SFA programs: Through cooperation with the Administrative Services and Enrollment Management Divisions, another quality check has been added to assure 100% compliance with high school diplomas or equivalents. After the start of each semester, the records of all admitted students will be reviewed for completeness. This data will be cross-checked with the admissions data in the Jenzebar system.

Admissions, Registrar, Information Technology, and the Financial Aid Offices along with the Vice Presidents continue to meet on a regular basis to review the processing of financial aid and enhancements and improvements related to this process.

Update of policies and procedures: The college crafted a revised policy for the payment of bills from the Reggie Lewis Track and Athletic Center last summer. This new policy has eliminated the utility bill issue in FY05 and has also increased the monitoring of the expenditures of this unit. In addition, the Internal Control Plan was amended twice this year to expand on the introduction and rewrite a procedure.

Remitting Employee withholdings: Since this task was assigned to the comptroller beginning in FY05 regular and timely payments have been made.

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SECTION IV

Findings on Compliance and Reportable Conditions Pertaining to Internal Control Structure Based on the Audit of the Financial Statements

Paul Revere House

Old North Church

Copp's Hill Burying Ground

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Department of Mental Retardation
Findings on Compliance with Rules and Regulations

Finding Number 1: Collection of Accounts Receivable Needs Improvements

The fiscal years 2003 and 2004 single audit reports disclosed that the Department of Mental Retardation (Department) needed to improve its collection of accounts receivable. The 2004 report noted a past due balance of $60,557 for room and board charges for a Department resident that dated back to 1995. We recommended that, if the Department deemed the receivable uncollectible, it should be written off. Our follow-up review disclosed that the $60,557 outstanding balance remains and Department management is reviewing the outstanding balance to determine if it is collectible.

The Department has policies and procedures for collection of past due amounts owed by current residents and deceased residents. For current residents, the policy includes instructions regarding sending stale receivables to a collection agency. However, this policy has not been fully implemented. For deceased residents, the policy is to file a petition with probate court to attempt to collect past due balances. The Code of Massachusetts Regulation (CMR) 815, 9.05 (1), Collection of Debts, states in part:

> *The Departments are responsible for making diligent efforts to collect legislatively authorized accounts receivable and debts due the state. Departments shall maintain detailed records for all accounts receivable, debts and other legislatively authorized charges for goods or services.*

In addition, the Office of the Comptroller's (OSC's) Debt Collection Policy issued July 1, 2004 allows debts to be sent simultaneously to both intercept and to a debt collection agency. The Department does not use the OSC's intercept program. Instead, the Department requests the Social Security Administration to pay the Department directly for current charges. The Department's internal control manual Chapter 4, subsection B, Accounts Receivable/Control Activities requires the "follow-up of aged receivables along with an aggressive collection policy should be a management priority."

The Department is in the process of meeting with potential collection agencies. Department officials indicated that because the receivables are owed by clients/residents of the Commonwealth, collection agencies will need to be sensitive to that fact. The meetings are an attempt to ensure that any collection agency contracted with will be cognizant of that need to be sensitive and act accordingly in their dealing with the clients.

Not complying with its own internal control policy, CMRs, and the OSC's policies and procedures regarding the collection of accounts receivable could result in the Commonwealth not receiving all of the income it is entitled to. *(Fiscal year 2003; 2004 Report Finding 3)*

Finding Number 1: Collection of Accounts Receivable Needs Improvement (Continued)

Recommendation

The Department should finalize its discussion with potential collection agencies and select one in order to comp ly with its own internal control policy, CMRs and the OSC policies and procedures regarding the collection of room, board and care charges and diligently and aggressively pursue the collection of balances due from all residents. If a past due balance is deemed uncollectible, the Department should consider writing off the receivable.

Department Corrective Action Plan

The Department of Mental Retardation (DMR) has been working hard to collect charges for care from individuals it serves. The Department has written procedures for "Collections and Write Off Procedures" and "Procedures for Deceased Consumer Accounts". The Department is in the process of selecting one or two collection agencies from the state's Master Services Agreement ("MSA") in which it feels will best meet the Department's needs. The wording of the dunning message on billing statements was changed in July 2005 to reflect the notice that aged accounts may be sent to collections for recovery. The representative payees will also be receiving a letter from the Department notifying them the aged accounts will be sent to a collection agency. In addition, the Department has implemented a policy that if a client gets more than six months behind, the Department petitions the Social Security Administration to become the representative payee for the client. The means that the Department receives the client's SSI check rather than the client's guardian, who is not paying their charges for care. This immediately stops the outstanding debt from growing because the Department is now responsible for paying all bills for that client. The Department has struggled through a difficult fiscal year (FY05) with the state's new accounting system (MMARS), which has taken time away from this corrective action plan ("CAP") effort. The goal is to have the CAP fully implemented by November 2005.

Responsible Person: Jeanette Maillet
Implementation Date: November 30, 2005

Finding Number 2: Internal Controls over Fixed Assets Need Improvements

The fiscal year 2004 single audit report noted that the Department of Social Services (Department) was not in compliance with Office of the State Comptroller (OSC) requirements for accounting, reconciling, reporting, and recording of fixed assets. The fixed asset listing did not include items such as furniture and file cabinets and assets lacked a unique property identification tag number. The follow-up audit disclosed that the Department has improved inventory controls including conducting a baseline summary count of fixed assets at the area offices during October 2004, however, the Department needs to continue the process of identifying and recording assets individually and tagging all fixed assets with a unique identification number to comply with OSC requirements.

The Non-GAAP fixed asset listing as of June 30, 2005, totaling $6,680,293 includes all Department fixed assets including the summary count by asset type for each Area Office along with the Department's computer equipment and fiscal year 2005 new purchases which are listed individually by description and costs. During fiscal year 2005, the Department installed an asset tracking software and initiated tagging Central Office property with bar coded permanent individual state property control identification tag numbers. However, the Area Office assets, except new purchases and the computer equipment, lack identification tag numbers and are not reported individually on the Non-GAAP fixed asset listing.

We selected nine items for review at the Central Office to verify the existence of the asset, location, and proper recording. No exceptions were noted during the review. Additionally, the Department implemented a reporting process for area offices for new asset purchases including the affixation of property identification tags and a removal process for asset disposals.

The Massachusetts Management Accounting and Reporting System (MMARS) Fixed Asset Subsystem User Guide sets forth the following policies, which state in part:

Chapter 4, Recording Including Depreciation, Policy Number 4-5:

> *Tagging of Assets - Physical property other than land, buildings and infrastructure shall be marked with some type of permanent tag affixed to a readily available area of the asset. This tag must have a unique identification number that will be associated with that asset and become a part of the asset's permanent record.*

Chapter 5, Accounting and Management, Policy Numbers 5-5 and 5-6:

> *Fixed Asset Inventory - There shall be an annual inventory taken of fixed assets owned by every Department. This inventory shall include at a minimum a verification of the existence and location of fixed assets owned by a Department. This inventory shall be done on or about June 30th of each year for GAAP & non-GAAP assets.*
>
> *Reconciliation - There shall be a reconciliation of the fixed assets inventory against the books and records maintained by the Department, either on the Fixed Assert Subsystem or other documented methods. This reconciliation is to be done, at a minimum, on an annual basis.*

Department personnel stated that processing of fixed assets at the Area Offices, including identification and tagging of individual assets, is on-going. However the process will take at least an additional year due to the volume of assets at the 29 Area Offices and the time constraints of personnel. The Department has received approval to hire an additional person to assist in the inventory but has not yet hired anyone. It has utilized other staff to assist in the inventory process.

Finding Number 2: Internal Controls Over Fixed Assets Need Improvements (Continued)

By not maintaining proper controls over fixed assets, there is no assurance that property and equipment is adequately safeguarded against loss, theft, or misuse. *(Fiscal Year 2003; 2004 Report Finding 4)*

Recommendation

The Department should continue the processing and recording of all fixed assets in accordance with OSC's requirements. This should include recording and tagging each asset at the Area Offices with an individual property identification number to ensure that its fixed assets are properly safeguarded, valued, and reported in comp liance with the MMARS Fixed Asset User Guide.

Department Corrective Action Plan

The Department will continue implementation of the plan to process and record fixed assets and comply with Office of the State Comptroller requirements. By October 21, 2005, bar coded asset tags (each assigned a unique identifying number) will have been applied to all appropriate assets located at the Central Office and the data associated with those assets downloaded to the asset management data base.

On October 11 and 12, 2005, the asset management team will visit the Metro Regional Office and Arlington Area Office to pilot the process for completing the inventory in field offices. Upon completion of the pilot, a schedule for the inventorying of assets in all remaining sites will be finalized. The goal is to finish this process an average of 3 additional locations per month with all sites completed in September 2006.

Responsible Person: Mary Ellen Bennard
Implementation Date: September 2006

Finding Number 3: Recording of Adjustments and Uncollectibles Needs Enhancements

The Registry of Motor Vehicles (Registry) is responsible for the collection of the fines associated with all Civil Motor Vehicle Infractions (CMVI) for the Commonwealth. The Registry has the right to revoke the motor vehicle registration or the operator's license to drive for citations that are not paid, minimizing the default rate. In response to the prior year finding, the Registry implemented a policy to change the method of recognizing accounts receivable to recognize that a percent of citations written are not collected.

The Registry has an extensive citation accounting system in place to record the citations written each year by local and state police. In calendar year 2003, there were 754,132 citations for 1,097,041 violations written. Payment is due within 21 days or the citation may be appealed to the courts; a court date is set within a year. As a result of the appeal, the fines associated with the citation may be waived, reduced, or upheld. Cash receipts for payment of citations are received and recorded by the Registry. The court notifies the Registry of the results of each hearing and the information is entered into the citation accounting system.

At the time of the audit testing, the balance of the citations receivable was $60,344,641.42 represented by a form RE that was selected for testing. The Registry maintains a clear trail of summary entries into the MMARS system to record the citations issued and the cash received each month. The balance reflected in the MMARS system agrees to the balance in the stand-alone citation accounting system. At June 30, 2004, the balance was $63,720,424.21 representing 443,934 citations to be collected. At June 30, 2005 the balance was $45,620,804.11 representing 69% of the $66,117,107.41 of 455,252 citations included in the citation accounting system. The 31% reduction between the citation accounting system balance and the MMARS balance is to reflect the statistics from the July 16, 2004 report MMRRV110R7 that was cited in the prior finding as those found to be not guilty/not responsible, defaulted, waiting for a hearing and waiting for a payment.

Registry staff provided a "summary of CMVI receivables" by fiscal year for the years 1992 - 1999 and by month for the fiscal years 2000-2005. The information provided as of October 31, 2005 included a balance in the citation accounting system of $64,406,653.41. Under the new policy, 69% or $44,440,590 is recognized as accounts receivable. The total of gross citations receivable from the period 1992 – 1998, more than 7 years old, is $19,805,963.33. All citations that are more than seven years old should be written off. The collection cycle for those that fail to pay continues, with late fees, for the remaining life of the registration (renewed every two years) or the operator's license (renewed every five years). This cycle would suggest that strong consideration be given to writing off (for accounting purposes only) all balances that are more than five years old. The amounts receivable that are more than five years old total $24,327,321.83. The Registry has positive experience with collection of overdue citations at the time of license and registration renewal. They should look at the history of these collections and determine a method to establish a reserve for uncollectibles for all citations that remain outstanding after 21 days to acknowledge that some, but not all will be collected at the renewal. The policy change to recognize 69% of the total balance is a change in the right direction but more work is needed.

Also provided was report MMRRV110R7 dated July 16, 2004 for statistical information about motor vehicle violations written by month in calendar year 2003 and the disposition of those. This report shows that 69% of citations are guilty/paid, 23% are not guilty/not responsible, 5% defaulted, 2% are waiting for a hearing, and 1% are waiting for payment. These statistics, and other historical data available, should be used by the Registry to assess the collectibility of the amount outstanding of $23,883,866 for citations written in fiscal year 2004. An amount should be reserved as uncollectible based on the data. It is noted that the policy change made in fiscal year 2005 applied the 69% to the entire accounts receivable balance, the suggestion was that of citations written in a current year 69% will likely be paid based on the statistics presented. The collectibility of citations that are carried from prior periods is substantially less likely. *(Fiscal Year 2004 Report Finding 8)*

Finding Number 3: Recording of Adjustments and Uncollectibles Needs Enhancements (Continued)

Recommendation

The Registry should continue to consult with the Office of the Comptroller to establish a valid receivable and uncollectible methodology, including a process to recognize in each current year that only a percentage (in 2003 it was 69%) of citations written result in revenue to the Commonwealth. The Commonwealth's books and records and financial statements will then more accurately reflect its financial status. The public policy and legal issues associated with holding the violators financially responsible for their actions is different than the financial statement presentation issues. Consideration could be given to the use of an allowance for uncollectible citations to allow the actual citations to remain on the Registry's citation accounting system.

Department Corrective Action Plan

Receivables

The Registry has requested of IT a report displaying the total value of all citations issued by fiscal year, and the total value of citations where hearings have been requested. Information from these reports will be utilized to determine CMVI gross receivables. Payments and an estimated 10% of citations resulting in "not responsible" (NR) court judgments will be factored into the calculation to determine the receivable balance. NewMMARS will be updated regularly.

Uncollectible

Citations older than the current year plus seven prior years will be deemed uncollectible and recorded on NewMMARS as uncollectible. However, these citations will remain on the Registry database as collections on citations dating as far back as 1992 are still being realized, and so that driving records are not affected. The Registry will work with the Office of the State Comptroller towards determining and implementing a final policy to recognize uncollectible citations on NewMMARS.

Responsible Person: Susan Bristol, Assistant Commissioner, and Paul Savoy, Director of Revenue
Implementation Date: June 30, 2006

Office of the State Treasurer/Office of the Comptroller
Findings on Reportable Conditions

Finding Number 4: Office of the State Treasurer's Use and Reconciliation of Float Fund

The Office of the State Treasurer (Treasury) and the Office of the Comptroller (Office) employ the use of a supplemental internal control for cash disbursements, referred to as the Float Fund. The Float Fund is designed to systemically mirror the balance of outstanding checks. If working effectively, the balance in this control account will agree to the balance of outstanding checks used by the Treasury to reconcile cash. Conceptually, the Float Fund would strengthen the overall control over cash and provide the Treasurer with an independent, systemic tracking of the check clearing process as well as provide the Office with assurance that payments it authorized were actually paid.

Prior to fiscal year 2005, the Float Fund had not been operating effectively or been reconciled for several years. The primary reason for this problem was the fact that the Float Fund, as set up in MMARS, was not functioning as conceived. The Float Fund was established as a general ledger account to track the flow of checks issued from the Commonwealth's primary operating accounts. Over the years, however, the activity from several other accounts maintained at remote locations throughout the Commonwealth has been added to the Float Fund. In some cases, the activity that was added is clearing account activity; while in other cases the activity represents advance account or agency fund activity that should be accounted for separately. In almost all cases, there had been no consistency in the manner in which these remote transactions were posted into the Float Fund and there was no formal mechanism for departments to provide the Treasury with the information necessary to reconcile the account. Some of the variances in this account at June 30, 2004 date back more than a decade and the detail needed to support the reconciliations is simply not available. As a result, the Float Fund account was deemed to be virtually irreconcilable at June 30, 2004.

During the year ended June 30, 2005, the Office of the State Treasurer took aggressive steps to address this issue. The first step in that process was to cut over to a new Float Fund (Fund 614) as of July 1, 2004. The idea was to cut off all historical activity in Float Fund account number 613 (Fund 613), tail out checks outstanding at June 30, 2004 over the 13 month window for checks outstanding and to monitor Fund 613 during the year to ensure that the known variance in that account as of June 30, 2004 did not materially change. All current year Float Fund activity was accounted for in Fund 614. Fund 614 was divided into a series of sub-funds that segregate activities within Fund 614 by department. Procedures were implemented to ensure that Treasury controlled activity within Fund 614 was reconciled in a timely manner during the year. Other departments were notified of their obligation to provide a reconciliation of their sub-fund(s) to the Treasurer's Office in a timely manner. At June 30, 2005, a new Float Fund account number 615 (Fund 615), also segregated by sub-fund, was opened to cut over all fiscal year 2006 activity. Once the variance in Fund 613 is stabilized and all current activity clears, the variance in Fund 613 is going to be segregated and Fund 613 zeroed out. Funds 613, 614 and 615 will then be used on a rotating basis to cut off and tail out current activity and to isolate and resolve variances in a more timely manner.

In spite of these efforts, the Float Fund accounts were not reconciled in a timely manner during the year. While these processes implemented support the goals of the Treasurer's office, the complexity of the transactions and volume of activity that flow through these accounts combined with the volume of activity that flows through these accounts that is not under the control of the State Treasurer make it extremely difficult to accomplish the objective of timely reconciling the Float Fund accounts. *(Fiscal Year 2004 Report Finding 9)*

Finding Number 4: Office of the State Treasurer's Use and Reconciliation of Float Fund (Continued)

Recommendation

We believe that management of the Treasury and the Office are taking appropriate actions to address this issue but that additional steps are necessary to make those procedures effective. In addition to the steps already taken, management should also consider a review and assessment of all of the activity that flows through the existing Float Fund. A determination should be made as to whether or not the activity flowing through the account from non-Treasury sources is clearing account activity. All non-Treasury clearing account activity should be removed from the Float Fund accounts and be accounted for in MMARS as advance accounts. Treasury activity flowing through this account should also be examined to determine whether or not such activity qualifies as proper Float Fund activity. To the extent it does not, such activity should also be removed from Float and be accounted for in appropriate separate accounts.

To facilitate accomplishing the objectives outlined above, the State Treasurer and the State Comptroller must develop and jointly issue a statement of accounting policies and procedures to provide uniform guidance to be provided to any department that posts transactions to the Float Fund account. To the extent that such activity is reclassified into advance account, appropriate guidance should be provided as to how such activity should be accounted for including guidance about reconciling such accounts in a timely manner and closing such accounts on an annual basis. In addition, the Treasurer's office should re-examine the reconciliation processes developed in the current year to determine whether or not there are technological solutions that can be implemented to facilitate timely reconciliation of Float Fund accounts. Currently, the processes are fairly complex and labor intensive. As such, business priorities that draw resources from focus on the reconciliation process exacerbate the delays experienced in completing the reconciliation in a timely manner.

Department Corrective Action Plan

In order to address the ongoing issues with the float fund, Treasury in conjunction with the Comptroller's office is examining the feasibility of removing delegated agency controlled accounts from the current funding structure. Treasury and Comptroller staff will be meeting with agencies in December to analyze business and accounting processes. Once a process analysis of each agencies business functions has been completed a determination will be made to either maintain the current business practice, leaving the agency account to be funded through the float fund, or to alter the current business practice by removing the account from the float fund and converting it to either an advance account or to an agency account where appropriate. Conversion of agency accounts could begin as early as January 3, 2006, but will occur before the end of the fiscal year. At this point in time, moving the agency accounts out of the float fund and converting them into advance accounts appears to be the ideal situation, but as the process analysis is completed there may be business cases where this is not an option.

Converting the current agency float accounts into advance account will implement controls, no longer allowing payments by agencies to be funded without the proper accounting transactions taking place. The new system will also place the responsibility of reconciliation on the department, as each advance account will need to be closed out on a yearly basis.

Responsible Person:	Eileen Glovsky, Deputy Treasurer
	Eric Berman, Deputy Comptroller
Implementation Date:	Beginning December 2005 through October 2006

Finding Number 5: Internal Control Plan in Need of Improvement

The fiscal year 2004 single audit disclosed that Bridgewater State College (College) had not updated its internal control plan including, written administrative and accounting policies and procedures for the College's operations. As a result, it is not in compliance with Chapter 647 of the Acts of 1989, an Act Relative to Improving the Internal Controls within State Agencies, and the Internal Control Guidelines issued by the Office of the Comptroller (OSC).

Chapter 647 of the Acts of 1989, states, in part:

> *Internal control systems for the various state agencies of the Commonwealth shall be developed in accordance with internal control guidelines established by the Office of the Comptroller.*

Further, the OSC Memorandum FY 2001-28, dated June 29, 2001, states, in part:

> *A departmental control plan is a high level summarization on a department-wide basis, of the department's risks (as the result of a risk assessment) and of the controls used by the department to mitigate those risks. This high level summary must be supported by lower level detail, i.e. departmental policies and procedures. We would expect this summary to be from ten to fifty pages, depending on the size and complexity of the department . . . A departmental risk assessment is the identification and analysis of the risks that could prevent the department from reaching its goals and objectives. This identification and analysis forms the basis for determining how the risks should be managed. A precondition to risk assessment is the establishment of the organization's mission and goals.*

Our follow-up audit noted that the College updated its internal control plan to include a high level summarization on a department wide basis of the College's risks which included identifying controls that were generally in place within various areas of operation. These areas included the procedures for implementing the five components of internal control (control environment, risk assessment, control activities, information and communication, and monitoring). However, improvements are still needed. Many of the College's lower level detail, i.e. departmental policy and procedure manuals are either outdated, or not established in accordance with the OSC internal control guidelines, current policy memos, and other Commonwealth policies, procedures, and regulations. Also, the College still needs to develop and implement improvements, modifications, and additions to its internal control plan to properly document the College's administrative and accounting internal control system to include (a) references to departmental policies and procedures, (b) details of the staff performing the functions, and (c) documentation of the full cycle of all transactions performed for all departmental operations. Updating the plan is important for the College to quantify the integrity and effectiveness of its internal control system.

Our review of the Fiscal Affairs, Student Financial Aid, and Admissions Departments' policies and procedures that are referenced in the internal control plan disclosed the following:

- The Fiscal Affairs Department did not provide detail, updated, written procedures and controls that document the full cycle of transactions performed for collecting, recording, monitoring and reconciling revenue from students, applications, miscellaneous departments, grants, and student financial aid.
- The Fiscal Affairs Department did not ensure that existing department policies and procedures, including memorandums outlining specific operational procedures, were cross referenced or identified within the internal control plan.
- The Student Financial Aid Department did not provide detail, written, procedures and controls that document the full cycle of transactions performed for recording, monitoring, reporting to other departments and reconciling program records to fiscal records.

Finding Number 5: Internal Control Plan in Need of Improvement (Continued)

- The Admissions Department did not have written policies and procedures manuals including both fiscal and general operations germane to its overall function at the College.

Without documented internal control systems in place, there is inadequate assurance that the College will achieve its mission and objectives efficiently, effectively, and in compliance with applicable state laws and regulations and will properly safeguard its assets against loss, theft or misuse. During our review the College appointed a staff member from the Fiscal Affairs Department to review all operations and update the internal control plan to be in compliance with Chapter 647 and OSC guidelines. *(Fiscal Year 2004 Report Finding 10)*

Recommendation

The College should continue to update its Internal Control Plan in order to be in compliance with Chapter 647 and the guidelines established by OSC. Furthermore, the College should ensure that its internal control system is evaluated, and the necessary changes implemented, at least annually or when conditions warrant changes, and that controls are in place to mitigate identified risks.

Department Corrective Action Plan

The College concurs with this finding. We recognize that any Internal Control Plan is a dynamic document and we will continue to revise and review all internal controls.

The College will move an employee permanently into the role of Internal Auditor. The Internal Auditor will continue to update and revise internal controls, polices and procedures relating to Fiscal Affairs and will assist other departments on campus with documenting of their policies and procedures.

Responsible Person: Darlene Costa-Brown, Associate Vice-President For Fiscal Affairs/Controller
Implementation Date: June 30, 2006

Finding Number 6: Non - Appropriated Fund Activity and Balances not Reconciled in a Timely Manner

During the 2005 fiscal year, the Bridgewater State College (College) had not been entering and reconciling its Non-Appropriated Fund [Fund 901] activity monthly as required by Commonwealth laws and regulations. The College should have posted and reconciled the Massachusetts Management Accounting and Reporting System (MMARS) with its internal records on a monthly basis.

Our review disclosed that prior to the implementation of new MMARS in fiscal year 2005, the College was entering transactions and reconciling its in-house records to MMARS. College officials stated that due to time constraints and conflicting information about how to post and reconcile in the new system, the College did not prepare summaries of its monthly fiscal year 2005 Fund 901 activity to be entered into MMARS. Rather, the College entered into MMARS, various Fund 901 transactions from summaries at various times during the year and did not reconcile the data to MMARS. Final adjusting summary information of its non-appropriated funds transactions was posted to MMARS after June 30, 2005. The late posting occurred because the College had not devised or implemented procedures to ensure monthly postings. Also, the College did not develop an information retrieval process to obtain non-appropriated fund transactions from the Office of the Comptroller (OSC) information warehouse in order to reconcile its records with MMARS. In essence, the College did not effectively prepare for the new MMARS and was not able to provide timely reconciliations between its records and postings to MMARS for the non-appropriated funds, as required.

Chapter 15A, Section 15C requires that public institutions of higher education report monthly by subsidiary all expenditures and revenues from all appropriated and non-appropriated funds on MMARS. Chapter 138, Section 339 of the Acts of 1991 requires public institutions of higher education to report all non-appropriated fund on MMARS by July 1, 1992. Directives from the OSC instructed the colleges to post monthly the cash inflows and outflows for non-appropriated funds and reconcile the information appearing in MMARS to the information in the college's records on a monthly basis.

Chapter 647 of the Acts of 1989, an act relative to improving the internal controls within state agencies, requires that all transactions be promptly recorded, clearly documented and properly classified. Also, periodic comparisons should be made between resources and the accounting records.

By not posting and reconciling non-appropriated fund transactions to MMARS on a monthly basis there is not a complete and accurate accounting of College funds on the Commonwealth accounting system.

Recommendation

The College should update its procedures to ensure postings and reconciliations of Non-appropriated Funds in MMARS. The College needs to address the report reconciliation process to include identifying the data reporting and retrieval process from the OSC

Information Warehouse necessary to prepare reconciliation reports to verify the postings of non-appropriated fund transactions. Also, the College should contact the OSC to determine the appropriate training for staff on how to obtain non-appropriated fund information from the OSC information Warehouse

Finding Number 6: Non-Appropriated Fund Activity and Balances not Reconciled in a Timely Manner (Continued)

Department Corrective Action Plan

The College found it difficult to enter Non-appropriated activity (901) into New MMARS last fiscal year. The College reported these technical problems to the Comptroller's Help desk and guidance was required to enter the 901 activity.

The College did enter information into New MMARS after June 30, 2005. The College's Accounts Payable period did not end until July 31, 2005. During the month of July, the College pays all remaining bills relating to the prior fiscal year. If all information had been entered into New MMARS before June 30, 2005, a portion of the College's prior fiscal year expenditure information would not have been recorded.

On September 13, 2005, the College received from the Comptroller's Office a query on all Non-Appropriated activity for the fiscal year. This query allowed the College for the first time since New MMARS went live to reconcile the 901 activity to the College's general ledger. The College reconciled the 901 activity to the general ledger within a day of receiving this query and entered a few adjustments. Prior to new MMARS, the College used the 110H report generated by MMARS to reconcile monthly.

Staff from the College's Accounting Office will be attending Warehouse training in November 2005 to modify the queries produced by the Comptroller's Office in order to reconcile on a monthly basis.

Responsible Person: Darlene Costa-Brown, Associate Vice-President For Fiscal Affairs/Controller
Implementation Date: June 30, 2006

Finding Number 7: Investigation and Audit of a Reported Possible Theft of Funds

In July 2005, the Bridgewater State College (College) filed a Chapter 647 Report with the Office of the State Auditor (OSA) notifying it that the College had missing and unaccounted for deposits in its General Administrative Operating Checking Account. The OSA's and College's annual year-end financial closing and cash cut-off procedures along with the College's June 2005 reconciliation process disclosed that certain receipts recorded on the College's records were not deposited in the bank. The dollar value of deposit unaccounted for stands at $355,441. The College's initial internal investigation resulted in the dismissal of an employee from the College's business office and a referral to the Office of the Attorney General (OAG). The OSA, in conjunction with the OAG, is conducting an audit/investigation with regard to this matter. The exact amount of a loss of funds is unknown at this time.

Our audit is being conducted in accordance with Chapter 647 of the Acts of 1989, An Act Relative to Improving the Internal Controls within State Agencies. Chapter 647 requires the Office of the State Auditor (OSA) to determine the internal control weaknesses that contribute to or cause an unaccounted-for variance, loss, shortage, or theft of funds or property; make recommendations to correct the condition found; identify the internal control policies and procedures that need modifications; and report the matter to appropriate management and law enforcement officials.

The purpose of the audit is to determine whether the College has (1) adequate internal controls over deposits and transfers of its funds to ensure the validity of revenues and receipts, (2) accounted for all revenue and receipts (3) maintained the principle of segregation of duties within the collection and depositing process and, (4) collected, remitted, and deposited its funds in accordance with applicable laws, rules, and regulations including the Office of the State Controller (OSC) internal control guidelines. In addition the OSA will identify necessary corrective action that should be implemented and make pertinent recommendations to improve the effectiveness and reliability of the College's control environment; identification, analysis, and management of risk; communication of roles and responsibilities in financial reporting; monitoring of internal controls and information systems, where necessary; and determine the amount of the loss. The status of the joint OSA and OAG's audit /investigation is on-going.

Recommendation

To more fully comply with the requirements of Chapter 647 and the Office of the State Comptroller's internal control guidelines, the College should continue to review and evaluate its revenue and receipts policies and procedures and internal controls in this area and make appropriate changes based upon the incident cited and the on going investigation to mitigate the risk of missing and unaccounted for funds. In addition, the College should:

- Continue to promote and emphasize the importance of internal controls through more education and training and increased departmental awareness of control procedures. Managers need to be especially mindful whether internal controls in their departments are adequate for reducing the risk of asset loss and helping to ensure the reliability of financial information and compliance with applicable laws, rules and regulations.

- Ensure that departmental management provides closer attention to and maintain better oversight over all internal controls. Particular emphasis should be given to the segregation of duties. The flow of employee activities should be designed so that the work of one individual is either separate from or serves as a check of another's. If segregating duties is not possible because of limited staff, supervision and monitoring should be increased.

Finding Number 7: Investigation and Audit of a Reported Possible Theft of Funds (Continued)

Department Corrective Action Plan

During the second week of June 2005, staff members in the College's Fiscal Affairs office suspected a potential discrepancy in deposits. An investigation was immediately initiated by College staff. Upon the reconciliation of our June 2005 bank statement and confirmation that deposits were indeed unaccounted for in the month of June, the College immediately reported this issue to both the Office of the Attorney General and the Office of the State Auditor, in compliance with College policy and Commonwealth statute. These agencies then began a joint investigation into the incident.

As a result of this incident, the Bursar's Office immediately changed its procedures relating to the verification of deposits and the College has updated policies and procedures in the Bursar's Office to reflect this change.

Responsible Person: Darlene Costa-Brown, Associate Vice-President For Fiscal Affairs/Controller
Implementation Date: June 30, 2006

Finding Number 8: Internal Control Plan Needs to be Updated

The Massachusetts College of Liberal Arts (College) does not have a complete and updated internal control plan (plan) as required by Chapter 647 of the Acts of 1989 (an act to improve internal controls within state agencies) and the Office of the State Comptroller (OSC) guidelines.

The OSC's Internal Control Guide Vol. 2 states, in part:

> *The Office of the Comptroller defines an internal control plan as, a high level summarization, on a department-wide basis, of the department's risks (as the result of a risk assessment) and of the controls used by the department to mitigate those risks. This high level summary must be supported by lower level detail, i.e. departmental policies and procedures.*

In addition, Chapter 647 and the OSC guidelines state that an internal control plan should identify all operating cycles of the College and discuss the five components of internal control for each cycle. Chapter 647 also requires that departments develop an internal control plan in accordance with the OSC guidelines and update it annually or more often as conditions warrant ensuring the continued integrity of the system.

Our audit disclosed that the College does not have a plan that is a high level summarization on a college-wide basis consisting of the five interrelated components detailed in the OSC's Internal Control Guide for Managers. These five components are control environment, risk assessment, control activities, information and communication, and monitoring. The College's plan only documented the internal control environment and risk assessment for the financial activities of the College. Administrative and programmatic departments of the College, such as, Facilities Operations, Campus Security, Information Technology, Academics Departments, Receiving and Inventory, and Human Resources, were not included or referenced in the College's plan. None of the documents provided evidence that a risk assessment has been made for each area. Additionally, background information, such as the College's mission, goals, objectives and organization were not included in the plan. The plan did include trust fund guidelines and policies, travel policies and procedures, procurement card policies and procedures, and a Bursar's Office emergency continuity plan. The College's plan was last updated in June 2004.

The College does have standard operating procedures, manuals, and policy directives to inform staff of certain control activities, methods of communication and internal monitoring procedures, which are elements of good internal controls.

Responsible College officials informed us that various departments throughout College had internal policies and procedures that included controls for their operations. However, even though the College's internal control officer contacted these departments annually for updates to their policies and procedures, not all departments responded to this request. Responsible officials stated it was difficult to get all the College's management involved in developing a complete updated plan.

Relative to management involvement in internal controls the OSC's Internal Control Guide for Managers, Chapters One and Four, states in part:

> *New studies on internal control have confirmed management's involved support as essential to the proper functioning of internal controls. No system of internal control functions properly without the knowledge and support of management at all levels. The revised Internal Control Guide for Managers stresses the essential role of managers at all levels in developing and monitoring departmental internal controls.*

Finding Number 8: Internal Control Plan Needs to be Updated (Continued)

The internal control plan should be developed by professional and managerial staff and must be formally approved by either the department head, or, through express delegation, by the Internal Control Officer.

Internal controls coordinates a department's policies and procedures to safeguard its assets, check the accuracy and reliability of its data, promote operational efficiency, and encourage adherence to prescribed managerial policies. Department managers must develop, implement, monitor, and update an effective plan of internal controls.

Preparing written internal controls will clearly communicate specific responsibilities to individual staff, facilitate training new staff, and enable you to review and monitor your internal control system. A written document will, for example, tell staff what to do in case of unexpected turnover.

Updating the plan is important for the College to quantify the integrity and effectiveness of its internal control system and to respond to changes in its internal control environment while maintaining the system's effectiveness. The OSC has issued guidelines and provides training to assist state agencies in developing internal control plans and agency wide risk assessments. Without a complete and updated internal control plan in place there is inadequate assurance that the College will achieve its objectives and goals efficiently, effectively, and in compliance with applicable state laws and regulations, and ensure that its assets are properly safeguarded against theft, loss, or misuse. Further, without an adequate internal control plan in place, it is less likely the College will respond appropriately and rapidly to any major changes in events affecting is overall control environment, such as, the implementation of the Commonwealth's new Massachusetts Management Accounting and Reporting System (MMARS) or a major change of key personnel.

Recommendation

The College should update its plan to ensure that it is compliance with Chapter 647 of the Acts of 1989 and the guidelines established by the OSC. The College should review its mission, goals, and objectives; review its control environment; identify and analyze the potential risks to the College; assess these risks; cross reference existing policies and procedures; and summarize the risks in a document(s) that serves to control and mitigate the risks. Also, the College should refer to the OSC's website which contains an internal control section that provides a step-by-step process for developing an internal control plan.

Department Corrective Action Plan

MCLA acknowledges that its internal control plan does not include or rather reference high-level summarizations of risk management for control environment, risk assessment, control activities, information and communication and monitoring. We also acknowledge the statutory guidelines that require the inclusion of these elements in a comprehensive internal control document. We will comply with the auditor's recommendation.

As noted, MCLA has the basics of good internal controls for our fiscal responsibilities. The last review of our fiscal internal controls was in June 2004.

Finding Number 8: Internal Control Plan Needs to be Updated (Continued)

Department Corrective Action Plan (Continued)

In accepting the auditor's recommendation, MCLA will update its internal control plan to insure compliance with Chapter 647 of the Acts of 1989 as well as the guidelines established by the Office of the State Comptroller (OSC). Many of the elements needed in a comprehensive internal controls document have been developed. For example, we have documented on our website the college's policies and procedures, we have a hiring guideline and procedures manual developed in our Human Resources office, a chemical hygiene plan developed between our science departments and our facilities office, an emergency response procedures manual for risks that may present themselves on campus, and college mission and goals statement that were part of our NEASC accreditation visit.

Responsible Person: Dr. James Stakenas, Vice President Administration and Finance
Implementation Date: Begin review and updates immediately (October 2005)

Finding Number 9: Non-Appropriated Fund Activity and Balances not Reconciled in a Timely Manner

During the 2005 fiscal year, the Massachusetts College of Liberal Arts (College) did not enter and reconcile its Non-Appropriated Funds [Fund 901] activity monthly as required by Commonwealth laws and regulations. The College should have posted to the Massachusetts Management Accounting and Reporting System (MMARS) and reconciled MMARS with its internal records on a monthly basis.

Our review disclosed that prior to the implementation of new MMARS in fiscal year 2005, the College entered transactions and reconciled its in-house records to MMARS. The College stated that due to time constraints and conflicting information about how to post and reconcile in the new system, the College did not prepare summaries of its monthly fiscal year 2005 Fund 901 activity to be entered into MMARS. Rather, at the fiscal year end, the College entered a summary of non-appropriated fund transactions into MMARS to reflect and reconcile the MMARS balances with the College's June 30, 2005 balances. Summary information of transactions posted into MMARS by the College at year-end was done because the College had not devised or implemented a retrieval process to obtain non-appropriated fund transactions from the Office of the Comptroller (OSC) information warehouse in order to reconcile its records with MMARS. The College did not effectively prepare for the new MMARS system and was not able to provide monthly postings and timely reconciliations of the non-appropriated fund as required.

Chapter 15A, Section 15C requires that public institutions of higher education report monthly by subsidiary all expenditures and revenues from all appropriated and non-appropriated funds on MMARS. Chapter 138, Section 339 of the Acts of 1991 requires public institutions of higher education to report all non-appropriated fund on MMARS by July 1, 1992. Directives from the OSC instructed the colleges to post monthly the cash inflows and outflows for non-appropriated funds and reconcile the information appearing in MMARS to the information in the college's records on a monthly basis.

Chapter 647 of the Acts of 1989, an act relative to improving the internal controls within state agencies, requires that all transactions be promptly recorded, clearly documented and properly classified. Also, periodic comparisons should be made between resources and the accounting records.

By not posting and reconciling non-appropriated fund transactions to MMARS on a monthly basis there is not a complete and accurate accounting of College funds on the Commonwealth's accounting system.

Recommendation

The College should update its procedures, postings and reconciliations of non-appropriated funds in MMARS. The College needs to address the report reconciliation process to include identifying the data reporting and retrieval process from the OSC information warehouse necessary to prepare reconciliation reports to verify the postings of non-appropriated fund transactions. Also, the College should contact the OSC to determine the appropriate training for staff on how to obtain non-appropriated fund information from the OSC information warehouse.

Finding Number 9: Non-Appropriated Fund Activity and Balances not Reconciled in a Timely Manner (Continued)

Department Corrective Action Plan

The College understands that its reconciliation of non-appropriated funds (Fund 901) activity was placed in the Massachusetts Management Accounting and Reporting Systems (MARS) and reconciled at the year end as opposed to the monthly basis required in Chapter 15A, Section 15C.

In its recommendation to the college the auditor asks the college to update its procedures postings and reconciliations of non-appropriated funds in MMARS and that we work with the Office of the State Comptroller to determine the appropriate training for staff to reconcile this account on a regular basis.

The College will comply with this requirement. We respectfully submit that the College has received unqualified audits from our private auditor over the last six years and it is this information that is rolled up into the single audit for the Commonwealth.

Responsible Person: Mr. Jerry Desmarais, Treasurer
Implementation Date: Begin immediately (October, 2005)

Finding Number 10: Internal Control Plan Needs Improvement

The Middlesex Community College (College) does not have a complete and updated internal control plan as required by Chapter 647 of the Acts of 1989 (an act to improve internal controls within state agencies) and the Office of the State Comptroller (OSC) guidelines. Chapter 647 requires that departments should develop an internal control plan in accordance with OSC guidelines and update it annually or more often as conditions warrant.

A review of the College's Internal Control Plan (ICP), noted that the plan did not include three interrelated components detailed in the OSC's Internal Control Guide for Managers; the ICP contained outdated information and references, and did not include sections on all operating cycles (i.e. Student Financial Aid).

The OSC's Internal Control Guide Vol. 2 states, in part:

> *The Office of the Comptroller defines an internal control plan as, a high level summarization, on a department-wide basis, of the department's risks (as the result of a risk assessment) and of the controls used by the department to mitigate those risks. This high level summary must be supported by lower level detail, i.e., departmental policies and procedures.*

For the ICP to be considered a 'high level summarization', five interrelated components must be present. These five components are control environment, risk assessments, control activities, information and communication, and monitoring. The College's ICP only documented the control environment and activities. Although the College does have various standard operating policies and procedures, the ICP did not address risk assessment, information and communication, and monitoring. Additionally, other areas such as the College's mission, goals and objectives were not included in the plan.

A risk assessment is an entity's identification and analysis of risks relevant to achievement of its goals and objectives and forming a basis for determining how the risks should be managed. Information and communication are the identification, capture, and exchange of information in a form and time frame that enable people to carry out their responsibilities. Monitoring is a process that assesses the quality of the internal control performances overtime.

An ICP must be evaluated and updated, to respond to changes in an entity's internal control system while maintaining the system's effectiveness. The College's ICP was originally prepared in 1991 and was last revised in 1996. As a result it contained outdated information and references. For example, there was no reference to the new MMARS which was implemented in July 2004, there was reference to the CAPS payroll system rather than the current HR-CMS payroll system which was implemented in February 2000 and there were references to the old MMARS expenditure designations, such as '03 Consultants', rather than the updated MMARS terminology. Additionally, there was no mention or reference to Chapter 647 Acts of 1989. Chapter 647 states that an agency's internal control officer:

> *shall annually or more often as conditions warrant, evaluate the effectiveness of agency's internal control system and establish and implement changes necessary to ensure the continued integrity of the system.*

Additionally, an ICP should include all components of an entity's operating cycle. The ICP for the College did not include a section on the administration and monitoring of Student Financial Aid, certainly one of the College's major operations. Chapter 647 requires that internal control systems be clearly documented and readily available for examination including all operating cycles.

Finding Number 10: Internal Control Plan Needs Improvement (Continued)

Relative to management's involvement in internal controls the OSC's Internal Control Guide for Managers, Chapter One and Four, states in part:

> *New studies on internal control have conformed management's involved support as essential to the proper functioning of internal controls. No system of internal control functions properly without the knowledge and support of management at all levels. The revised Internal Control Guide for Managers stresses the essential role of managers at all levels in developing and monitoring departmental internal controls.*
>
> *This internal control plan should be developed by professional and managerial staff and must be formally approved by either the department head, or through express delegation, by the Internal Control Officer.*
>
> *Internal controls coordinates a department's policies and procedure to safeguard its assets, check the accuracy and reliability of its data, promote operational efficiency, and encourage adherence to prescribed managerial policies. Department managers must develop, implement, monitor, and update an effective plan of internal controls.*
>
> *Preparing written internal controls will clearly communicate specific responsibilities to individual staff, facilitate training new staff, and enable you to review and monitor your internal control system. A written document will, for example, tell staff what to do in case of unexpected turnover.*

College officials stated that they were in the process of updating its ICP in 2005 and a risk assessment plan was in draft form. Prior to the completion of our fieldwork, the College presented us with a working draft of a risk assessment document and a revised ICP. Since these documents had not been approved and accepted by appropriate College personnel we did not evaluate them for conformity with Chapter 647 and guidelines issued by the Office of the State Comptroller.

Recommendation

The College should update its ICP by completing and adding a high-level summarization of its internal control activities, including risk assessment, with sufficient reference to its detailed policies and procedures. The College should continue to update its plan to ensure that it is in compliance with Chapter 647 and the guidelines as established by the OSC. This update should include the following:

- Reference and discussion of the five components of internal control as it pertains to their internal control framework.
- Reference to Chapter 647
- Mission statement of the College
- Risk Assessment with policy and procedures for mitigating risk
- Current referrals to updated MMARS
- Section on Student Financial Aid

Department Corrective Action Plan

The College, as noted in this report, is in the process of updating its internal control plan, and risk assessment policy. In continuing this effort the College will adhere to the guidelines of the Office of the State Comptroller.

Responsible Person: Richard Dery, Director of Financial Services
Implementation Date: Fiscal 2006

Finding Number 11: Non-Appropriated Fund Activity and Balances not Reconciled in a Timely Manner

Prior audit reports starting in fiscal year 1995 have disclosed that Roxbury Community College (College) had not been entering and reconciling its Non-Appropriated Fund [Fund 901] activity monthly as required by Commonwealth laws and regulations. To comply, the College should have posted and reconciled the Massachusetts Management Accounting and Reporting System (MMARS) with its internal records on a monthly basis.

The fiscal year 2004 single audit disclosed that the College continued to improve on its reporting and reconciliation of non-appropriated funds. Our follow-up audit disclosed that the College has continued to make improvements during fiscal year 2005 (starting in December 2004) by posting monthly summary information on its non-appropriated fund activity from its Jenzabar operating system into MMARS. However, due to fiscal year 2005 implementation of new MMARS, the College was unable to reconcile its monthly postings to MMARS until June 2005. The reconciliations prepared in June were an extensive compilation of data extracted from MMARS that verified all prior data. The Director of Finance had to verify every individual posting to MMARS made during the fiscal year in order to complete a reconciliation of the College's Jenzabar financial operating system information to MMARS. Summary information of transactions posted into MMARS was not being reconciled because the College had not devised or implemented an appropriate information retrieval process to obtain the appropriate information from the OSC Information Warehouse in order to reconcile the Jenzabar system to MMARS. The College did not effectively prepare for the changes made in MMARS and was not able to provide timely reconciliations of the non-appropriated funds as required to verify the accuracy of its postings in MMARS during the fiscal year.

Chapter 15A, Section 15C requires that public institutions of higher education shall report monthly by subsidiary all expenditures and revenues from all appropriated and non-appropriated funds on MMARS. Chapter 138, Section 339 of the Acts of 1991 requires public institutions of higher education to report all non-appropriated fund on MMARS by July 1, 1992. Directives from the Office of the Comptroller (OSC) instructed the colleges to post monthly the cash inflows and outflows for non-appropriated funds and reconcile the information appearing in MMARS to the information in the College's records on a monthly basis.

Chapter 647 of the Acts of 1989, an act relative to improving the internal controls within state agencies, requires that all transactions be promptly recorded, clearly documented and properly classified. Also, periodic comparisons should be made between resources and the accounting records.

By not posting and reconciling non-appropriated fund transactions to MMARS on a monthly basis there is not a complete and accurate accounting of College funds on the Commonwealth accounting system. *(Fiscal Year 1995; 2004 Report Finding 11)*

Recommendation

The College should improve its monthly reconciliation of non-appropriated funds from its Jenzabar system to the MMARS. The College needs to address the report reconciliation process to include identifying the data reporting and retrieval process from the OSC Information Warehouse necessary to prepare reconciliation reports to verify the postings of non-appropriated fund transactions. Also, the College should contact the OSC to determine the appropriate training for staff on how to obtain non-appropriated fund information from the OSC Information Warehouse.

Finding Number 11: Non-Appropriated Fund Activity and Balances not Reconciled in a Timely Manner (Continued)

Department Corrective Action Plan

While much progress was made in reconciling our trust fund activity to MMARS, it is agreed that we need to find a more efficient and effective way of completing the task. Our Comptroller recently surveyed the other community colleges on how they complete this task. These results from late September will be shared with staff next week. In addition, our staff is completing the annual reconciliation of the trust fund activity to MMARS for the Comptroller's Office. This exercise has exposed staff to a query used by the Comptroller's Office that would be helpful to the College. In short, our immediate goal is to review the different methods that our sister institutions are using for reconciliation. In addition, we will explore the methodology used by the Comptroller's Office to provide our year to date information through FY 2005. Beyond the process review and the adoption of a new process, staff plans to review the query workshops offered by the OSC Information Warehouse and register for appropriate courses.

Responsible Person: Craig Zaehring, Director of Finance & Budget Operations
Implementation Date: November 30, 2005

Finding Number 12: Improvements Needed in the Reconciliation of College Records to the Commonwealth's Accounts Receivable System

The fiscal year 2004 single audit disclosed that the Springfield Technical Community College (College) needed to improve its accounts receivable monthly postings and monthly reconciliations between the College's records and the Commonwealth's Massachusetts Management Accounting and Reporting System (MMARS). In addition, the College had been writing off accounts receivables without getting the required approval from the Office of the State Comptroller (OSC) and without using the appropriate MMARS Write Off (WO) transaction. The College used a Receivable Decrease (RD) transaction for the write offs.

Our follow-up review disclosed that the College notified the OSC in May 2005 that it was having difficulty in implementing its corrective action plan to correct the cited issue. The College explained to the OSC that:

The College has not been able to comply with the Billing and Accounts Receivable System monthly posting requirement due to workload issues resulting from the unexpected loss of two key staff individuals in the Accounting Department in December 2004. However several adjustments to RE documents were made during the fiscal year that reflects the Student Account Billing, Payment and Receivable activity for the year. The College is in the process of making some changes to the Accounting Department workload and a new individual will be trained to maintain the monthly BARS reporting and compliance starting in July 2005.

During fiscal year 2005 the College did submit and receive approval from the OSC to write off $133,349 of accounts receivables during fiscal year 2005. However, the College posted summary information into MMARS only three times during the fiscal year and did not prepare any monthly reconciliation of MMARS to its internal accounting records. We did note that when the College's Controller posted the June 30, 2005 final summary balance of accounts receivable to MMARS, the Controller was able to reconcile the College's accounting records to MMARS.

The College is required to comply with MMARS, a statewide, centralized subsystem utilized for billing and collections. Full accounting, recording, and reporting of earned revenue/accounts receivable due to the Commonwealth is accomplished by utilizing MMARS. OSC Policy on Accounts Receivable states in part:

MMARS is the official record of the Commonwealth for receivable and customer information. Departments must take special care to ensure that the information that is entered into MMARS for any receivable is accurate and complete…All earned revenue/accounts receivable activity must be recorded in MMARS using Receivable Event (RE) transactions. Earned Revenue/Accounts Receivable is defined as the full, measurable value of the services or goods provided by a department.

The transaction must be completed and legally enforceable to the extent that payment is the only unconsummated act. Revenue is earned at the time when goods or services are delivered or performed and billable.

A Department must recognize a debtor's obligation to pay when the goods are delivered or services performed, or when the Commonwealth's claim for future cash is reasonably estimable and/or law or statute authorizes the pursuit of collection. All such revenue will be recorded as earned revenue/accounts receivable if payment is not submitted either prior to the revenue event or simultaneously with the delivery of the goods or completion of the service.

Finding Number 12: Improvements Needed in the Reconciliation of College Records to the Commonwealth's Accounts Receivable System (Continued)

For example, when an assessment is issued and the department has a reasonable basis for issuing the assessment, it should be reported as an earned revenue/accounts receivable transaction. Departments are required to report all earned revenue/accounts receivable activity either in detail or summary fashion in MMARS.

Regarding summary reporting, OSC policy also states:

Departments that have approved delegated billing and accounts receivable systems are required to utilize MMARS to maintain one summary receivable that accurately represents the net value of the earned revenue/accounts receivable by revenue source code, across fiscal years. Departments are required to maintain their approved delegated accounts receivable systems at a sufficient level of detail to verify the accuracy of summary reporting. By the close of each accounting period each department is required to adjust the summary receivable amount. Adjustments that are supported in MMARS are:

- Cash collections, which reduce the summary receivable, using a Cash Receipt (CR) transaction;
- Increases in the receivable amount for new services, claims, etc., for the month or to record errors resulting in increases, which are accomplished by creating a new version of the existing RE transaction;
- Decreases in the receivable amount to record errors resulting in decreases or other downward adjustments, which are accomplished by creating a new version of the existing RE transaction;
- Uncollectible amounts approved by the Office of the Comptroller (CTR) for write off, using a WO transaction. *(Fiscal Year 2004 Report Finding 13)*

Recommendation

The College should review its internal controls to ensure that accurate monthly postings of accounts receivable is made to MMARS and reconciled monthly to the College's accounting system. College administrators should improve its oversight and monitoring to ensure compliance with the requirements of the State Comptroller in recording and reporting its accounts receivable onto MMARS.

Department Corrective Action Plan

Monthly reporting has been difficult due to staffing and workload issues but we will make every effort to establish and maintain monthly reporting on BARS in fiscal 2006.

Responsible person: Catherine Olson, Director of Accounting
Implementation date: October 14, 2005

Finding Number 13: Noncompliance with Chapter 647 of the Acts of 1989 Reporting Requirements

The fiscal year 2004 single audit disclosed that the Worcester State College (College) did not report four thefts of property and the unauthorized reproduction and cashing of College checks to the Office of the State Auditor (OSA) as required by Chapter 647 of the Acts of 1989.

In accordance with Chapter 647 of the Acts of 1989, an Act Relative to Improving the Internal Controls within State Agencies, agencies are required to immediately report unaccounted for variances, losses, shortages, or thefts of funds or property to the OSA. Chapter 647 also requires the OSA to determine the internal control weaknesses that contribute to or cause an unaccounted for variance, loss, shortage, or theft of funds or property; make recommendations to correct the condition found; identify the internal control policies and procedures that need modification; and report the matter to appropriate management and law enforcement officials.

Our follow-up review disclosed that the College did report Chapter 647 incidents to the OSA, however, these reports were not submitted immediately as required by the law. The reports were submitted four to five months late as follows:

Date of Incident	Date OSA Notified	Item/Description	Value
1/20/2005	6/21/2005	Phone	$350.00
1/28/2005	6/30/2005	Cash & Checks (Stolen from Bursars Office)	$1,922.00
2/1/2005	6/21/2005	2 Data Projectors	$7,000.00
2/3/2005	6/21/2005	Strobe Light	$89.00

The cash and checks stolen from the Bursars Office were the result of inadequate internal controls. The doors to the Bursars Office were left unlocked during regular business hours and at the end of the day any cash that was not deposited in the bank was left in a safe in another administrative office. Since the incident the College has installed 1) a Personal Identification Number (PIN) access system on the doors, 2) a teller window with bulletproof glass, 3) new cubicles to ensure privacy at employees desk from the service window and 4) a safe to hold receipts during hours of operation.

The two data projectors were taken from an unlocked classroom in the Science Building. The incident occurred sometime after the last class ended and were reported missing the next morning. College officials indicated that it was their policy to leave the projectors in an unlocked classroom so that faculty and students would have easy access to the classroom and projectors during the day.

The secretary of the Psychology Department reported the phone missing when she reported to work one morning. The strobe light was taken from an unlocked closet in the maintenance garage over a weekend.

Chapter 647 of the Acts of 1989 requires that access to resources be limited to authorized individuals and that the restrictions on access to resources depend on the vulnerability of the resources and the perceived risks. The agency head is responsible for maintaining accountability for the custody and use of resources and shall assign qualified individuals for that purpose.

Finding Number 13: Noncompliance with Chapter 647 of the Acts of 1989 Reporting Requirements (Continued)

Interviews conducted with College staff indicated that although the College's Internal Control Plan requires reporting such incidents, the plan is not being adequately implemented and executed by responsible College officials. Officials stated that vacancies within the division of fiscal affairs and other conflicting College priorities have precluded the immediate reporting of incidents of unaccounted for variances, losses, shortages or thefts of funds or property as required under Chapter 647. These officials also stated they are in the process of filling a vacancy in the Administrative Assistant position whose responsibilities include submitting the Chapter 647 reports in a timely manner. They also explained that staff meetings are held for all employee levels to inform them of their responsibility to safeguard assets in their possession.

Also, the College is still in the process of implementing a campus wide "one-card" initiative. The card system provides security access control as well as e-commerce capabilities. The first phase has been implemented in the resident halls and includes a security card access system and surveillance equipment. In fiscal year 2006 card access will be implemented in the lower campus and additional surveillance will be installed as well as more key access pads for entry to designated areas. *(Fiscal Year 2004 Report Finding 14)*

Recommendation

The College should continue with its security enhancement initiative. Also, the College needs to comply with Chapter 647 by immediately reporting all instances of unaccounted for variances, losses, shortages, or thefts of funds or property to the OSA. In addition, the College should again review its policies and procedures with regard to compliance with the law.

Department Corrective Action Plan

The College has reviewed its policy over reporting unaccounted variances, losses, shortages or thefts of funds or property to OSA. The policy has been re-visited in staff meetings and posted on college wide communication list serves. The administrative assistant vacancy has been filled and the employee has been informed of the importance of timely reporting to OSA. We are continuing with implementation of security access systems on campus as part of our OneCard initiative.

Responsible Person: Kathleen Eichelroth, Vice President for Fiscal Affairs
Implementation Date: July 1, 2005

Various Departments
Findings not Repeated from Prior Years

1. The Massachusetts Commission Against Discrimination Commission did not record a fixed asset onto the Massachusetts Management Accounting and Reporting System (MMARS), the Commonwealth's central accounting system, in a timely manner. The fiscal year 2005 audit did not disclose any similar instances of fixed assets not being recorded in a timely manner. (*Fiscal Year 2004 Report Finding 1*)

2. The Division of Capital Asset Management (Division) did not record a fixed asset into the Massachusetts Management Accounting and Reporting System (MMARS), the Commonwealth's central accounting system, within the required seven days. The fiscal year 2005 audit did not disclose any similar instances of fixed assets not being recorded in a timely manner. (*Fiscal Year 2004 Report Finding 2*)

3. The Soldiers' Home in Holyoke (Home) was not adequately posting monthly transactions and performing monthly reconciliations between the Home's records and the Massachusetts Management Accounting and Reporting System (MMARS) for its Medicare Accounts Receivables. The Home posted monthly transactions and performed monthly reconciliations to MMARS during fiscal year 2005. (*Fiscal Year 2004 Report Finding 5*)

4. The Office of Child Care Services (Office) is not in compliance with the Office of the Comptroller's (OSC) requirements regarding travel reimbursements. Specifically, the Office's internal controls do not address the timely submission of travel reimbursement requests and do not include review for excessive spending. The Office's internal controls were clarified and updated to include a requirement to submit travel vouchers within 30 days after completion of travel. (*Fiscal Year 2004 Report Finding 6*)

5. The Office of Child Care Services (Office) is not in compliance with the Office of the Comptroller's (OSC) requirements for the accounting, reconciling, reporting and recording of fixed assets; Operational Services Division (OSD) requirements for the transfer and receipt of surplus property; or their own internal policies and procedures regarding inventory, fixed assets and surplus property. Our review noted that the Office neither performed an inventory nor tagged all fixed assets in their possession. The assets involved were purchased by another state agency and the Office came into possession of these assets due its relocation. The Office has established controls over transferred or loaned property and has developed a secondary management review process to guard against similar future issues. (*Fiscal Year 2004 Report Finding 7)*

6. In accordance with Chapter 647 of the Acts of 1989, an Act Relative to Improving Internal Controls within State Agencies, Roxbury Community College (College) notified the Office of the State Auditor (OSA) that outstanding bills totaling $168,498 at the Reggie Lewis Center (RLC) has not been paid over a three-year period. Of the $169,498 in outstanding bills, $92,054 were from fiscal years 2002 and 2003. The College did not written internal controls guidelines or detailed policies and procedures within its College-wide policies and procedures manual that address the financial responsibilities of the RLC for submitting bills to the business office. The College amended its internal controls to require that all RLC bills be submitted to the College Business Office. (*Fiscal Year 2004 Report Finding 12)*

SECTION V

Findings on Compliance and Reportable Conditions Pertaining to Internal Control Structure Used in Administering Federal Programs

USS Constitution
Photograph by Steve Dunwell

Bunker Hill Monument

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Finding Number 14: Excess Indirect Costs Charged not Adjusted in a Timely Manner

The Office of the Comptroller did not credit $2,469,734 in fiscal year 2005 overcharges to federal programs on a timely basis.

The Office of the Comptroller (Department) is responsible for providing instruction to program MMARS to assess all applicable appropriation accounts for fringe and indirect costs using the approved rates and bases developed and negotiated in accordance with OMB Circular A-87, Cost Principles for State, Local and Indian Tribal Governments. The Department is also responsible for performing a reconciliation to ensure fringe and indirect charges in the schedule of expenditures of federal awards are allowable. If any overcharges are noted, the Department is accountable for posting adjustments to eliminate those overcharges. While there were no over recoveries for fringe benefits that needed adjustment for fiscal year 2005, there were over recoveries for indirect costs. The over recoveries were not adjusted on a timely basis. Management believes the federal overcharges will be deducted in fiscal year 2006.

During fiscal year 2005, the Office of the Comptroller charged indirect costs to federal accounts for the Executive Office of Human Services and the Department of Elder Affairs on a provisional basis using either the last approved indirect cost rate or actual amounts from the 2004 departmental cost allocation plan as both agencies were developing new departmental cost plans. The Office planned to reverse the provisional amounts billed since the plans were not approved by the end of the fiscal year. For the Executive Office of Human Services, this resulted in over recoveries of $22,313 for CFDA # 93.623, Basic Center Grant, $1,785,462 for CFDA # 93.778, Medical Assistance Program, and $24,645 for CFDA # 93.779, Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations, which were not adjusted on a timely basis. For the Department of Elder

Affairs, two programs, CFDA # 93.044, Special Programs for the Aging, Title III, Part B. Grants for Supportive Services and Senior Centers, and CFDA # 17.235, Senior Community Service Employment Program had over recoveries of $253,353 and $22,996, respectively, which were not adjusted.

The state Department of Education has three approved indirect cost rates which vary depending on the federal award. During the process of programming rates for fiscal year 2005 in the automatic indirect cost chargeback system, the Office assigned some accounts an incorrect rate. The error was not identified and adjusted in a timely manner resulting in over recoveries of $10,326 for CFDA# 84.298, State Grants for Innovative Programs; $15,120 for CFDA# 84.336, Teacher Quality Enhancement Grants; and $36,161 for CFDA# 84.369, Grants for State Assessments and Related Activities. In another instance, one Department of Education account exempt from indirect cost, was charged $49,820. This resulted in an over recovery for three different programs, CFDA# 84.002, Adult Education State Grant Program, CFDA# 84.367, Improving Teacher Quality State Grants and CFDA# 84.369, Grants for State Assessments and Related Activities. The specific amount for each program could not readily be determined.

The Division of Unemployment Assistance under the Department of Labor and Workforce Development reallocated some charges from federal to non-federal programs at the end of the year. In addition, the indirect cost rate, which was approved mid year was lower than the prior year rate used to provisionally bill federal programs in fiscal year 2005. This resulted in over recoveries of $40,040 in indirect costs for CFDA # 17.225, Unemployment Insurance, $127,054 for CFDA# 17.258, Work Investment Act (WIA) Adult Program, and $31,733 for CFDA# 17.801, Disabled Veterans Outreach Program, which could not be adjusted on a timely basis.

The Office determined for several departments that provide services on behalf of CFDA# 93.563, Child Support Enforcement, which are all accounted for in fund 142, that indirect costs should only be charged at one third of the department's approved indirect cost rate. The adjustment to reduce the share to one-third was not made on a timely basis resulting in a $37,621 over recovery for that program.

Finding Number 14: Excess Indirect Costs Charged not Adjusted in a Timely Manner (Continued)

Contract payments in excess of $100,000 for the Executive Office of Public Safety are required to be removed from the direct cost base in computing indirect charges. The calculation to identify the excess was not made on a timely basis, which resulted in an over recovery of $13,090 for the State Domestic Preparedness Equipment Support Program CFDA# 97.004.

The issues for fiscal year 2004 related to posting adjustments for an $82,606 overcharge for the Improving Teacher Quality-State Grants Program, CFDA# 84.367 and the transfer of $129,103 in indirect costs from CFDA#93.053, the Title III Nutrition Services Incentive Program to CFDA# 93.044, Special Programs for the Aging Title III, Part B, Grants for Supportive Services and Senior Centers, were resolved during the fiscal year.

The Office implemented a new accounting system during the fiscal year 2005. Due to the level of detail required under the new system, the reconciliation and posting of adjustments to eliminate any fringe and indirect overcharges did not occur until after then end of the fiscal year. As a result, there is a total of $2,469,734 ($22,313, $1,785,462, $24,645, $253,353, $22,996, $10,326, $15,120 $36,161, $49,820, $40,040, $127,054, $31,733, $37,621, and $13,090) in over recovered indirect costs for fiscal year 2005 for these programs. (*Department of Labor - Unemployment Insurance 17.225, Senior Community Service Employment Program 17.235, Work Investment Act (WIA) Adult Program 17.258, Disabled Veterans Outreach Program17.801; Department of Education - Adult Education State Grant Program 84.002, State Grants for Innovative Programs 84.298, Teacher Quality Enhancement Grants 84.336; Improving Teacher Quality State Grants 84.367, Grants for State Assessments and Related Activities 84.369; Department of Health and Human Services - Special Programs for the Aging, Title III, Part B, Grants for Supportive Services and Senior Centers 93.044, Title III Nutrition Services Incentive Program 93.053, Child Support Enforcement 93.563, Basic Center Grant 93.623, Medical Assistance Program 93.778, Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations 93.779; Department of Homeland Security-State Domestic Preparedness Equipment Support Program 97.004)*

Recommendation

With the implementation of the new accounting and reporting system, the Office of the Comptroller should focus its efforts on performing the year-end reconciliation and post any adjustments on a timely basis to ensure amounts in the schedule of expenditures of federal awards and revenue in the financial statements are properly stated.

Department Corrective Action Plan

A final reconciliation of FY2005 fringe benefit and indirect cost recoveries to approved costs based on rate agreements in effect for FY2005 resulted in all reconciling credits and debits being posted in NewMMARS in BFY2005/AFY2005.

For FY2006, the reconciliation of fringe and indirect recoveries will be performed periodically throughout the fiscal year. The final reconciliation will be completed, and any adjustments posted to accounts, prior to the Single State Audit review.

Responsible Person:	Marybeth Shaughnessy-Newell, Director of Accounting Fred DeMinico, Unit Manager of Accounting
Implementation Date:	June 30, 2006

Finding Number 15: Errors noted in the Statewide Cost Allocation Plan

The Office of the Comptroller (Office) included additional costs and excluded other costs in computing the 2005 Statewide Cost Allocation Plan. These costs affected indirect cost rates and departmental cost allocation plans.

The Office is responsible for preparing the Statewide Cost Allocation Plan (Plan). The Plan identifies certain departments known as Central Services Agencies (CSA), which provide administrative services on behalf of other departments. The allowable costs of those CSAs are computed and allocated on a variety of equitable bases to user departments through the Plan. The U.S. Department of Health and Human Services, Division of Cost Allocation (DCA) negotiates and approves the Plan for use. The total of the applicable approved CSA allocations is incorporated in a department's indirect cost rate proposal or cost allocation plan, which are then used to charge federal programs for administrative costs.

Costs as shown in MMARS and allocable to the CSAs in accordance with OMB Circular A-87, Cost Principles for State, Local and Indian Tribal Governments were used to prepare the 2005 Plan based on 2003 actual costs. During the audit of the 2005 Plan, the following items were noted:

- For the Division of Capital Planning and Operations Costs fringe benefits of $1,399,514 were duplicated of which $196,853 were approved for allocation and salaries were also overstated by $1,377. In addition, health and welfare costs for the Human Resources Division were overstated by $4,667. This resulted in an overstatement of $202,897.

- The approved 2003 square footage rate was not used in the calculation of occupancy costs for the State House, McCormack, and Lindemann buildings. Also, the building use charge for the Lindemann Building was overstated by $669,471. As a result, the there was a net overstatement of $10,184 in occupancy costs for all central service agencies.

- Depreciation for information technology relating to the Operational Services Division was not deducted thereby understating the costs by $882,223.

- Reimbursements for two different CSAs (the Attorney General's Office and Human Resources Department) were deducted before computing the first allocation of costs to departmental functions. Since the first allocation was used as a basis for allocating the costs from other CSAs, this had the effect of distorting the allocations towards functions which did not have any reimbursements.

The exact impact on federal programs for these total overstatements can only be determined when the CSAs are adjusted and the revised allocations are used to recompute department indirect cost rates or cost allocation plans.

The Office of the Attorney General is not only a CSA in the Plan for some of its functions but it also administers federal awards. The Office of the Comptroller assists the Office of the Attorney General in preparing an indirect cost rate (Rate) to charge federal awards. During a comparison of the amounts used in the 2005 Plan with the Office of the Attorney General's indirect cost rate, it was noted that $16,727 was included both in the Plan and also in the Rate. The amount should only have been included in the Plan.

Finding Number 15: Errors noted in the Statewide Cost Allocation Plan (Continued)

The following issues relating to the 2003 and 2004 Plans remain unresolved:

- A rate of $9 instead of the approved rate of $8 was used to compute the costs for health and welfare benefits paid on behalf of employees for all CSAs except the Office of the State Treasurer resulting in an overstatement of $27,484 in the 2003 Plan. Adjustments were made in the 2005 Plan for all CSAs except $5,866 for the Human Resources Division. In addition, the $1,000 overstatement of health and welfare costs applicable to the Division of Capital Planning and Operations in the 2004 Plan has not been adjusted As a result, $6,866 remains unresolved.

- Some costs were distributed between allowable and unallowable functions within CSAs using an apportionment formula rather than specific identification of costs for those activities. In the 2004 Plan, the use of an apportionment formula resulted in a $10,766 overstatement of costs for an unallowable function in the Office of the State Treasurer and Receiver General. This effected the subsequent allocations between allowable and unallowable functions.

Other issues relating to the 2003 and 2004 Plans were resolved:

- The direct-billed single audit costs of $517,000 from the 2004 and $525,000 from the 2003 Plans were deducted from allocated costs of the Office of the Comptroller.

- The 2003 Plan's duplicate costs of $529,937 for information technology relating to processing the payroll was adjusted in the fiscal year 2005 Plan.

- The formula for adding payroll cost for the Office of the Comptroller in the 2003 Plan included a figure twice resulting in $9,711 of additional costs being claimed. The additional costs claimed of $9,711 were adjusted in the fiscal year 2005 Plan.

- Medicare costs of $30,020 relating to the central service administrative pool for the Executive Office for Administration and Finance included in the 2003 Plan was adjusted in the fiscal year 2005 Plan.

- The Office has decided not to offset understatements of total costs. As a result, $40,000, $6,563, and $3,437 relating to the 2003 Plan, $84,474 in costs applicable to the Attorney General's Office and $88,837 omitted from cross allocations between CSAs in 2004 Plan will not be adjusted.

- All reimbursements, such as federal reimbursements for the Medicaid Fraud Control Unit in the Attorney General's Office (Office) could be verified.

(Unknown Federal Programs)

Recommendation

The Office of the Comptroller should continue to carefully review all Statewide Cost Allocation Plans to ensure costs are complete, accurate, and based on approved agreements for the proper fiscal period prior to submission. The Office should also determine whether the overstatement in the Bureau of State Building rates, impact any indirect cost rates or plans. Finally, the methodology used to prepare the Attorney General's indirect cost rate should be revised to exclude costs allocated in the Statewide Cost Allocation Plan.

Finding Number 15: Errors noted in the Statewide Cost Allocation Plan (Continued)

Department Corrective Action Plan

Of the total disallowed costs identified in this finding, a significant portion of these costs was allocated to functions that are not further allocated to departments. For example, of the $1,399,514 in duplicated fringe benefit cost attributable to DCP administrative salaries, 49% or $685,762 was allocated to departments under the Federally approved schedule of allocated costs. The balance of these disallowed costs were allocated to DCP's unallocable functions and were not made part this schedule.

Similarly, the effect of overstating $16,727 in administrative costs under the AGO FY2005 indirect cost rate, was negated due to the fact that the rate, though approved through July, 2004, was not implemented until November, 2004 (Period 05, FY2005). Indirect recoveries up to that time were assessed at the last approved FY2004 rate which was lower than the approved FY2005 rate. Annual FY2005 recoveries at these different rates were less than the annual recovery from a revised rate that excludes the overstated costs.

The finding requires a more thorough review of the final draft of the SWCAP to ensure that the costs and the formulas that drive the summary schedule of allocated costs are accurate and documented before this document is submitted to the Federal cognizant agency for their review.

Responsible Person:	Marybeth Shaughnessy-Newell, Director of Accounting Fred DeMinico, Unit Manager of Accounting
Implementation Date:	June 30, 2006

Finding Number 16: Documentation Supporting the Statewide Cost Allocation Agreement Needs Improvement

The Office of the Comptroller (Office) needs to continue to improve the documentation it prepares to support those sections of the Statewide Cost Allocation Agreement for which it has responsibility.

One unit within the Office is responsible for negotiating the Statewide Cost Allocation Agreement (Agreement), which is negotiated with U.S. Department of Health and Humans Services, Division of Cost Allocation (DCA). Section I of the Agreement, identifies and allocates the allowable costs of Central Service Agencies (CSA) to user departments. In preparation for Section I negotiations, the Office prepares and submits a Statewide Cost Allocation Plan (Plan) which is certified as complying with OMB Circular A-87, Cost Principles for State, Local and Indian Tribal Governments (Circular) by the Deputy Comptroller. Section II of the Agreement, lists those fringe benefits and other services that are directly billed to user departments.

Although improvements have been made in documenting Sections I and II of the Plan prepared by the Office, the following issues were noted, which were noted during the review of the fiscal year 2004 Plan:

- For two of the nine CSAs, the Schedule of Costs to be Allocated by Function did not readily tie to the computation of the rollforward adjustment. The rollforward adjustment is one of the bases for Schedule A, the Approved Fixed Central Service Allocations, as agreed to with the DCA. Intermediary calculations for the Human Resources Division and the Office of the State Treasurer, showing which CSA functions were not allocated, were not prepared.

- The written methodology was not sufficiently detailed to provide a step-by-step instruction on constructing the Plan and identifying areas that may need to be adjusted when changes occur within CSAs. The methodology was copied from the previous year without determining whether it was appropriate. In addition, queries are currently being used to extract information from the accounting system as a basis for preparing the Plan. A step-by-step methodology including the format for those queries would strengthen internal control over Plan's preparation.

Many issues identified in the 2004 were not repeated in the 2005 Plan:

- A reconciliation was prepared between all appropriation and revenue accounts for the central services agencies, which support the certified financial statements, and the amounts that were ultimately used in the Plan.

- The inclusion or exclusion of costs, such as depreciation, was consistent throughout the CSAs.

- There were no variances between the Plan submitted to DCA and the total allocation amounts in the electronic working papers supporting the Plan.

- The Office prepared the Section II documentation requested by DCA.

The exact impact on Federal programs for these items could not be determined. The Office has stated it plans to perform a complete review of the fiscal year 2006 Plan and revise their procedures where necessary. (*Unknown Federal Programs)*

Finding Number 16: Documentation Supporting the Statewide Cost Allocation Plan Needs Improvement (Continued)

Recommendation

The Office of the Comptroller should continue its efforts to reconcile between the Schedule of Costs to Be Allocated and the Approved Fixed Central Service Allocations. Any CSA function that is not included in the final allocation should be indicated. In addition, the written methodology should describe the queries necessary to identify the total costs and revenues for all CSAs and what areas should be considered in the future thereby providing guidance when changes occur within central service agencies.

Department Corrective Action Plan

An updated methodology for the FY2006 SWCAP will identify the CIW queries that are used to develop information for the SWCAP as well as the data and tables that this information is taken from.

Additionally, any intermediary schedules between the determination of allocable costs and the costs presented in any of the summary schedules will be prepared for audit review.

Responsible Person:	Marybeth Shaughnessy-Newell, Director of Accounting Fred Deminico, Unit Manager of Accounting
Implementation Date:	June 30, 2006

Office of the Comptroller
Findings not Repeated from Prior Years

1. The Department of Education and the Department Elder Affairs had credits for grants processed subsequent to FY2004 due to the closure of activity in "Old" MMARS and the timing of conversion to the new MMARS accounting system. The Department continues to review these activities as part of the monthly and year end reconciliation processes and post any necessary adjustments in a timely manner. (*Fiscal Year 2004 Single Audit Finding 15*)

2. The FY2004 Plan, which was the plan under audit for FY04, was submitted to the Federal Cognizant Agency in advance of the FY2003 Single Audit findings publication. In regard to 2004 Single Audit Finding 16, all adjustments required were made with the submission of the following year's plan. (*Fiscal Year 2004 Single Audit Finding 16*)

Department of Education
Background

The Department of Education (Department) is the state agency responsible for administering the laws and regulations pertaining to elementary and secondary education, for distributing state and federal funds to local educational agencies, and for improving the quality of education for all public school students in the Commonwealth. The primary responsibility for the operation of schools rests with local and regional school committees. The Department carries out its mandate by providing assistance and funds to the schools, by setting standards, by administering regulations, and by collecting data on the condition of education.

During FY2005, the Department administered approximately $3.8 billion of state funds, and approximately $850million of federal funds.

The federal funding to this Department is detailed in the accompanying Schedule of Expenditures of Federal Awards. The Department's major programs were:

CFDA#	Federal Program Description
84.010	Title I Grants to Local Education Agencies
84.027	Special Education – State Grants
84.173	Special Education – Preschool Grants
84.367	Improving Teacher Quality – State Grants
10.553	School Breakfast Program
10.555	National School Lunch Program
10.556	Special Milk Program for Children
10.559	Summer Food Service Programs for Children

Finding Number 17: Payroll Adjustments Could not be Made

The Department of Education (Department) could not adjust the costs charged to federal programs to reflect the actual cost of salaries of employees who work on multiple programs. The Commonwealth of Massachusetts implemented a new general ledger system (MMARS) on July 1, 2004 and the entries that the Department relied on to adjust payroll charges could not be processed in the system. The Department continues to work closely with the Commonwealth's general ledger team to identify procedures that will accomplish the needed adjustments. OMB Circular A-87, Attachment B (h) (6) (e) states that "budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to federal awards but may be used for interim accounting purposes, provided that: (i) the governmental unit's system for establishing the estimates produces reasonable approximations of the activity actually performed; (ii) at least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and (iii) the budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances."

The Department completed the reconciliation of actual payroll developed based on the personnel activity reports submitted and the charges made to the general ledger based on budget on a quarterly basis for the first three quarters of the fiscal year. Historically the payroll could be adjusted in the general ledger each quarter and the Department believed that the same adjustment mechanism would be available to them in the new system. However, the same mechanism could not be used and work is underway to determine the mechanism for adjustments in the new system. The process was further complicated by an upgrade to MMARS in May 2005. At the end of the third quarter the payroll charges to Title I were overstated by $46,700 and for Special Education by $33,552. These costs are not questioned due to the fact that the grant period is 27 months and it is anticipated that the proper adjustments will be processed before the end of the grant. *(Department of Education - Title I Grants to Local Education Agencies 84.010 and Special Education 84.027)*

Recommendation

The Department should continue to work with the MMARS team to determine how to make the needed adjustments.

Department Corrective Action Plan

As mentioned by the auditors, this finding was the result of the Department's being unable to fully process the quarterly Federal Time & Attendance payroll adjustments. Although the Department attempted to process these corrections, updates to the Commonwealth's Labor Cost Management system (LCM) and General Ledger system (MMARS) would not accept the adjustment transactions necessary to complete this process. These functions worked in prior fiscal years. The Department (as acknowledged by the auditors) has completed every step that we had control over.

We have worked with staff from the Massachusetts Office of the Comptroller since October of 2004 to try and correct this issue. While they have tried to fix the problem or find other ways to address the shortcomings of LCM and MMARS on this subject, nothing has repeatedly worked to this point. This was a resolved issue in the past audit and would not be listed here except that the updated statewide system does not properly handle the adjusting entries that the predecessor system did. We will continue to work with the Office of the Comptroller to correct the inadequacy in their statewide system so that we can completely process the salary entries needed to adjust our accounts.

Responsible Person: Anthony DeLorenzo
Implementation Date: June 30, 2006

Finding Number 18: Vocational Education Program Maintenance of Effort Requirements not Met

The Department of Education (Department) did not meet the maintenance of effort requirements for the Vocational Education Program. According to federal regulation 20 USC 2391, a state must maintain its fiscal effort in the preceding year from State sources for vocational and technical education on either an aggregate or a per student basis when compared with such effort in the second preceding year.

For the fiscal year 2005 Vocational Education grant, the fiscal year 2004 fiscal effort is compared to the 2003 effort. The Department missed the aggregate effort by $18,068,051 ($235,348,379 versus $217,280,328) and the per pupil effort by $581 ($6,558 versus $5,977).

The Commonwealth of Massachusetts, like most states, is having financial problems and as such did not have the funds available as in prior years to provide for the Vocational Education Program. (*Department of Education – Vocational Education, Basic Grants to States 84.048; Fiscal Year 2003; 2004 Single Audit Finding 20*)

Recommendation

The Department should continue to work with state Administration and Finance officials to seek the funding necessary to meet federal requirements.

Department Corrective Action Plan

This finding cites the Massachusetts Department of Education for failing to meet the maintenance of effort requirement for the administration of the Vocational Education Program.

This situation occurred due to the dramatic reduction in state revenues in Fiscal Years 2002 - 2004 resulting from the post September 11, 2001 economic downturn. The Commonwealth of Massachusetts along with most states across this nation had to make major program cuts to balance their budgets. The Department had smaller reductions than a majority of state departments, but had reductions nonetheless.

Additionally, the Department took the proactive step of requesting a waiver from the maintenance of effort requirement for the period of FY2003/FY2004. Knowing that FY2004 education budget appropriations would be further reduced. United States Department of Education ("US ED") never issued a final response.

The maintenance of effort requirement will be resolved with the Commonwealth's FY2005 Budget appropriations for K – 12 education programs. The Department of Education's budget increased by $199 million from FY2004.

Responsible Person: Anthony DeLorenzo
Implementation Date: October 1, 2005

Finding Number 19: Subrecipient Monitoring Could be Improved

The Department of Education's ("Department") subrecipient monitoring procedures need to be improved by the more timely collection of OMB Circular A-133 audit reports and better knowledge and documentation of all monitoring activities conducted at the Local Education Agencies (LEA).

Of thirteen LEAs selected for testing, ten did not submit the 2004 audits required under OMB Circular A-133 when due. Six of the late reports were submitted prior to the completion of audit fieldwork and were tested. One was received after the fieldwork and was not tested. In summary, four had not submitted the reports due March 30, 2005 as of mid-September. The thirteen selected for testing are the largest recipients of federal awards and account for 20-48% of each of the major program grant awards. LEAs in the Commonwealth have fiscal year-ends of June 30. Under the requirements of OMB Circular A-133 Section .320 "audits shall be completed and the data collection form submitted within the earlier of 30 days after the receipt of the auditors report, or nine months after the end of the audit period, which ever is earlier." The due date for the LEAs' fiscal year 2004 reports therefore is no later than March 30, 2005.

Department officials explained that they prompt LEAs via letters and emails to have audits conducted and reports submitted as required by federal regulations. Our audit disclosed that the letters and emails are sent out to the LEAs after the reports are due, sometimes as much as two and a half months after the reports are due. Additionally, the letters and emails are generic in nature and make no distinction between those with findings and those with none, or those LEAs that are habitually late versus those that are late one time. They also explained that they are reluctant to force compliance via sanctions.

Of the four that remain outstanding, one had not submitted reports for the years 2002, 2003 or 2004, and there was no documentation in the file of other monitoring activities that had been performed at this LEA to ensure the protection of federal funds. A review of the Department's web site, which contains copies of the reports issued as a result of any monitoring activities that have been performed at LEAs, disclosed two such reports for this LEA in question. One issued by the Department concluded that the entity met most of the requirements. The second was prepared by an independent entity: The Commonwealth of Massachusetts Educational Management Audit Council and Office of Educational Quality and Accountability. This report issued on March 27, 2003 indicated that many areas were found to be either unsatisfactory or poor. Officials in the Department's Audit and Compliance Unit which are responsible for the collection of A-133 audits were unaware of the report. They had stated that the reason for the late reports was "GASB 34 Issues" and not educational or financial issues.

The files also did not include documentation that any other Department required reports were reviewed to help determine if the Department needed to take any action. The file of one LEA that had not submitted its audit report for 2004 had a notation that a waiver had been received. The Department determined that 40 of 462 subrecipients had not submitted 2004 reports as of mid-September. No data was provided on how many LEAs have multiple years outstanding, in addition to the one discussed above.

OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations Section .200 requires that "non-federal entities that expend $500,000 or more in a year in Federal awards shall have a single or program-specific audit conducted for that year in accordance with the provisions of this part." Section .320 sets forth the Report submission (see above). Section .400 (d) sets forth the Pass-through entity responsibilities including (4) "Ensure that subrecipients expending $500,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year." Section .225 Sanctions states "No audit costs may be charged to Federal awards when audits required by this part have not been made or have been made but not in accordance with this part. In case of continued inability or unwillingness to have an audit conducted in accordance with this part, Federal agencies and pass-through entities shall take appropriate actions using sanctions such as: (a)

Finding Number 19: Subrecipient Monitoring Could be Improved (Continued)

Withholding a percentage of Federal awards until the audit is completed satisfactorily, (b) Withholding or disallowing overhead costs: (c) Suspending Federal awards until the audit is conducted; or (d) terminating the Federal award."

Timeliness is an important component of the audit requirement. OMB has reduced the time frame from 13 to nine months in recent years. Single Audits are meant to alert pass-through entities to conditions at the LEAs that put the federal grants at risk. Failure to act in a timely manner can increase the risk to federal funds. *(Department of Education - Title I Grants to Local Education Agencies 84.010; Special Education 84.027; and Improving Teacher Quality State Grants 84.367; Department of Agriculture - National School Lunch Program 10.555)*

Recommendation

The Department should enhance its efforts to get the LEAs to submit their audit reports within the timeframe set by federal regulation. The Department should consider sending letters to the LEAs prior to the date the reports are due as a remainder to the LEAs of the deadline. Additionally, the Department letters and emails to the LEAs should be more individualized to specifically address whatever issue each LEA is facing. For those LEAs that are continually non-compliant, the Department should consider sanctions, such as withholding audit costs, as authorized by OMB Circular A-133.

The Department should also establish policies and procedures that require the Audit and Compliance Unit to coordinate its efforts with other Commonwealth departments that conduct monitoring activities at the LEAs and/or receive audit reports.

Department Corrective Action Plan

We concur that our responsibilities include educating the sub recipient's on their audit requirements and make every reasonable effort to collect their reports in a timely manner. We do this. We have written procedures in place and have informal agreements with other state departments to pool our information regarding the sub recipients.

A number of cities and towns are continuously late in issuing their reports. Some of this is due to the city's fiscal staff and some is due to their audit firms. In a number of these cities we find when the report comes in there are no findings relating to our funds. The suggestion that using the sanction threat of withholding education funds to entice their timeliness would probably have limited success at best in improving their reporting. We also have a theoretical problem regarding withholding education funds when there is no direct correlation to the lateness of the reports and the educational programs. We have sanctioned individual programs when they have been in direct violation of our program or fiscal reporting requirements.

The issue that the pass through entity must ensure that the sub recipient's audit is issued by the due date is questionable. Our correspondence with the US ED audit review staff noted that the Federal agency is responsible for ensuring that audits are completed and timely (see Subpart D, --.400(c)) which states:

> *The Federal awarding agency shall perform the following for the Federal awards it makes:...(3)Ensure that audits are completed and reports are received in a timely manner and in accordance with the requirements of this part....*

We received written opinions from the US ED and the United States Department of health and Human Services audit review staffs along with an oral opinion from the Rhode Island Auditor General that confirmed our opinion that any sanctions in these instances are at our discretion. We did not inquire to the Massachusetts State Auditor's Office, as they are a partner in conducting our Single Audit and didn't want to invoke an independence question.

Finding Number 19: Subrecipient Monitoring Could be Improved (Continued)

Department Corrective Action Plan (Continued)

To address the issues raised in this finding we will ensure that we will improve our documentation of our current work with the Department of Revenue and others to get copies of these reports. We will also step up the current system of our collection letters and other communication with the sub recipients

Responsible Person: David LeBlanc
Implementation Date: January 1, 2006

Finding Number 20: Measurement of Local Education Agency Cash Advances Needs Improvement

The Department of Education (Department) does not monitor Local Educational Agency (LEA) cash balances to ensure that they minimize the time elapsing between the transfer of funds from the Department and disbursement by the LEA.

For Title I, the balance of cash on hand at LEAs at the end of State Grant Year 2004, as reported by the LEAs at August 31, 2004 was $19,806,399 or 12% of the total annual federal award. While there is a provision for grant carryover of up to 15% from year to year the carryover provision is for the "period of availability" of the grant funds not a waiver of the cash management principles.

For all pass-through federal grants greater than $25,000, the long time practice of the Department has been to provide the LEAs with cash in quarterly allotments, upon request by the LEA, supported by expenditures to date and an estimate of future expenditures. For grants that do not include carryover provisions unspent funds are to be returned with the Final Report of grant activity through August 31 each year. The report is due in October. For grants with carryover provisions there is no requirement to return unspent funds. The cash is maintained at the subrecipient level.

Treasury regulations 31 CFR Part 205 require that subrecipients "conform substantially to the same standards of timing and amount as apply to the pass-through entity" and the Commonwealth draws the U.S. Department of Education (US DOE) Grants as reimbursements rather than advances. USDOE regulation 34 CFR Section 80.21 (b) requires that "procedures for payments shall minimize the time elapsing between the transfer of funds and disbursement by grantee or subgrantee, in accordance with Treasury regulations at 31 CFR part 205." The Department cites historical precedence as supporting evidence for the practice of LEA drawdowns in quarterly allotments for all Department grants greater than $25,000. It is unclear how the Department's procedures meet the federal requirements. The LEAs have been provided with written procedures, Request for Funds Process, that state: "The initial payment is the only one that is sent to recipients automatically. To ensure that funds are distributed on an "as needed" basis in accordance with both state and federal management requirements, the balance of funds must be requested according to the above schedule." That schedule is "Payments distributed in quarterly allotments on request" for grant awards over $25,000. The Department feels that if there were excess cash on hand at the LEA level the single audit reports would include cash management findings. This logic may not necessarily be true because the LEA auditors would be using the Department's written procedures to the LEA as criteria to judge noncompliance.

Cash on hand that exceeds the short term needs of the program is subject to misuse. The Department's failure to comply with Treasury and U. S. Department of Education regulations could lead to sanctions or loss of funding. *(Department of Education - Title I Grants to Local Educational Agencies 84.010; Special Education 84.027; and Improving Teacher Quality State Grants 84.367; Fiscal Year 2004 Single Audit Finding 21)*

Recommendation

The Department should implement a system of cash management that complies with the federal regulations. If the federal grantor has officially approved a system of cash management other than those generally applicable to all grants, the Department should document that approval.

Finding Number 20: Measurement of Local Education Agency Cash Advances Needs Improvement (Continued)

Department Corrective Action Plan

The Department's system of grant advances and payments has been in place for over fifteen (15) years. With the exception of the first payment, which is ¼ of the total amount when the grant is approved, the remaining grant is disbursed on request based on an expenditure reporting by the LEA. US ED has observed this system in numerous audits and reviews without question to its appropriateness, including during the CAROI process in 2001.

We will ask for a direct opinion from US ED as to the adequacy of the system and will adjust wherever feasible based on their comments and suggestions. Funding of an updated or new system is not available in the current budget.

Responsible Person: Ronald Honesty / Barbara Solomon
Implementation Date: June 30, 2006

Finding Number 21: Failure to Take Action on Subrecipient Questioned Costs of $1,827,972

The Department of Education (Department) did not take action on material questioned costs disclosed in a subrecipient's A-133 Audit Report. The Management Decision Letter was issued in a timely manner but it failed to address the questioned costs of $1,449,480 for Title I and $378,492 for Special Education.

The Local Education Agency's (LEA or subrecipient) auditor reported that the salaries charged to the grants were not adequately supported in accordance with the requirements of OMB Circular A-87. The Department did not take any follow-up action on the finding, nor did the Department document any consideration of adjustments to the Department's books and records as required by OMB Circular A-133 Part D Section .400 (d) (6) "Consider whether subrecipient audits necessitate adjustment of the pass-through entity's own records." It was noted that none of the Management Decision Letters that were selected for review varied from standard language when addressing financial and administrative findings. All encouraged the completion of the corrective action plan and expressed hope that future audits would show that action had been completed. There were other LEAs with questioned costs noted in the auditor's reports that seemed of amounts large enough to consider either recovery from the subrecipient or adjustment to the Department's books and records. The one cited above is the only one that exceeded $1 million. These costs are questioned.

Pass-though entities are given responsibility for the federal funds that flow to the subrecipients. OMB Circular A-133 sets them forth clearly. The U.S. Department of Education also has regulations setting forth the administrative requirements. When the pass-through entity does not monitor subrecipients and does not seek recovery of federal funds, the subrecipients may take it as permission to take administrative short cuts or even to misspend federal funds. The Department is at risk for the funds that are found to be misspent by subrecipients and State funds would have been used to return federal funds due to misspending at the LEA level. Without investigation it is not possible for the Department to know if the findings at the LEAs are the result of a "lack of proper paper work" or the result of misspending. (*Department of Education - Title I Grants to Local Education Agencies 84.010 and Special Education 84.027)*

Recommendation

The Department must implement policies and procedures that adequately address the federal requirements for monitoring of subrecipients and protection of federal funds. Priority should be given to actions to be taken and sanctions to be levied for LEAs with single audit findings.

Department Corrective Action Plan

In this instance the LEA's auditor questioned the entire salary amounts purely since they couldn't directly identify a particular instance and had to cite a value. No one involved in the discussion expects that this entire amount will be requested to be returned. We have requested that the LEA perform an analysis of the funds in question.

This instance involved an audit report that was received late during the fieldwork of our Single Audit. It was pushed it to the front of the line for processing. Even though there were notes in our files highlighting our discussions with the LEA and their auditor, in hindsight we should have had more detailed and a different structure in our management decision letter. We will revisit our procedures for the issuance of these letters and our reviews of audit findings.

Responsible Person: David LeBlanc
Implementation Date: January 1, 2006

Finding Number 22: Inadequate Administrative Expenditures Procedures

The Department of Education (Department) does not have adequate procedures in place to prevent unallowable charges to federal grants.

Nineteen administrative expenditures were tested from four major federal programs. Two of the five, although allowable for charging to the Title I federal program, were not properly encumbered prior to the purchase of goods and services. The remaining three were charged to federal programs in a manner that did not conform to the allocability provisions of OMB Circular A-87.

The lack of proper, prior encumbrances relates to conferences that were held for educators. The original encumbrance was not entered into the system until the day after the conference took place. It is possible that the implementation of a new accounting system, MMARS, caused difficulty with the data entry. For one of the two, the original encumbrance was insufficient in amount for the costs that were incurred. As a result, when the invoice was presented for payment, the encumbrance needed to be increased by an amount that was more than 30% of the original encumbrance. The Commonwealth of Massachusetts, Office of the Comptroller, Expenditure Classification Handbook states "a department cannot authorize performance to begin on a contract or amendment, or request or accept services, or goods, or other obligations in excess of approved appropriations and allotments or other legally available funds. Evidence of sufficient funding for most contracts is an approved encumbrance in MMARS fully supporting the contract maximum obligation or anticipated expenditure." The Department's policies and procedures also require that a requisition be approved and an encumbrance entered into the system prior to the acceptance of goods or services. Conferences held without encumbrances in place has been the subject of prior year findings.

Three of the expenditures selected for testing related to the Virtual Education System (VES). VES does benefit both Title I and Title II, as well as other state and federal programs, but the charges to the program were not determined based on relative benefit or other cost principles. The charges were made based on which grants had the funds available. OMB Circular A-87, Cost Principles for State, Local and Indian Tribe Governments, Attachment A, Section C, states "A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received." Title I was charged $9,212.12 and Title II was charged $6,361.76. *(Department of Education – Title I Grants to Local Education Agencies 84.010 and Improving Teacher Quality State Grants 84.367; Fiscal Year 2001; 2004 Single Audit Finding 18)*

Recommendation

The Department must implement and enforce policies and procedures that provide assurance that state and federal procurement laws and cost principles are adhered to.

Department Corrective Action Plan

While the conference encumbrances had slight problems they were valid expenses to the program. Regarding the lateness of encumbrances, these amounts were validated in the Department's procurement office prior to the events. System constraints of the new statewide accounting system prevented their being encumbered in a timely manner. Staff has been instructed to review all costs involved in hosting events prior to finalizing these costs.

The payments for the Virtual Education System (VES) should have been allocated in another manner. Time and attendance changes have already been made for contractors to properly cost out the expenditures to the programs that benefit. We will work to ensure that state and federal procurement laws and cost principles are followed.

Responsible Person: Anthony DeLorenzo
Implementation Date: November 30, 2005

Department of Education
Findings not Repeated from Prior Years

1. The Department of Education does not have an approved cost allocation plan in place to properly charge and classify the administrative expenditures necessary to mange its federal and state programs. An approved cost allocation plan was in place during FY2005. (*Fiscal Year 2004 Single Audit Finding 19*)

2. The Department of Education did not follow the procedure established by the Grants Management Unit for the issuance of a grant payment to a Local Education Agency. All grant payments issued during 2004 following the procedures established by the Grants Management Unit. (*Fiscal Year 2004 Single Audit Finding 22*)

3. The Department of Education has worked diligently to implement the changes required in the Title I program as a result of the amendment by the No Child Left Behind Act of 2001. The Department has complied with the U.S. Department of Education regulatory requirements and accordingly has revised their workbook. (*Fiscal Year 2004 Single Audit Finding 23*)

Department of Elder Affairs
Background

The Department of Elder Affairs was established by Section 2 of Chapter 6A of the Massachusetts General Laws. Its responsibilities include the administration and oversight of various programs and services that benefit older citizens in the Commonwealth in accordance with the requirements of the Older Americans Act of 1965, as amended.

The mission of the Department is to promote dignity, independence and rights for Massachusetts's elders and to support their families through advocacy and the development and management of programs and services.

The Department's responsibilities include the administration and monitoring of protective, supportive and nutritional programs and services for 1.1 million elders including case management and in-home services through the Home Care Program, nutrition, ombudsman services for residents of long term care facilities and assisted living residences and for recipients of services in the community, protective services and a variety of supportive and informational services including transportation, legal services, health benefits counseling, information and referral and senior center programs. The nutrition program provides education and over eight million meals to elders through home delivered (Meals on Wheels) or congregate meal sites. In addition, the Department is responsible for certifying over 160 Assisted Living Residences and administering Prescription Advantage, the nation's first state sponsored prescription drug insurance plan for seniors age 65 and older and low-income disabled adults. Elder Affairs' programs and services operate through a statewide network providing services to elders through both regional and local agencies which includes 27 regional Aging Services Access Points, 23 Area Agencies on Aging that operates programs authorized under the Older Americans Act, 348 municipal Councils on Aging and 290 senior and drop-in centers.

In fiscal year 2005, the Department administered approximately $2 billion, with federal grant funds totaling approximately $35 million.

The Department's major program is the Cluster of:

CFDA #	Federal Program Description
93.044	Special Programs For The Aging-Title III, Part B-Grants for Supportive Services and Senior Centers
93.045	Special Programs For The Aging-Title III, Part C-Nutrition Services
93.053	Nutrition Services Incentive Program

Department of Elder Affairs
Findings on Compliance with Rules and Regulations

Finding Number 23: Supporting Documentation for Monitoring Payment to Area Agencies Needs to be Improved

The fiscal year 2002 single audit noted that the Department of Elder Affairs (Department) was paying Area Agencies on Aging (AAA) for program expenditures without sufficient supporting documentation. In response to this finding the Department implemented a requirement that each of the 23 AAAs submit a spreadsheet detailing the support for the payment on a monthly basis. The Title III Programs Administration Unit is responsible for performing desk reviews of these standard invoicing requirements (including a detailed review of one month's invoice for each AAA). During 2005 the Department reorganized and the detailed review was only performed for only one of the twenty-three (23) AAAs. This is not in accordance with the Department's monitoring procedures, to ensure that federal funds are properly documented.

The Department passes Title III federal funds through to AAAs for programs including elderly nutrition and supportive services. OMB Circular A-133 §400(d) lists one of the responsibilities of pass-he

> *"Monitor the activities of subrecipients as necessary to ensure that federal awards are used for authorized purposes in compliance with laws, regulations and provisions of contract or grant agreements and that performance goals are achieved."*

In addition to federal regulations, the Commonwealth of Massachusetts' Procurement Policies and Procedures Handbook Chapter 5 Contract Execution and Management: Monitoring and Evaluating Contractor Performance and Compliance states in part:

> *"The contractor shall be required to provide relevant supporting documentation to substantiate any claim for payment of an invoice or to support payments already made by the department."*

(Department of Health and Human Services - Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers 93.044; Special Programs for the Aging – Title III, Part C - Nutrition Services 93.045; and Nutrition Services Incentive Program 93.053)

Recommendation

The Department should ensure that its current monitoring requirements are fully implemented, including the invoice reviews for all AAA to evaluate and assess the AAAs' performance and record keeping for program quality and effectiveness.

Department Corrective Action Plan

Elder Affairs concurs that it should ensure sufficient monitoring of sub-recipients. During FY05, Elder Affairs developed a plan for implementing random audits of monthly invoices (to include all sub-recipients receipts, etc) and successfully completed a single audit. Unfortunately, due to a loss of staffing resources to retirement and injury, the minimal staffing that remained were redeployed to handle monthly invoice review and payment.

Plan: Develop internal control procedures for desk and site audits. Procedures will include
Documenting audit findings and associated corrective action steps and timetables. Implement a single audit of each AAA during FY06 and annually thereafter.

Responsible Person: Neil Petrocelli
Implementation Date: December 1, 2005

Finding Number 24: Fiscal Year 2004/2005 Cost Allocation Plan not Finalized

The Department of Elder Affairs (Department) did not complete the 2004 and/or 2005 indirect cost allocation plan because the Department is evaluating a change in its cost allocation methodology. Rather, it applied the provisional rate of 21% to its federal grants during fiscal year 2004 and 2005.

The provisional rate of 21% charged to the federal grants in fiscal year 2004 was in accordance with a negotiated agreement with the Department of Labor dated October 1, 1996. The agreement stipulates that:

> *"Commencing with State Fiscal Year 1993, indirect cost rates may be used as a budgetary tool in establishing grant or contract amounts. Nevertheless, only actual indirect costs can be charged to Federal grants and contracts in accordance with cost accounting procedures approved by the Office of Cost Determination...."*

The agreement stipulates that the Department may apply a budgetary rate of 40% for all programs beginning July 1, 1996 "until amended" (an actual plan is developed). The Department and the Commonwealth, however, have continued to take a more conservative approach by applying the 21% rate during the past two fiscal years. The Agreement also states that only actual indirect costs can be charged to federal grants and contracts. The Department is required to compute the actual rate for each fiscal year in accordance with the cost accounting procedures approved in the Departmental Cost Allocation Plan. The actual rate should be compared with the provisional rate used to bill federal programs and any recoveries must be credited against the applicable federal program or additional costs may be charged. Based on the cost allocation plans developed and used for the years 1999 – 2003, the Department undercharged federal grant by using the 21%. *(Department of Labor - Senior Community Service Employment Program 17.235; Department of Health and Human Services - Special Programs for the Aging – Title III, Part B – Grants for Supportive Services and Senior Centers 93.044; Special Programs for the Aging – Title IV – and Title II Discretionary Projects 93.048; Nutrition Services Incentive Program 93.053; Centers for Medicare and Medicaid Services (CMS) Research, Demonstration and Evaluations 93.779; Maternal and Child Health Services Block Grants to States 93.994; Fiscal Year 2004 Single Audit Finding 40)*

Recommendation

The Office should also ensure completion and submission of its fiscal year 2004/2005 plan and record indirect costs based on actual allocation.

Department Corrective Action Plan

Elder Affairs completed and submitted a Departmental Cost Allocation Plan to the Office of The State Comptroller on February 18, 2005. The submission employed the same methodology as that applied in 2003. At the same time, Elder Affairs initiated a project with Public Consulting Group, Inc. to complete development of a revised DCAP methodology. This methodology was developed in conjunction with the Commonwealth Executive Office of Health and Human Services (EOHHS) CAP methodology for FY06. This methodology distributes EOHHS cost to Elder Affairs, based on a number of assumptions that could not reasonably be applied to FY05 at that time. As a result, Elder Affairs has contacted the Comptroller's Office and has requested assistance in applying the methodology correctly – based on FY05 actual expenditures.

Elder Affairs has produced and submitted the 2006 DCAP to the federal Department of Health and Human Services on September 30, 2005. Further, Elder Affairs expects to continue submission following the same process, with assistance from PCG in the next fiscal year and beyond.

Responsible Person: Martin Baker
Implementation Date: Plan submitted, waiting approval

Finding Number 25: Monitoring of Audit Findings Relating to Area Agency on Aging Needs Improvement

As indicated in prior years, the Department of Elder Affairs (Department) has not issued timely management decisions on Title III audit findings. During 2005 three Area Agency on Aging (AAA) audit reports noted audit findings. The Office could not provide documentation of management's follow-up of these three audit reports.

OMB Circular A-133, Compliance Supplement Part 3 states that: "A pass through entity should ensure that subrecipient audits are completed within nine months of the end of the subrecipient's audit period, and should issue a management decision on audit findings within six months after receipt of the subrecipient's audit report. It should also ensure that subrecipient take timely and appropriate corrective action on all audit findings."

In response to the prior year finding, the Department officials indicated it would be included in a centralized provider/subrecipient audit review and tracking process that EOHHS was scheduled to implement in January 2005. The centralized process at the time of our fieldwork had not been implemented. *(Department of Health and Human Services - Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers 93.044; Special Programs for the Aging – Title III, Part C - Nutrition Services 93.045; and Nutrition Services Incentive Program 93.053; Fiscal Year 2003; 2004 Single Audit Finding 42)*

Recommendation

Until the centralized process is implemented, the Department needs to ensure that policies and procedures relating to AAA audit findings are being fully implemented through the proper review and supervision of the personnel responsible, including the timely review of management decision and the AAA's corrective action.

Department Corrective Action Plan

As indicated in the initial response to this item, Elder Affairs did expect to take advantage of the centralized provider/sub recipient audit review and tracking process that EOHHS was scheduled to implement in January 2005. Unfortunately, this group was not formally established until August 2005. Elder Affairs did conduct an internal review of the 2004 UFR's, but created no formal follow-up action. UFR review is expected to be an element of EOHHS's centralized provider/sub recipient audit review and tracking process system.

Plan: Elder Affairs will formalize its management protocol for reviewing UFR's, and incorporate them into its Internal Control Manual. UFR's are reviewed electronically, and downloaded if issues are identified. Standardized corrective action steps and timetables will be developed for identified deficiencies.

Responsible Person: Neil Petrocelli
Implementation Date: December 1, 2005

Finding Number 26: Lack of Documentation to Support Payroll Charges to Federal Awards

During the prior audit, the Department of Elder Affairs (Department) could not find the personnel file for one of three payroll selections tested and as a result could not provide appropriate documentation to support these payroll charges to the federal awards.

OMB Circular A-87, Attachment A, Part C, Section 1, Factors affecting allowability of costs states that:

> *"To be allowable under Federal awards, costs must meet the following general criteria...be adequately documented"*

Department officials stated that the Department properly maintains personnel files with information that support payroll charges to federal awards. However, during the present year a number of personnel files, including the file in question of an individual who retired during the year, were lost when being transported during the Department's move. The payroll charge to the federal grant for this individual was $197.87 for the weekly pay period ending September 6, 2003. The charge for this individual for the entire year would have been about $10,000 and depending on how many other files are missing the unsupported charges to federal grants could be significant. *(Department of Health and Human Services - Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers 93.044, Fiscal Year 2004 Single Audit Finding 43)*

Recommendation

The Department should exhaust efforts to find or reconstruct the information missing that supports the payroll charges to the federal awards.

Department Corrective Action Plan

The missing retired employee physical records were not recovered. At the time of the audit, Elder Affairs was undergoing two changes:

1. Physical and operational consolidation of Human Resources operations from Elder Affairs to the Executive Office of Health & Human Services. This included the boxing and physical relocation of all employee records to 600 Washington St, Boston, MA.
2. Elder Affairs conducted substantial physical office renovations to the entire office. This involved temporary physical relocation of all filing systems.

We acknowledge that we are unable to find the retired employee's physical record as a result of our renovation and human resource consolidation efforts last year. We believe that the payroll documentation which exists within the Commonwealth's Human Resource data system (HRCMS) and the internal controls which govern all Commonwealth employee payroll transactions are sufficient evidence that the payroll costs were incurred and were applied appropriately to AoA specific activities.

Finally, we have verified that all active status employee records are safe and secure at our Human Resources office located at 600 Washington St, Boston, MA.

Responsible Person: Mary Cummings
Implementation Date: N/A

Finding Number 27: Lack of Semi-Annual Certifications for Employees' Whose Payroll is Charged to Federal Awards

The Department of Elder Affairs (Department) did not maintain adequate documentation for salaries charged to federal awards. Two of the twenty-five transactions selected for testing were for employees' salaries that were charged solely to the Title IIIC program. The Department could not provide the required certifications for these employees, whose total payroll expense for fiscal year 2005 amounted to $114,920.

OMB Circular A-87 Section Attachment B, Section 11 (h) "Compensation for Personal Services" states:

> *"Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee."*

Department officials stated that the certifications have not been completed in a timely manner during 2005 due to the Office reorganization. *(Department of Health and Human Services – Special Programs for the Aging, Title III, Part C- 93.045)*

Recommendation

The Department should ensure that it has implemented its procedures to monitor the completion of semi-annual certifications in accordance with federal requirements.

Department Corrective Action Plan

Plan: Internal controls will be developed to ensure that payroll expenses charged to federal grants are certified. Employees charged to federal grants will be identified and maintained on a Master List. Semi-Annually, the Master list will be reviewed by the Directors of Budget and Human Resources. Once reviewed, the Budget Director will sign the master List, certifying that payroll costs are properly assigned to federal grants.

Responsible Person: Janet Cornebise, Budget Director and Mary Cummings, Human Resources Director
Implementation Date: November 1, 2005

Department of Elder Affairs
Findings not Repeated from Prior Years

1. The Federal Reports were not reconciled with the Commonwealth's Accounting System. Prior to New MMARS implementation, the Department was unable to prepare SF 269 from MMARS due to commingling of various components of the Title III Program within three appropriations. New MMARS now requires all transactions to be coded to the specific federal grant, grant year and purpose of activity within. (*Fiscal Year 2004 Single Audit Finding 39*)

2. The Department needed to establish and implement its statewide monitoring tool, including site visits, for FY2005 to evaluate and assess the AAA's performance and record keeping for program quality and effectiveness. The Department has implemented the state wide monitoring tool, which requires each of the twenty-three AAAs to have an annual monitoring visit. During fiscal year 2005 seventeen of the twenty-three have been visited and the other six are scheduled to be visited by September 30, 2005. (*Fiscal Year 2004 Single Audit Finding 41*)

Department of Public Health
Background

The Department of Public Health (Department) protects public health through a wide variety of activities. The Department monitors the quality of the Commonwealth's health care facilities and regulates the environment, health and sanitation of food, drugs and other consumer products. Through its hospitals, it provides direct care services, inpatient hospital care and education, with special emphasis on populations not adequately treated by the voluntary and private sectors.

Through its providers and various outreach programs, the Department provides a broad range of preventative and health promotion services. Environmental health education informs the public about hazardous substances in the workplace. The maternal and child health program offers specialized health care for high-risk infants to help curb infant mortality and prevent later health complications. Substance abuse services include education, counseling and youth intervention programs. The Childhood Lead Poisoning Prevention Program provides in excess of 300,000 blood analyses annually to detect lead content. The AIDS Bureau provides AIDS testing, preventative education, and coordinates with the substance abuse services to raise public awareness of the relationship between AIDS and substance abuse. Other outreach operations provide blood pressure and cholesterol screening and nutritional information and training. They also immunize children and adults and monitor communicable diseases. Through the Special Supplemental Food Program for Women, Infants and Children, food supplements are made available to mothers and their children.

For fiscal year 2005, the Department administered approximately $730 million. Of this amount, federal funds amounted to $258 million.

The federal funding to this department is detailed in the accompanying Schedule of Expenditures of Federal Awards. The Department's major programs were:

CFDA #	Federal Program Description
93.959	Block Grants for Prevention and Treatment of Substance Abuse

No findings resulted from the audit of this federal program.

Department of Public Health
Findings not Repeated from Prior Years

1. The Department of Public Health was not in compliance with the independent peer review requirements of the Block Grants for Prevention and Treatment of Substance Abuse (SAPT) during FY 2004, however the Department was in compliance with the SAPT requirements during FY 2005. (*Fiscal Year 2004 Single Audit Finding 25*)

Department of Revenue/Division of Child Support Enforcement
Background

The Division of Child Support Enforcement (Division) is organizationally part of the Commonwealth's Department of Revenue and receives its mandate pursuant to Massachusetts General Laws Chapter 119A. The Division is the single state agency within the Commonwealth that is designated as the IV-D agency pursuant to Title IV, Part D of the Social Security Act. In accordance with the provisions of the law, the Division provides IV-D services to families, whether or not they are recipients of public assistance, to establish, modify, and enforce child support obligations. The services include location of obligees and obligors, the establishment of paternity, the establishment, modification, and enforcement of child support orders, including orders for health care coverage, and the collection and disbursement of support payments.

During FY2005, the Division's total expenditures were approximately $68 million.

The federal funding to the Division is detailed in the accompanying Schedule of Expenditures of Federal Awards. The Division's major program was:

CFDA #	Federal Program Description
93.563	Child Support Enforcement

Department of Revenue/Division of Child Support Enforcement
Findings on Compliance with Rules and Regulations

Finding Number 28: Ineffective Case Tracking and Management System

The Department of Revenue/Division of Child Support Enforcement (CSE or Division) needs to improve its system for tracking and managing child support cases. Of the 25 case files selected for testing, 13 cases were not administered in accordance with federal regulations.

A violation of 45 CFR 303.2 was noted in 13 of the 25 cases tested. In accordance with 45 CFR 303.2, upon complete referral or the submission of a complete application, the case must be assessed and additional necessary information obtained within 20 days. In all 13 cases, a review of the respective cases' Records of Support Action disclosed that necessary information was not obtained within twenty days after submission of the complete application. In all 13 cases, the assessment did not take place until respectively 70, 33, 44, 30, 157, 27, 68, 84, 123, 119, 130, 74, and 40 days after receiving the respective applications, which exceeds the 20-day window for case assessment.

The Division's 2005 Self-Assessment Review Report, required by federal statute, 42USC 654.15, found similar violations regarding (1) the Establishment of Paternity and Support Orders - 84 error cases of the 125 tested, (2) Review and Adjustments of Orders – 36 error cases of the 102 tested, (3) Interstate Services – 60 error cases of the 144 tested and (4) Case Closure – 21 error cases of the 119 tested. Overall, the Report found that the Division was compliant in four of the eight performance criteria and non-compliant in the four cited above.

The Division's ineffective case tracking and management system suggests a weakness in the *Commonwealth of Massachusetts Enforcement Tracking System* (COMETS), its comprehensive case tracking and management system, and/or a failure in enforcing and monitoring compliance with policies and procedures and laws and regulations, and may render its case management database unreliable. *(Department of Health and Human Services – Child Support Enforcement 93.563; Fiscal Year 1989; 2004 Single Audit Finding 24)*

Recommendation

We recommend that the Division enforce its policies and procedures to comply with federal requirements governing case file review and administration including periodic training to its caseworkers. Supervisors should also review the work performed by caseworkers to ensure that all case files are complete and accurate, that the Division's policies and procedures are followed and that federal compliance requirements are met.

The Division's Internal Audit Unit should continue to review case files with all active files being reviewed at least once every three years. These reviews should be documented and any errors identified logged to include a description of the error, the follow-up procedures performed, and how these errors are ultimately resolved or corrected.

The Division should continue to provide effective training for caseworkers, which focuses on adhering to federal requirements surrounding case file review and management.

Department Corrective Action Plan

CSE implemented case ownership in January and February of 2005 after a comprehensive initiative to redesign its organizational structure, workflow, and business processes to improve performance, make maximum use of human resources and information technology, reduce costs, and improve the quality of customer service. With case ownership, we assign responsibility for cases, reduce the volume of calls handled by our customer service bureau, and help ensure required actions are taken on cases in a timely fashion. Case ownership will address the errors cited in the audit, as the worker will have full responsibility for ensuring that the appropriate actions are taken on a timely basis.

Finding Number 28 Ineffective Case Tracking and Management System (Continued)

Department Corrective Action Plan (Continued)

CSE continues to work with our location specialist vendor to refine the location work performed by the vendor. Data is exchanged between CSE and the vendor through an electronic file transfer protocol. When data is returned to the case owner, he or she determines the next necessary step. CSE has also established a location workgroup to examine ways to streamline location processes.

CSE has also engaged a vendor to design and implement automated workflow management, imaging and documents generation and management. (Work started in late June with a completion date 14 to 18 months out.) This will route work more efficiently to case workers, improve supervisory oversight, strengthen quality control and provide management and staff with more real time information about case status and what actions are needed on a case. An imaging/document management system that electronically captures, stores, retrieves and distributes documents and the data on those documents will streamline case processing activities, minimize manual data entry, allow CSE to address customer issues quickly by providing direct access to documents and eliminate the search for paper. The benefit of imaging/document management will cut across all offices/units within CSE as workers from across the state can easily access the same document. The imaging/document management system will be integrated into CSE's automated system, COMETS, so that workers can retrieve documents without leaving the main system, thereby providing all necessary information at a glance. Workflow support will be incorporated to route documents and direct completion of tasks, enabling CSE to better respond to parents' requests for service.

Workflow support will be incorporated into the imaging/document management system mentioned above and will enable CSE to implement the redesigned business processes to increase staff efficiency and respond timely and proactively when action is necessary. Most child support work is organized around document management and tracking and imaging systems can be tailored to support this kind of activity. Workflow tools provide structure, efficiency, and accountability to business processes by enforcing rules for the routing of documents/information and the completion of associated tasks. Federal regulations mandate that child support cases be processed according to federal timeframes and that the worker must be notified automatically of the next appropriate action when manual intervention is required. By utilizing these workflow tools, CSE can ensure that all federal timeframes and regulations are met. By streamlining workflow and ensuring that appropriate steps are taken in a case, CSE will be in a strong position to improve on the five federal performance measures and maximize the amount of federal incentives returned to the state, while better serving the customer's needs.

CSE has started a detailed review of all interfaces with partner agencies with an emphasis on state human service agencies such as the Department of Transitional Assistance, Department of Public Health, Department of Social Services, and MassHealth. The state's Executive Office of Human Services has assigned a project manager to assist the Division in writing business requirements for the interfaces and to assess the human services agencies' readiness to modify their interfaces.

To support the workflow management and interface project, the Division has obtained longer term financing for these project through the state's information technology bond fund.

Responsible Person: Paul M. Cronin
Implementation Date: Ongoing

Department of Social Services
Background

The Department of Social Services (Department) established by Section 1of Chapter 18B of the Massachusetts General Laws provides services to children and families who are at risk, or have been victims of, abuse or neglect. The Department administers a comprehensive social services program. These services are administered through 28 area-based offices, and include counseling, protective services, parent aid and other in-home supports to reduce risks to children and provide legal and adoptive services. To ensure the children's well being, when necessary, the Department intervenes through court orders or voluntary agreements to place the child with foster parents or in group homes. During FY2005, approximately 10,000 children were living in foster care or some type of residential setting, either a group home or residential facility. When a child is removed from his or her home, the Department develops a plan to provide, as soon as possible, a long-term stable resolution. The Department also provides shelter and other services for battered women and their children.

For fiscal year 2005, the Department administered approximately $668 million. Federal funds amounted to approximately $270 million. The federal funding to this Department is detailed in the accompanying Schedule of Expenditures of Federal Awards.

The Department's major federal program was:

CFDA #	Federal Program Description
93.658	Foster Care – Title IV-E

Finding Number 29: Non-Compliance with Legal Requirements for Open Fair Appeal Hearings

The fiscal year 2004 single audit report disclosed that the Department of Social Services (Department) was not in compliance with the requirements for open hearings regarding appeals of certain decisions. Our follow-up audit disclosed that the Department continues its non-compliance with regard to the number of unscheduled hearings which escalated in fiscal year 2005. A review of fair hearing requests received from 1998 to 2005 (as of June 22, 2005) disclosed 5,009 open hearing requests. Of these, 3,910 have not been scheduled for a fair hearing by the Legal Department within the 90 calendar days as required by Department regulations, 814 have been scheduled for a hearing, 8 have data errors, and 277 have not been scheduled but are within the 90 days scheduling requirement. This represents an increase of 273 unscheduled fair hearings (within the 90 calendar days) from the 3,637 unscheduled fair hearings in fiscal year 2004.

The fair hearing process allows clients including biological, foster, and adoptive parents and children receiving services, the opportunity to appeal certain matters and to present other matters to the Department through a grievance process. The fair hearing process allows clients dissatisfied with certain actions or inactions of the Department or a provider under contract with the Department, to present his or her position in an informal hearing and to receive a just and fair decision by an impartial hearing officer based on the facts and applicable regulations. The Code of Massachusetts Regulation (CMR) 110 requires the Department to employ and train impartial fair hearing officers whose sole duty shall be to conduct fair hearings statewide. An individual shall file a written request for a fair hearing with the Department's hearing office within 30 calendar days from a decision.

As required by 110 CMR 10:05, a fair hearing shall address (1) whether the Department's or provider's decision was not in conformity with its policies and/or regulations and resulted in substantial prejudice to the aggrieved party; (2) whether the Department's or provider's procedural actions were not in conformity with its policies, regulations or procedures and resulted in substantial prejudice to the aggrieved party, or (3) if there is no applicable policy, regulation or procedure, whether the Department or provider acted without a reasonable basis or in an unreasonable manner which resulted in substantial prejudice to the aggrieved party.

The review of the FamilyNet open fair hearings report as of June 22, 2005 noted:

Calendar Year	Total Requested Hearings	Open Hearing Requests	Hearings Not Scheduled
2005 (As of 06/22/05)	946	635	326[1]
2004	1,939	1,641	1,576
2003	2,038	1,484	1,361
2002	1,957	661	514
2001	1,900	319	98
2000	1,949	180	19
1998-1999	7,799	89	16
Total	18,528	5,009	3,910

[1]277 requests received after March 22, 2005 were not included in the hearings not scheduled total since requests were received within the 90 days allowed to schedule the hearing.

Finding Number 29: Non-Compliance with Legal Requirements for Open Fair Appeal Hearings (Continued)

In addition, we noted 8 requests for an open fair hearing had data errors, including 4 with the scheduled hearing dates the same as the hearing request received date and 4 with the scheduled hearing dates prior to the hearing request date.

Fair Hearings are conducted for allowable grounds of appeal including:

1. Applicants may appeal the Department's failure to follow 110 CMR, the computation or imposition of fees for services, or any action or inaction of the Department to place a child across state lines;
2. Biological parents may appeal when a goal determination at a Foster Care review changes;
3. A recipient of services from the Department may appeal a) the suspension, reduction or termination of services, b) the fee calculation if the recipient can show an incorrectly calculated fee, or c) the failure of the Department to follow 110 CMR which resulted in substantial prejudice to the recipient;
4. Foster parents have the right to appeal decisions of the Department as stated in 110CMR 10:06, including licensing decisions, foster care child removals, decisions to close foster home etc.;
5. Pre-adoptive and adoptive parents may appeal the denial of an applicant to become a pre-adoptive placement, withdrawal of Department sponsorship of a placement or removal of a child from placement;
6. Adolescents and children through an attorney or representative may appeal changes in goal determinations;
7. Any parent or caretaker of a child has a right to appeal a Department's support of a finding of abuse or neglect of a child.

Code of Massachusetts Regulations 110 section 10:10 states,

> *The hearing shall be scheduled to be held within 90 calendar days from receipt of a request for a Fair Hearing.*

The Department is not meeting the legal requirements of conducting an appeals process for individuals involved with the Department services.

Due to budget constraints and the management time devoted to priority foster care related issues, the Department has been unable to hire hearing officers in recent years. As a result, Department personnel stated that the reduction of hearing officers in prior years from five to three, due to early retirement and budget cuts, has resulted in a backlog of unscheduled hearings and continues to impact the process. Department personnel had to prioritize cases based on the impact to individuals involved in a case.

During fiscal year 2005, the Department offered to personnel a six-month job transfer to assist in clearing the backlog. One person has applied and DSS personnel are in the process of reviewing the applicant. In addition, the Department has received additional funding in the fiscal year 2006 budget to address fiscal year 2005 single audit findings. (*Department of Health and Human Services – Title IVE Foster Care Program 93.658; Fiscal Year 2004 Single Audit Finding 32*)

Finding Number 29: Non-Compliance with Legal Requirements for Open Fair Appeal Hearings (Continued)

Recommendation

The Department should implement procedures to comply with the legal mandates, including seeking additional resources to conduct the required hearings and complete the appeals and grievance process for requesting individuals in accordance with agency regulations. The Department should continue the process of reviewing staff for temporary transfers and conduct the hiring of permanent hearing officers as soon as possible to address the increasing rate of unscheduled fair hearings.

Department Corrective Action Plan

The Department is pleased to report that it has received additional funding in the agency's administrative account which will enable the agency to hire three additional fair hearing officers. Through these hires, the Department full-time fair hearing officers will increase from 3 to 6. Increased staffing will provide the needed resources to resolve older pending cases and provide more timely responses to fair hearing requests as required by Department regulations. The Department expects that the 3 additional fair hearing officers will be in place no later than February 1, 2006. Leading up to that time, in addition to completing the hiring process and identifying cases for hearing, the Department will reconfigure case assignment responsibilities, which is now generally done based on geographical regions and Special Investigations, to ensure that consumers across the state have fair and timely access to the fair hearing process. (Last month, in light of the above, the Department decided to forego its prior plan to recruit field staff to a "sabbatical" assignment as temporary fair hearing officer. Only one volunteer had come forward in response to the announcement.)

Responsible Person: Virginia Peel, General Counsel
Implementation Date: February 1, 2006

Finding Number 30: Controls Over FamilyNet and Home Licensing Report Data Need Improvement

The fiscal year 2004 single audit report noted that the data in the Department of Social Services (Department) FamilyNet system needed improvements because of incomplete and inaccurate data representing a 52% error rate in the data including overdue licensing re-assessments for a number of homes where children had been placed. Our follow-up audit noted the Department implemented several controls resulting in significant improvements to the FamilyNet data. A review of 3,667 foster care records with children in FamilyNet, a local area network implemented by the Department in February 1998, was performed to determine the Department's compliance with licensing, re-assessments, and criminal background checks. The review of the June 2005 monthly Department's Foster Care Compliance Report, compiled from FamilyNet data, issued to area agency personnel to monitor foster care provider licensing and criminal background checks noted a 20% error rate including overdue and not completed annual provider re-assessments and missing date information.

An analysis of the 3,667 files in the FamilyNet system, as of June 2, 2005, noted the following:
255 files with the "home study" and "annual re-assessment" dates blank; the home study represents the original approval for child placement; (238 of these files were children placed in 189 homes within the 40 days allowed by this regulation)

- 254 files with the "recent re-assessment" dates blank and the initial home study date (child placed in the home) prior to June 2, 2004(requiring a home re-assessment by June 2, 2005);
- 218 files that indicated that the annual re-assessments were overdue -- 162 overdue less than a year, 31 overdue more than 1 year and less than 2 years, 15 overdue over 2 years and less than 3 years, 2 overdue 3 years and less than 4 years, 5 overdue more than 4 years and less than 5 years and 3 overdue more than 5 years and less than 6 years.

This results in a 20% error rate in the files. Additionally, 1,498 files dated after June 2, 2004 were not included in the analysis because they were within the one year allowed for the review. Although this represents a significant improvement from the fiscal year 2004 error rate of 52%, the Department still needs to continue its review of FamilyNet data for compliance.

Department Area Office personnel input case management data to FamilyNet. The data includes the resource provider name, the initial licensing date, most recent assessment date, number of authorized children, and the names of children placed in the resource provider home. From the FamilyNet data, the Department produces monthly reports entitled "Department Foster Care Compliance Report" and "Unapproved Homes with Active Placements" provided on the Department DocDirect system. These reports are provided to personnel responsible to monitor and conduct foster care provider licensing and criminal background review checks. The Area Office caseworkers are responsible to reconcile case data from the hardcopy records as well as information in the monthly reports to FamilyNet.

Department personnel stated that the monthly reports are a tool for determining licensing re-assessment due dates and that Area Office personnel also rely on FamilyNet and the hard copy case files for due and overdue assessments to determine license assessment dates. Even though personnel rely on hard copy files, as back-up information, Department officials stated that FamilyNet is the system of record.

Finding Number 30: Controls Over FamilyNet and Home Licensing Report Data Need Improvement (Continued)

During the fall of 2004, the Department established a new position to review reports for data accuracy, review compliance by Area Office personnel and conduct training for Regional and Area Office personnel on the utilization of FamilyNet reports to track home study and licensing reassessment dates and CORI due dates. Regular meetings are conducted between Foster Care Central Office and Area Office personnel, which include discussions on compliance and FamilyNet data. Also each month, the Area Offices receive a copy of the FamilyNet reports specific to their office to review for compliance. Each month Central office personnel send reports listing all cases for their office for compliance review by caseworkers to the Area Offices. The Department, however, does not produce an exception report identifying cases with overdue licensing/reassessment study dates.

Further, Department officials have stated that although the reports indicate that the re-assessments for continued licensing are overdue, the regulations allow for licenses to remain in effect until the re-assessment is performed. While we concur that the regulations do stipulate this, we do not believe that the intent of the legislation was for homes to remain licensed for an indeterminate amount of time before being assessed by the Department, resulting in a delay in a management discussion regarding the relationship between the foster homes and the Department, which is a integral part of the licensing process.

The Code of Massachusetts Regulations, 110 CMR 7.113, requires the following:

> *The Department shall annually reassess foster care parents and homes whether unrestricted, kinship or child specific including interviews, case file reviews and criminal background checks and after completing the reassessment issue within ten working days a decision on the re-approval terms and conditions.*

Additionally, 110 CMR 18.08 (2)(b) requires:

> *(b) The DSS shall conduct a CORI Investigation of any household member age fourteen or older during the initial home-study/evaluation of the foster/pre-adoptive home and during the annual reassessment of the foster/pre-adoptive home.*

Federal regulation, CFR, Title 45, Section 1356.30(a) states,

> *Unless an election provided for in paragraph (d) of this section is made, the State must provide documentation that criminal records checks have been conducted with respect to prospective foster and adoptive parents.*

Blank date information in FamilyNet and monthly reports results in children remaining in homes that lack timely initial licensing and annual re-assessments. It further results in noncompliance with state and federal laws, rules and regulations and Department policy because if homes are not licensed timely, Federal regulations preclude reimbursement to the state for payment made to the foster home. (*Department of Health and Human Services -Title IV-E Foster Care Program 93.658; Fiscal Year 2003; 2004 Single Audit Finding 31)*

Recommendation

The Department should continue its Central Office oversight control process, including periodic reviews of monthly reports and case information entered into the FamilyNet system, to ensure that information related to foster care cases and licenses is properly recorded and current.

Finding Number 30: Controls Over FamilyNet and Home Licensing Report Data Need Improvement (Continued)

Recommendation (Continued)

Department should stress the importance of updating the FamilyNet system with timely and accurate information in order to maximize its benefits and utilize the system for relevant data. Management should continue issuing monthly reports to Area Offices and consider developing an exception report to facilitate identifying overdue licensing and case re-assessment dates by Region/Area Office for review. Further, Department personnel should complete a reconciliation of information in FamilyNet and the reports to identify and reconcile any data exceptions. Overdue re-assessments should be performed as soon as possible in order to comply with regulations.

Department Corrective Action Plan

During FY 2005, the Department has been rebuilding the staffing capacity needed to appropriately oversee and manage the foster care program. In the rebuilding process, the Central Office Foster Care Support Services Unit is now staffed with a full-time Director in addition to a full-time Foster Care Specialist, the latter having a focus on CQI for family resource practice. In addition, two Foster Care Managers have been hired as of September 2005, each assuming responsibility for routine monitoring of family resource compliance – CORI, licensing, etc. – for three regions. These managers also provide technical assistance and support to field staff on improvements to family resource practice. There are already routine monthly meetings between Central Office, Regional, and Area Family Resource Staff during which the compliance reports are reviewed and discussed and where the family resource experts can share best practices. Foster Care and Adoption staff from Central Office meet regularly with Regional and Area staff to review reports and the family resource reports are sorted and distributed to the family resource field staff and managers on a monthly basis. Central Family Resource Staff have trained regional and area staff in utilization of the reports and continue to meet regularly to review recommendations regarding enhancements to FamilyNet and the reports. Central, Regional and Area staff are utilizing the family resource reports both to assure compliance with regulation is met and to plan workload for staff. These routine meetings continue.

Central Office Foster Care Support Staff and two on-going foster care advisory committees, the Family Resource Information Committee comprised of representatives from each Regional Office and the Family Resource Advisory Committee comprised of Family Resource Supervisors representing their Area and Region, are attentive to identifying and prioritizing recommended improvements to the family resource functionality in FamilyNet. As the 'system of record', FamilyNet data and its reports will always be the source for testing compliance. The managers in the Central Office Foster Care Support Services Unit, along with IT FamilyNet staff, must continue to enhance the family resource functionality to ease navigation and minimize opportunities to create conflicting or erroneous data. Enhancements to FamilyNet will continue to be developed, with the goal of improving and increasing family resource documentation in the system. During the past year, significant enhancements to the family resource windows in FamilyNet have been implemented. These enhancements directly facilitate or simplify the input of information into the system, improve data extraction from the system, or auto-generate annual functions (which previously required manual staff entry). The coordination of continued enhancement to both the FamilyNet system and the reports generated from FamilyNet continue between the IT department and the Adoption and Foster Care staff. The Department is currently piloting in various offices across the Commonwealth a limited mobile technology project. Lessons from this pilot will inform any decision to provide mobile technology for family resource staff.

Finding Number 30: Controls Over FamilyNet and Home Licensing Report Data Need Improvement (Continued)

Department Corrective Action Plan (Continued)

Most important to improving our CORI checks and re-licensing in foster care, however, is the fact that the Governor and Legislature funded an aggressive foster family recruitment program this year. Six Recruitment Supervisors have been hired and have begun work with the field to recruit foster families to meet the targeted placement needs of the offices. Additional support regarding recruitment should be implemented shortly which will allow area staff greater time availability for completion of family resource task requirements. As foster family placements increase for the first time in three years, family resource staff will be able to give more attention to these important tasks, as the staff time required for immediate placement of children decreases.

In addition, we are in the process of building an Area based support system that scaffolds the Area Office's ability to recruit, support and retain foster parents. By stipending current foster parents, we are creating a collaborative support system of staff and highly skilled foster parents to assist prospective foster parents through training and homestudy and retain current foster parents.

Responsible Person: Mary Gambon
Implementation Date: Ongoing

Finding Number 31: Timeliness of Criminal Offense Record Information (CORI) Checks Needs Improvement

The fiscal year 2004 single audit report disclosed that the Department of Social Services (Department) was not performing CORI checks within the required annual timeframes. Our follow-up disclosed that although there was a significant improvement in the timeliness of provider CORI checks, the CORI checks continue to be performed late. Our review of twenty-five cases of persons providing foster care services under the Title IV-E Foster Care Program noted no exceptions for the timely completion of annual CORI checks. However, our review of the Department's Foster Care Compliance and Contracted Care monthly reports of all foster care providers disclosed 68 providers with overdue or blank CORI records.

The Department continues to use its Continuous Quality Improvement Process (CQI) to assist the Commissioner and management in assessing the quality of services. The Department uses two monthly reports to monitor and assess the quality of services. One report is the DSS RPT 195 "Department Foster Care Compliance Report" and the second is the DSS RPT 196 "Contracted Care Report". The Area Office family resource workers and the Area Director are responsible for reviewing the DSS RPT 195 "Department Foster Care Compliance Report" monthly and identifying cases due for annual home re-evaluations or licensing reviews. The report captures the evaluation/assessment history of all foster parents/foster homes by type and date and is updated on the 2nd day of the month by Region/by Area Office from data inputted to FamilyNet by the Area Office caseworkers. This report presents comprehensive data, which includes identifying the resource parent information including licensing/home study review dates and the number of children in the home. In addition, the report includes the CORI check date and outcome of the CORI review. The DSS RPT 196 "Foster Contracted Care Report" identifies contract foster care providers including CORI check date, CORI disposition results and the number of children in the home. Department Contracted Care personnel are responsible to review the report for compliance.

A review of the monthly reports provided to Department personnel disclosed the following:

1. The DSS RPT 195 "Department Foster Care Compliance Report" as of June 2, 2005 showed 5 of 3,667 child foster care providers with overdue CORI records. A review of the CORI check records for the 5 providers disclosed that 4 were overdue less than 1 year and 1 was overdue more than 1 year and less than 2 years. This represents a significant improvement from fiscal year 2004 when 93 providers were reported as overdue or blank.
2. The review of DSS RPT 196 "Contracted Foster Care" as of June 2, 2005 disclosed of 1,181 CORI records for providers with children in placement, 2 were blank and 61 had overdue CORI checks including 57 less than 1 year overdue; 2 overdue more than 3 years and less than 4 years; 1 overdue more than 5 years and less than 6 years and 1 overdue more than 6 years and less than 7 years. This represents a non-compliance increase from fiscal year 2004 when 53 overdue CORI checks were reported for the Contracted Foster Care.

Through the FamilyNet system, Department family resource workers in Area Offices track due dates for CORI reevaluations and are required to electronically submit requests to the Central Office CORI unit to complete the background check. During fiscal year 2005, the Department has implemented new automatically generated requests for CORI checks including when prospective new providers resource records are input in FamilyNet and new household members are added to existing homes. Also, a new electronic edit has been established in the FamilyNet system that requires a CORI check dated within 45 days for a home study/license review to receive management approvals. In the fall of 2004, the Department created a position responsible to work with and train foster care personnel and contract providers on the utilization of FamilyNet including the use of the RPT 195 and 196 monthly reports to monitor CORI checks and licensing requirements for compliance. This individual continues to review monthly reports for compliance, conducts training for Department personnel and meets with foster care management on a regular basis.

Finding Number 31: Timeliness of Criminal Offense Record Information (CORI) Checks Needs Improvement (Continued)

The Department is required to perform criminal background checks on all new hires and an annual reevaluation of individuals and families seeking or providing services as foster family resources. Federal regulation, 45 CFR 1356.30(a) and (b), requires that the foster family home provider must have satisfactorily met a criminal records check with respect to prospective foster and adoptive parents. Under Massachusetts regulation, CMR 110-7.113, the Department is required to "re-evaluate foster parents and foster homes annually and request criminal record and Central Registry (an in-house database that tracks child abuse and neglect cases) checks for adult household members". Additionally, the CORI process is required during various stages of an eligible foster care provider's term with the Department. First, the prospective foster or pre-adoptive family must complete an initial eligibility screening process. This process determines whether the individual who is interested in serving as a family resource and the members of her/his household age fourteen years and older are eligible to apply for consideration as a prospective resource provider. Secondly, the prospective foster or pre-adoptive family must complete a home study evaluation. The home study evaluation is performed to pre-qualify the home and applicant to serve as a family resource. Lastly, annual reevaluations are performed for current foster or pre-adoptive families to ensure the household continues to be eligible for providing services. In addition, the CORI department Director reviews and monitors the monthly reports for DSS CORI checks due for the month including overdue background record checks.

The prior audit report also indicated some incomplete CORI checks related to providers whose records were either sealed or old court microfiche which the Department had not received. Identification of these cases was a manual monitoring process by the CORI Director who perused a monthly Family Net report and highlighted those cases for which records were sealed or on old microfiche.

The Department must submit a request for the sealed or microfiche court records to evaluate whether the home is a proper placement for the child. Department personnel stated that requests for microfiche records require the resources of the Criminal History Systems Board (CHSB) to search old records and sealed CORI record requests are received by the Commissioner of the Probation Department. In the case of unavailable CORI records or CORI checks that return with a criminal history, the Area Office personnel discuss the circumstances with the individual, document the information and depending on the information received, request a waiver to place the child. The Department's waiver process whereby the approval level (i.e. whether the waiver needs to be approved by a Director, the Commissioner, General Counsel or Deputy Commissioner) is dependent on the types and disposition of criminal charges. Any of these individuals can deny the waiver, terminating further placement review. The prior audit, however, stated that although the Department has a documented waiver process, the Department cannot be assured that the placement of the child is in the child's best interest if the Department has not confirmed the CORI records and types of criminal charges. The Department relies on the caseworkers, the CHSB, probation departments and adherence to the waiver process to ensure that the person whose records were sealed is not a danger to safety and well being of the child.

110 CMR 18.11 (9) states in part that

> *In reviewing a request for an individual to serve as a kinship foster/pre-adoptive parent the Commissioner, Deputy Commissioner of Field Operations and General Counsel must find (a) that the prospective foster/pre-adoptive parent or any household member does not present a risk of harm to the child based on the existence of a criminal conviction; and (b) that the conviction did not involve a crime against or involving a child.*

Finding Number 31: Timeliness of Criminal Offense Record Information (CORI) Checks Needs Improvement (Continued)

The lack of a timely re-evaluations could result in children being placed in an unsafe environment, does not comply with Department policy and may result in ineligible claims for federal reimbursement. *(Department of Health and Human Services - Title IV-E Foster Care Program 93.658; Fiscal Year 2002; 2004 Single Audit Finding 29*)

Recommendation

The Department should ensure timely completion of the annual CORI re-evaluations by Department personnel and contract care providers. Department management should reemphasize to personnel and contract care providers the importance of completing timely criminal background checks on foster care provider homes and continue to take steps to monitor and improve CORI compliance. Additionally, in addition to the system edit verifying the completion of a CORI check within 45 days of the home study/license approval, the Department should implement a FamilyNet system edit to provide an automatic notification to the CORI unit prior to the annual CORI re-evaluation due date. Finally, management should review the process of placing children in homes with CORI records sealed or not received to ensure the safety of the children.

Department Corrective Action Plan

The Department's Central Office family and adoptive resource staff, together with CORI unit staff will continue their work with Departmental family resource staff and contracted adoption and therapeutic foster care agencies to further advance the progress being made in ensuring timely completion of initial and annual CORI checks. The generation, sharing and monitoring of monthly reports of foster and adoptive resources needing to be CORI checked, based on the monthly DSS RPT 195 and 196 reports will continue with the goal of having no providers having overdue BRC Checks or not having been subjected to a Background Records Check. This will be accomplished by continuing the meetings with and trainings of pertinent Department and contracted agency staff on the process and importance of timely submission of BRC Requests and, as noted above, the production, sharing and monitoring of the monthly 195 and 196 reports.

The Department will continue to explore where the further automation of the BRC Requests processes, associated with foster and adoptive placement resources, may be beneficial. As noted by the auditors, some automation of the BRC process has occurred in the past year; FamilyNet prevents foster/adoptive re-evaluations from being approved if the most recent BRC Request is more than 45 days old, and when new resource records are created or current home memberships have new persons added, new BRC Requests are automatically generated and processed. However, a "fully" automated system for the generation of annual reevaluation requests may have the unintended and possible problematic consequence of having the checks performed on resources, the household membership of which may be out-of-date. The complete auto-generation of BRC Requests, absent any review by Department and contracted agency family resource staff, could result in the non-checking of new household members, not included in the FamilyNet family resource records, or the inappropriate/unlawful checking of one or more individuals no longer living in the resource home but still registered as a household member in FamilyNet. Part of the manual process for the generation of BRC Requests involves the affirmation of the household membership as it exists in the home of the placement resource and in FamilyNet resource record(s).

The CORI Unit will further continue to work closely with the Criminal History Systems Board and the Commissioner of Probation's office to expedite the processing of and the Department's receipt of CORI records that are sealed or on microfilm. Work / training with Department and contracted agency staff will continue to ensure that no child, in Department's care and custody, is placed in a home that has not be subjected to and BRC/CORI cleared, or that includes an individual, as a household member, that has a Massachusetts CORI record of unknown content (a microfilm or sealed record).

Responsible Person: Susan Getman
Implementation Date: Ongoing

Finding Number 32: The Process for Home Licensing Needs Improvement

The fiscal year 2004 single audit report noted that the Department of Social Services (Department) placed children in homes prior to the Department completing proper licensing requirements. The report also noted that subsequent home reviews were not completed in a timely manner. Our follow-up review disclosed that late home licensing or annual reassessments continues to occur although the Department has significantly reduced the number of late home licensing studies. The Department, in three of the twenty-five Title IV-E cases tested, placed children in homes, but did not complete proper licensing requirements in a timely manner. Two of the cases had annual home re-assessment studies completed 4 and 24 months after their due date and one case had a license renewal study completed 15 months after the annual home review due date.

A review of the Unapproved Homes with Active Placements Report disclosed that as of June 20, 2005, 340 children were placed in foster homes prior to the home being licensed. Of those, 238 children were placed in 189 homes within the 40 days allowed by the regulations, 91 children were placed in 76 unlicensed homes for more than 40 days and less than one year, 7 children were placed in 6 unlicensed homes for 1 to 2 years, 3 children were placed in 2 unlicensed homes for 2 to 3 years and 1 child was placed in an unlicensed home for 6-7 years.

A further review of the 9 homes with children in placement over one year noted the following:

- Home A - The home reported as unapproved for 6-7 years was approved on 6/29/05
- Home B – The home required a new study due to a change in the child's classification
- Home C - A child returned to the home for a second placement.
- Home D - A previously approved closed home re-opening requiring a new home study
- Home E - The home study is in progress
- Home F - A pre-adoptive review is in progress
- Three homes including 2 homes listed with placements for 1-2 years and 1 home listed with a child in placement for 2-3 years were on the report due to a system edit that required a new study when the foster parents decided not to close the homes

Our review showed a significant decrease of 368 children in unapproved homes from 708 as of the June 20, 2004 report to 340 children per the June 20, 2005 report. Also, children placed in homes over the 40 working days requirement decreased from 480 children to 102 children.

There are approximately 9,760 children in foster and residential care placement. Department officials explained that in situations involving kinship or child specific placements, the Department is allowed, under emergency provisions, to place the child in the home for 40 working days before a license is issued. They further explained that the above-mentioned report does not take into account these allowed exceptions. However, these exceptions were taken into consideration for purposes of our review and analysis of the data. Department officials stated that the exceptions primarily involve kinship and child specific homes. Area Office personnel have been informed by Foster Care management personnel to review homes and complete licensing for those more than 90 days overdue as a priority.

The Department developed a Continuous Quality Improvement Process (CQI) to assist the Commissioner and management in assessing the quality of services data on the number of children in unapproved homes is one of many indicators being routinely reviewed by management. One tool to measure the status continues to be the monthly report of Children in Unapproved Homes.

Finding Number 32: The Process for Home Licensing Needs Improvement (Continued)

Senior management continues to conduct meetings and train area office personnel on the usage and review of departmental reports such as the Children in Unapproved Homes Report and the Department Foster Care Compliance Report implemented to track licensing of foster care homes including identifying homes requiring immediate licensing approval and timely reviews. These reports are available to area office personnel on the DocDirect management reporting system maintained by the Department. One report entitled DSS 171 "Unapproved Homes with Active Placements" which captures all foster homes with active placements and no licensing approval by Region/Area Office. The report presents comprehensive data identifying the consumer name, birth date, consumer ID#, case ID#, case worker name, placement start date, family resource name and resource worker and services provided. The second report is the DSS RPT 195 "Department Foster Care Compliance Report" which captures licensing data by provider including dates of home study, annual re-assessments and foster license renewal date and the number of children placed in the home by Region/Area office. In addition, Department personnel stated that Area Office personnel in addition to the reports utilize FamilyNet case files to identify cases due or overdue for review by the assigned caseworker.

In response to the prior audit, Department management stated that because it had lost critical staffing in the foster care program, family resource staff, who are primarily responsible for CORI and re-licensing efforts, were needed to, and were overwhelmed by, the task of finding foster home placements. Therefore the family resource staff's work on the CORI and re-licensing suffered.

During fiscal year 2005, the Department filled two positions including the Director of Foster Care Services and a Foster Care Specialist whose responsibilities include working with Area Office personnel on Foster Care compliance including timely home licensing and training on the utilization of monthly departmental reports. Central Office personnel forward monthly departmental reports by Area Office to the applicable Area Office for compliance review. Area Office managerial staff is responsible to perform license reviews to ensure licensing approvals are completed in compliance with Department policy. Federal regulation, 42 USC 671(a)(10) and 672(c), requires that a provider, whether a foster family home or a child-care institution, must be fully licensed by the proper State Foster Care licensing authority. In Massachusetts, the Department is the licensing authority for departmental foster family homes. The lack of proper licensing does not comply with Department policy and could result in ineligible claims for federal reimbursement. *(Department of Health and Human Services -Title IV-E Foster Care Program 93.658; Fiscal Year 2002; 2004 Single Audit Finding 30)*

Recommendation

The Department should identify foster care homes that require immediate licensing approvals and ensure the homes identified as unlicensed or requiring a license study obtain a timely review by Area office personnel. The Central Office monitoring and oversight process should continue to review for and address deficiencies that are not being identified at the Regional or Area Offices and continue to emphasize to personnel the importance of timely licensing. Lastly, the Department should maximize federally-reimbursable expenditures by ensuring the timely performance of licensing reviews that would have been otherwise non-reimbursable.

Department Corrective Action Plan

By regulation the Department places children in new kinship/child specific homes following the completion of an initial eligibility screening visit to the home which includes the CORI,/BRC, safety enhancement checklist and physical standards review. That visit assures licensing standards are met at time of placement. The Department then has 40 working days to complete the homestudy narrative and approval process.

Finding Number 32: The Process for Home Licensing Needs Improvement (Continued)

Department Corrective Action Plan (Continued)

Department personnel conducted a further review of the Unapproved Homes with Active Placements Report, including a review of FamilyNet case files that contains detailed information not readily available in the report. This review indicated that for 69% (189) of the homes the homestudy was within the 40 working days allowed by regulation. Therefore, 102 children were placed in 85 homes with overdue homestudies. Of those 85 homes, 4 homes (6 children) were listed on the report due to the homestudies being denied but children remained pending fair hearing or court appeals, 8 homes (10 children) appeared on the report due to data entry errors/system edits which required a FamilyNet ticket for resolution (all 8 homes had been identified and ticketed), 3 homes on the report have child specific adoption homestudies showing as overdue (these homes have a prior foster home approval). Therefore, if you remove the 4 homes (6 children) in appeal, the 8 homes (10 children) with a system edit, the 3 homes (3 children) already in an approved foster home awaiting a adoption homestudy, the Department actually had 70 overdue homestudies (83 children) as of the June 20, 2005 report. Of those homes, 32 homes were approved within 10 working days of the issuance of the report.

The Department's review of the FamilyNet case files containing supporting documentation of the 9 homes with children in placement over one year noted the following:

- Home A – This home was approved 7/22/98 as a Kinship/Child Specific Foster Home, the child was placed 7/24/98, the home was re-assessed in 1999, 2001, 2002, 2003, and 2004. 6/29/05, a Kinship/Child Specific Adoption Homestudy was approved.
- Home B – The home required a new study due to a change in the child's classification.
- Home C – A child returned to the home for a second placement.
- Home D - A previously approved closed home re-opening requiring a new homestudy.
- Home E - The home was initially approved through Interstate Compact as the foster parent resided in Florida. When the foster parent and foster child moved to Massachusetts, a new homestudy was initiated.
- Home F - A pre-adoptive review is in progress.
- Three homes including 2 homes listed with placements for 1-2 years and 1 home listed with a child in placement for 2-3 years were on the report due to a system edit that required ticket resolution by the FamilyNet Helpdesk. These tickets had been reported to IT.

During FY 2005, the Department has been rebuilding the staffing capacity needed to appropriately oversee and manage the foster care program. In the rebuilding process, the Central Office Foster Care Support Services Unit is now staffed with a full-time Director in addition to a full-time Foster Care Specialist, the latter having a focus on CQI for family resource practice. In addition, two Foster Care Managers have been hired as of September 2005, each assuming responsibility for routine monitoring of family resource compliance – CORI, licensing, etc. – for three regions. These managers also provide technical assistance and support to field staff on improvements to family resource practice. There are already routine monthly meetings between Central Office, Regional, and Area Family Resource Staff during which the compliance reports are reviewed and discussed and where the family resource experts can share best practices. Foster Care and Adoption staff from Central Office meet regularly with Regional and Area staff to review reports and the family resource reports are sorted and distributed to the family resource field staff and managers on a monthly basis. Central Family Resource Staff have trained regional and area staff in utilization of the reports and continue to meet regularly to review recommendations regarding enhancements to FamilyNet and the reports. Central, Regional and Area staffs are utilizing the family resource reports both to assure compliance with regulation is met and to plan workload for staff. These routine meetings continue.

Finding Number 32: The Process for Home Licensing Needs Improvement (Continued)

Department Corrective Action Plan (Continued)

Central Office Foster Care Support Staff and two on-going foster care advisory committees, the Family Resource Information Committee comprised of representatives from each Regional Office and the Family Resource Advisory Committee comprised of Family Resource Supervisors representing their Area and Region, are attentive to identifying and prioritizing recommended improvements to the family resource functionality in FamilyNet. As the 'system of record', FamilyNet data and its reports will always be the source for testing compliance. The managers in the Central Office Foster Care Support Services Unit, along with IT FamilyNet staff, must continue to enhance the family resource functionality to ease navigation and minimize opportunities to create conflicting or erroneous data. Enhancements to FamilyNet will continue to be developed, with the goal of improving and increasing family resource documentation in the system. During the past year, significant enhancements to the family resource windows in FamilyNet have been implemented. These enhancements directly facilitate or simplify the input of information into the system, improve data extraction from the system, or auto-generate annual functions (which previously required manual staff entry). The coordination of continued enhancement to both the FamilyNet system and the reports generated from FamilyNet continues between the IT department and the Adoption and Foster Care staff.

Responsible Person: Mary Gambon
Implementation Date: Ongoing

Department of Social Services
Findings not Repeated from Prior Years

1. The Department of Social Services did not meet the federal legal requirements for documentation of judicial determination in three of 25 cases selected for Title IV-E review. At the time these cases were to be submitted for federal reimbursement, Department could not locate the records in the case files. During the current year, the Department was able to locate the files for all selections in the Title IV-E review. (*Fiscal Year 2004 Single Audit Finding 33*)

Department of Transitional Assistance
Background

The Department of Transitional Assistance's (Department) goal is to provide accurate and timely benefits with respect and courtesy to those in need of the Department's services. In pursuing this aim, the Department provides assistance to over 500,000 people in the Commonwealth each month through such programs as Transitional Aid to Families with Dependent Children (TAFDC), Supplemental Security Income and Food Stamps. The Department also operates the Employment Services Program that provides basic education, skills training, job referral, career counseling, and transportation services to certain TAFDC and Food Stamp clients.

During fiscal year 2005, the Department administered about $840.9 million in carrying out its transitional assistance programs and $346.3 million of Federal Food Stamp benefits for a total of $1.18 billion in state and federal funds.

The federal funding to this Department is detailed in the accompanying Schedule of Expenditures of Federal Awards. The Department's major programs were:

CFDA #	Federal Program Description
93.558	Transitional Assistance to Needy Families
10,551	Food Stamps Program
10.561	State Administrative Matching for Food Stamp Program

Department of Transitional Assistance
Findings on Compliance with Rules and Regulations

Finding Number 33: Food Stamps Status of Claims Against Household Report Filed with Inaccurate Data

The Food Stamps Report *Status of Claims Against Households (FNS 209)* submitted to the U.S. Department of Agriculture, Food and Nutrition Services (USDA/FNS) for the quarter ended December 31, 2004 by the Department of Transitional Assistance (Department) was reviewed by the Food and Nutritional Services (FNS) in February 2005. The primary purpose of the review was to determine whether the Department successfully completed the requirements stated in its Recipients Claims Corrective Action Plan (CAP) that resulted from the USDA/FCNS Management Evaluation Review conducted in February 2004. The April 2005 report stated that it was encouraged by the overall operations of recipient claim management, however all CAP activities had not been completed. Four of the seven CAPs had been fully implemented and the findings were considered closed by the USDA/FCNS. However, three of the seven Department CAPs submitted to FNS had not been implemented at the time of our testing procedures; consequently, the following deficiencies still exist.

- The Department does not meet the requirements of 7 CFR 273.18(a)(3) which require results in claims collections similar to national rates of collection. The Department's collections declined by 47.48% between 2001 and 2003.
- The Department does not compromise claims as required by 7 CFR 273.18(e)(7).
- The Department does not refer delinquent debts to the Treasury Offset Program (TOP) in a timely manner as specified in 7 CFR 273.18(n)(1).

As required by 7 CFR 273.18, the FNS 209 report is submitted on a quarterly basis and is used to support the amount of outstanding claims against food stamp recipients and the amount of cash collections and recoupments made during the quarter. The accuracy of these reports is important because the Department must submit to the federal government 65% of the amount collected due to Intentional Program Violations, 80% of the amount collected due to Inadvertent Household Errors and 100% of the amount collected due to State Agency Administrative Errors. *(Department of Agriculture – Food Stamp Program 10.551; Fiscal Year 1994; 2004 Single Audit Finding 54)*

Recommendation

The Department should implement the FNS recommendations, consistent with its CAPs, to bring the Department into full compliance with all applicable regulatory provisions.

Department Corrective Action Plan

Finding – "The Department does not meet the requirements of 7 CFR 273.18(a)(3) which require results in claims collections similar to national rates of collection."

- The Department has developed and submitted to USDA/FNS on July 8, 2005 a policy for terminating inactive accounts for review by the USDA/FNS and the Massachusetts Office of the Comptroller. On September 1, 2005, USDA/FNS approved the revised Claims Management Plan, and on October 5, 2005, the agency's proposal for terminating and writing off inactive accounts was submitted to the Comptroller of the Commonwealth for approval. Pending approval from the Comptroller, this policy will likely be incorporated into the agency Claims Management Plan within sixty days from receipt of said approval.

Finding – "The Department does not compromise claims as required by 7 CFR 273.18(e)(7)."

- The Department reviewed state, federal, and department policy and completed an analysis of policy and operational requirements for review and approval by the Department's Executive Staff in March 2005. On August 15, 2005, the Department's compromise policy was submitted to USDA/FNS and, on September 1, 2005, USDA/FNS approved the Department's policy. By December 31, 2005, the Department expects to modify its Claims Management Plan.

Finding Number 33: Food Stamps Status of Claims Against Household Report Filed with Inaccurate Data (Continued)

Department Corrective Action Plan (Continued)

Finding – "The Department does not refer delinquent debts to the Treasury Offset Program (TOP) in a timely manner as specified in 7 CFR 273.18(n)(1)."

- The Department will increase submission of TOP eligible claims to USDA/FNS to a quarterly cycle beginning in October 2005. These claims will be prepared for submission through an automated process using the Department's BEACON (Benefit Eligibility and Control On-Line Network) system. All future submissions will take place quarterly and be automated.

Responsible Person: Mark Miller, Director of Fraud Investigations and Recoveries
Implementation Date: October 31, 2005

Department of Transitional Assistance
Findings on Compliance with Rules and Regulations

Finding Number 34: The Department's Investigation and Recoveries of Food Stamp Fraud Needs to be Improved

The United States Department of Agriculture Food and Nutrition Service (USDA/FNS) issued a report in June 2005 listing six findings that require corrective action by the Department of Transitional Assistance (Department). Fraud investigations are conducted by the Department's Fraud Investigations and Recoveries Unit (FIR) and the Office of the State Auditor's Bureau of Special Investigations (BSI).

Federal regulation, 7 CFR 273.16(a)(1) requires that each state agency that administers the Food Stamp Program have a system in place to detect fraud on the part of households that apply for federal assistance. The system must be capable of initiating timely and appropriate action against any household that reports erroneous information, either inadvertently or intentionally. The system, in addition to its enforcement and recovery capabilities, must allow the household the opportunity to contest any adverse action taken against it by the state agency. Finally, the system must be capable of tracking progress of actions taken against households, and reporting those actions in the manner prescribed by federal reporting requirements.

The six findings included in the USDA/FNS report were:

- Investigation referral backlog of 7,000 cases at the FIR Unit
- Overdue fair hearing and administrative disqualification hearing (ADH) decisions; fair hearing decisions need to be issued within 60 days of a request for a fair hearing and an ADH decision needs to be issued within 90 days of the original notice to the household member.
- Unavailability of Department records to support field investigations.
- Incomplete and inaccurate FNS-366B Report, Program and Budget Summary Statement, Part A – Budget Projection.
- Lack of documentation on referrals sent back to the Department from BSI and lack of court documents in case files.
- Investigation referral backlog at the BSI of 2,137 cases.

The Department has submitted its corrective action plans to the USDA/ FNS and is awaiting approval. *(Department of Agriculture – Food Stamp Program 10.551)*

Recommendation

The Department should implement the FNS recommendations to bring the Department into full compliance with all applicable regulatory provisions.

Department Corrective Action Plan

The Department submitted its response on August 12, 2005 to the FNS Fraud Review and is waiting approval of its proposed Corrective Action Plan (CAP). The CAP includes detailed steps that will be taken to address the six findings listed above. Upon approval of the CAP the Department will immediately implement the corrective actions necessary to ensure full compliance.

Responsible Person: Mark Miller, Director of Fraud Investigations and Recoveries
Implementation Date: To be determined upon approval by FNS

Department of Transitional Assistance
Findings on Compliance with Rules and Regulations

Finding Number 35: Failure to Perform Federal Tax Information Match

During fiscal year 2005, the Department of Transitional Assistance (Department) did not perform the Federal Tax Information (FTI) data match with the Internal Revenue Service (IRS).

As required by 42 USC 1320b-7 and 45 CFR section 205.55, each state shall participate in the Income Eligibility and Verification System (IEVS) required by section 1137 of the Social Security Act as amended. Under the State Plan the state is required to coordinate data exchanges with other federally-assisted benefit programs, request and use income and benefit information when making eligibility determinations, and adhere to standardized formats and procedures in exchanging information with other programs and agencies. Specifically, the state is required to request and obtain unearned income from the IRS, though the Federal Tax Information match and utilize the information to the extent such information is useful.

The Department actually stopped performing the IRS data matches in April 2002 based on a deficiency noted in an IRS interim Safeguard Review Report dated June 2001, that the Department was disclosing tax information to the Office of the State Auditor's Bureau of Special Investigations (BSI). Under 26 USC 6103, disclosure of FTI from IEVS is restricted to officers and employees of the receiving agency. Outside (non-agency) personnel (including auditors) are not authorized to access this information either directly or by disclosure from receiving agency personnel. The BSI conducts the Department's criminal fraud referrals and has done so for Massachusetts since the inception of IEVS in 1988. BSI has never been organizationally part of the Department, and therefore the FTI should not have been disclosed to them.

The Department has pursued with the IRS the reestablishment of a data exchange. The IRS issued its final Safeguard Review Report in October 2004 and accepted in full the Department's corrective action plan. As of June 30, 2005, the Department was awaiting the final approval by the IRS of an agreement to reestablish the data match. *(Department of Health and Human Services – Temporary Assistance for Needy Families 93.558)*

Recommendation

We recommend that the Department execute the final agreement with the IRS so that data matches can be conducted in accordance with federal regulation.

Department Corrective Action Plan

A Safeguard Procedures Report was submitted to the IRS on June 1, 2005. This report must be approved by the IRS before it will initiate the matching process. The report redesigned methods by which the Department would administer Federal Tax Data and incorporated Federal Tax Information Safeguard Guidelines. On September 16, 2005 the IRS responded that the Safeguard Procedures Report submitted in June, 2005 was not approved pending the receipt of additional computer security information.

The Department continues to address all issues related to IRS guidelines and requests for information. In order to be able to perform the match the Department needs to revise its current Safeguard Procedures report to respond to questions and additional information requests recently received from the IRS. The Department will also have to submit a new Computer Matching Agreement and Agreement to Cover Reimbursable Costs to complete all requirements necessary to receive the data for the match from the IRS. It is anticipated that a revised Safeguard Procedures Report, a current Computer Matching Agreement and an Agreement to Cover Reimbursable Costs will be submitted to the IRS by mid-November, 2005.

Finding Number 35: Failure to Perform Federal Tax Information Match (Continued)

Department Corrective Action Plan (Continued)

Based on the above submission dates and assumed approval of the IRS, the Department expects to be able to perform the Federal Tax Information (FTI) data match with the Internal Revenue Service (IRS) by the end of fiscal year 2006.

Responsible Person: Cescia Derderian, Assistant Commissioner of Field Operations
Implementation Date: January 31, 2006

Department of Transitional Assistance
Findings not Repeated from Prior Years

1. The Department of Transitional Assistance's (Department) Benefit Eligibility and Control On-Line Network System (BEACON) lacked the appropriate segregation of duties for inputting eligibility data. The Department has instituted the appropriate controls for inputting eligibility data. (*Fiscal Year 2004 Single Audit Finding 55*)

Executive Office of Health and Human Services/Office of Medicaid
Background

The Executive Office of Health and Human Services (Executive Office) is the designated single state agency responsible for administering the program of medical assistance. The Executive Office assumed the single state agency responsibilities in fiscal year 2004 pursuant to a legislative reorganization and designation of the Executive Office as the single state agency. Prior to that date, and beginning in fiscal year 1994, the Division of Medical Assistance (Division) was the designated single state agency. As the current single state agency, the Executive Office administers the medical assistance program primarily through its Office of Medicaid (Office).

During fiscal year 2005, the Office administered approximately $9.7 billion in carrying out its program. Federal funds amounted to approximately $4.9 billion.

The federal funding to the Office is detailed in the accompanying Schedule of Expenditures of Federal Awards. The Office's major programs were:

CFDA#	Federal Program Description
93.778	Medical Assistance Program
93.775	State Medicaid Fraud Control Units
93.777	State Survey and Certification of Health Care Providers and Suppliers
93.767	Children's Health Insurance Plan

Executive Office of Health and Human Services /Office of Medicaid Findings on Compliance with Rules and Regulations

Finding Number 36: Missing Income Eligibility Documentation

One out of 25 selections tested for eligibility under the State Child Health Insurance Program (CHIP) administered for the Executive Office of Health and Human (Executive Office) by the Office of Medicaid (Office) revealed that the Office was able to provide a copy of only one weekly pay stub that was used in determining the members eligibility.

Federal regulation, 42 USC 1397bb(b), requires states to create a member eligibility plan detailing who the state will cover under the CHIP program. The plan will include the standards used to determine eligibility of targeted low-income children. State regulation, 130 CMR 506.005 requires the Office to obtain one the following items of documentation when determining eligibility: 1) two recent pay stubs, 2) a signed statement from the employer, or 3) most recent U.S. tax return.

The risk that the Office incurs by not obtaining two pay stubs is that the employee may not by aware of the employee's full earnings if the pay stub submitted is not reflective of the entire year. This exposes the Office to the risk that they are approving an ineligible person for CHIP services. (*Department of Health and Human Services – State Children's Health Insurance Program 93.767)*

Recommendation

The Office needs to improve its client file management procedures to ensure that all the necessary and required documentation is complete and current including a control measure to identify that all files are complete.

Department Corrective Action Plan

The Office will continue to stress the importance of comprehensive client file management to ensure that all required documentation is complete and current and will enhance control measure to identify that al files are complete.

Responsible person: Don Novo
Implementation date: January 2006

Executive Office of Health and Human Services /Office of Medicaid Findings on Compliance with Rules and Regulations

Finding Number 37: Provider Application not Signed by the Office of Medicaid

Two out of 29 selections tested for provider eligibility under the Medicaid program administered by the Executive Office of Health and Human (Executive Office) by the Office of Medicaid (Office) did not have a signed Provider Agreement/ Billing Intermediary Authorization Agreement on file as of the end of the fiscal year (June 30). The agreements were present in the file and completed, but were not signed by Office personnel.

Federal regulation, 42 CFR sections 431.107, requires the provider and the Commonwealth enter into a valid agreement before for the provider begins performing services under the Medicaid program. Under the Uniform Commercial Code, one element of a valid contract is that it is signed by both parties.

The risk that the Office incurs by not signing these documents is that it is not in compliance with federal regulations. *(Department of Health and Human Services – Medical Assistance Program 93.778)*

Recommendation

The Office of Medicaid needs to continue to improve its administrative controls to ensure that all necessary and required documentation is complete and current including a control measure to identify, in advance, those cases whose documentation is incomplete.

Department Corrective Action Plan

During the 1980s-early 90s, there may have been occasions when Medicaid may have had provider agreements on file that were not signed by both the provider and Medicaid. This practice was cited as a finding during a prior single state audit and Medicaid (now the Executive Office) implemented a corrective action plan to assure that provider agreements were countersigned. The Executive Office has since been in compliance with this new policy and procedure. The provider agreement selected was an old provider agreement, consequently, it was not signed after the corrective action plan was implemented. As long as the single audit selections are providers with a lengthy provider history, it is likely that the same problem could arise. However, if selections were made after the CAP was implemented, it is likely that the Executive Office would be found in compliance.

The Executive Office will continue to implement its prior corrective action plan which assures that documentation for new providers and providers under-going re-credentialing is complete and current. The FY06 plan is to implement a re-credentialing initiative in which the Executive Office will verify credentials of existing providers, however, as advised by the Legal department, existing providers will not be re-contracted nor will old provider agreements be retroactively countersigned.

Implementation date: On-going in FY06
Responsible Party: Janice Wadsworth

Executive Office of Health and Human Services /Office of Medicaid
Findings on Compliance with Rules and Regulations

Finding Number 38: Improper Claim of Costs Associated with the Virtual Gateway implementation

The Executive Office of Health and Human Services (Executive Office) did not adequately claim costs associated with the implementation of the Virtual Gateway system. Those costs for the quarter ending March 31, 2005 were under claimed by approximately $210,000.

Since October 2004 the Executive Office has been allocating costs using a newly implemented cost allocation plan which is awaiting approval from federal Center for Medicare and Medicaid (CMS). The Executive Office implemented cost allocation plan software (the software) to properly allocate expenditures across various departments within the Executive Office. The software is run by the Federal Revenues Office. In the case of the Virtual Gateway expenditures, the Federal Revenues Office receives the payroll and non-payroll information that should be claimed from the Information Technology Group (IT) within the Office of Medicaid in order to run the software on those expenditures. This is the only cost pool whose Federal Financial Participation calculation is "decentralized" to another department because the IT department needs to provide additional information in order to perform an accurate calculation within the software. The Federal Revenues Office would add the information received by the IT Manager to the costs to be claimed into the CMS 64 report. The claimed costs associated with Virtual Gateway for the selected quarter amount to $2.8 million. From a comparison of the total costs associated with the Virtual Gateway reported by the IT Manager and the report generated from the Federal Revenues Office which lists all the expenditures to be claimed during the quarter, it was noted that the Office of Medicaid claimed $210k less than the actual expenditures for the software implementation. Such under claim was not adjusted in the following quarter from the Federal Revenues Office.

Under the CFR § 95.517 "Claims for Federal Financial Participation" the Executive Office is allowed to use an interim Cost Allocation Plan: "State has claimed costs based on a proposed plan or plan amendment the State, if necessary, shall retroactively adjust its claims in accordance with the plan or amendment as subsequently approved by the Director, DCA." *(Department of Health and Human Services – Medical Assistance Program 93.778)*

Recommendation

The Executive Office needs to evaluate the methodology that is being used to report the hours spent on the implementation of the system to make them accurate. In case of under/over claiming the Executive Office should adjust the expenditures to proper reflect the actual ones over the following quarter.

Department Corrective Action Plan

EOHHS Federal Revenue Unit will work with EOHHS IT Unit to compare the expenditure information used for Virtual Gateway claiming with the EOHHS cost allocation plan to ensure appropriate claiming. If necessary, EOHHS will adjust claims back to q.e. 12/04.EOHHS Federal Revenue Unit and EOHHS IT Unit will jointly develop a proper method to query expenditures which can be used for Virtual Gateway claiming. Each quarter, the federal revenue analyst will compare the expenditure costs queried by the EOHHS IT Unit and the costs in the EOHHS cost allocation plan to be sure that the costs reconcile. The EOHHS Federal Revenue Unit will incorporate reconciliation procedures into the Cost Allocation Plan manual which is being developed.

Implementation date: January, 2005 - ongoing
Responsible Person: Janice Axelrod, Director of Federal Revenue Claiming

Executive Office of Health and Human Services /Office of Medicaid
Findings not Repeated from Prior Years

1. One out of 23 selections tested during FY 2004 for waiver eligibility under the Medicaid waiver program administered for the Executive Office of Health and Human Services (Executive Office) by the Department of Mental Retardation (Department) did not have current Plan of Care and Level of Care documents on file as of the end of the fiscal year (June 30). During testing in FY2005, we did not notify any issues of non-compliance in the current year relating to the DMR Waiver program. (*Fiscal Year 2004 Single Audit Finding 34)*

2. One out of 23 selections tested for waiver eligibility under the Medicaid waiver program administered for the Executive Office of Health and Human (Executive Office) by the Department of Mental Retardation (Department) did not document that the recipient was notified of their feasible alternatives. During testing in FY2005, we did not note any issues of non-compliance in the current year relating to the DMR Waiver program. (*Fiscal Year 2004 Single Audit Finding 35*)

3. The Executive Office of Health and Human Services (Executive Office) did not adequately follow and monitor the methodology used to determine the amount of federal cash to draw down and as a result, for 4 months of fiscal year 2004, drew down more federal cash than it should have and accordingly will have to pay interest to the federal government. More federal cash than needed was drawn down because the estimates made of the amount of non-federal collection revenue (i.e. rebates, refund, etc) that is used to off-set the drawdown of federal cash were significantly less than the actual collection. The Office is in compliance with the regulations governing cash in FY 2005. (*Fiscal Year 2004 Single Audit Finding 36*)

4. The Executive Office of Health and Human Services (Executive Office) needed to implement a process to monitor aged accounts receivable balances so that timely corrective action could be taken where appropriate. The Office implemented accounts receivable policies and procedures in FY 2005. (*Fiscal Year 2004 Single Audit Finding 37*)

5. The Executive Office of Health and Human Service (Executive Office) needed to document the procedures it uses to prepare the GAAP Package required to be submitted annually to the Office of the State Comptroller (OSC) as well as the actuarially developed year-end Medicaid accrual. During FY 2005, the Office documented their required policies and procedures. (*Fiscal Year 2004 Single Audit Finding 38*)

Executive Office of Public Safety
Background

The Executive Office of Public Safety (Office) oversees 17 agencies, boards, and commissions. The Office Program Division is the state-planning agency responsible for applying for and administering federal and state criminal justice grants.

The Department of Homeland Security, Office of Domestic Preparedness makes State Homeland Security Grants Funds available to states, which then make sub-awards to state and local units of governments. Through these programs, the Department of Homeland Security provides planning, equipment, training, exercise, and management funding to emergency prevention, preparedness, and response personnel in all 50 states. The Office works in partnership with federal, regional, local and private sector entities to enhance statewide capabilities to detect, prevent, respond to and manage the consequences of acts of terrorism and other critical incidents.
A key federal grant program administered by the Office is the Edward Byrne Memorial State and Local Law Enforcement Assistance Program (the Byrne Program). The Byrne Program, created by the Anti-Drug Abuse Act of 1988 (Public Law 100-690), places emphasis on drug-related crime, violent crime, and serious offenders, as well as multi-jurisdictional and multi-state efforts to support national drug control priorities. The Bureau of Justice Assistance makes Byrne Program Formula Funds available to states, which then make sub-awards to state and local units of governments.

The Byrne Formula Grant Program is a partnership among federal, state, and local governments to create safer communities and improved criminal justice systems, with emphasis on violent crime and serious offenders, and to enforce state and local laws that establish offenses similar to those in the federal Controlled Substances Act. Grants may be used to provide personnel, equipment, training, technical assistance, and information systems for more widespread apprehension, prosecution, adjudication, detention, and rehabilitation of offenders who violate such state and local laws.

The Office of Juvenile Justice and Delinquency Prevention administers the Juvenile Accountability Block Grant (JABG) program. Through the JABG program, funds are provided as block grants to states that have implemented, or are considering implementation of, legislation or programs promoting greater accountability in the juvenile justice system.

In fiscal year 2005, the Office administered approximately $332.5 million, of which $39.4 million was in federal funds. The federal funding to the Office is detailed in the accompanying Schedule of Expenditures of Federal Awards.

The Office's major programs were:

CFDA #	Federal Program Description
97.004	State Domestic Preparedness Equipment Support
16.579	Byrne Formula Grant Program
16.523	Juvenile Accountability Incentive Block Grant

Executive Office of Public Safety
Findings on Compliance with Rules and Regulations

Finding Number 39: Internal Controls over Federal Draw Downs Need to be Improved

The fiscal year 2004 single audit disclosed that the Executive Office of Public Safety (Office) had spent in excess of $8.1 million for Homeland Security Programs of which $7.3 million had not been reimbursed to the Commonwealth. The funds were not reimbursed due to the lack of proper monitoring and not receiving an approved Federal Grant Adjustment Notice (GAN) for removal of three special conditions from a federal grant with the Department of Homeland Security Office of Domestic Preparedness (ODP).

The Office's Programs Division has implemented corrective actions pertaining to the improvement of internal controls over federal drawdowns. The Office indicated that it has developed a bench marking report that can be used to monitor drawdowns of homeland security funds. The report is updated monthly and shows how much money has been spent and drawn down. The Office also developed a database that will track all grants including a section noting special conditions and whether the conditions have been cleared and by whom. The Office expects to use the database beginning in fiscal year 2006.

As a result of these improvements, two out of three of the special conditions (exercise and training funds) were cleared and the third (equipment funds) was reduced to about $32,000. GAN 5, dated February 4, 2005 (special condition #4) states that "The grantee is prohibited from expending or drawing down the remaining equipment funds in the amount of $32,000 until the grantee submits a detailed budget worksheet indicating how these funds will be used. When the required documentation has been reviewed and approved by ODP, a grant adjustment notice will be issued. The grantee is reminded that any changes to the approved equipment budgets must be approved by the program office."

As of June 30, 2005 the federal government had not removed this special condition restriction. However, on September 9, 2005 the Office submitted the equipment budget detail worksheet required by GAN 5. The federal review and approval process is still ongoing. The delay from February 4, 2005 to September 9, 2005 in submitting the required information to the federal government appeared to be related to staff turnover. In addition, the Office had to contact the federal government grant manager on the specific information and format to be submitted for this final equipment restriction to be reviewed and approved.
The Office has cleared other grant restrictions and has been successful in drawing down other allowable federal fund reimbursements on this grant.

Untimely monitoring review and follow-up of reimbursement from the federal government to the Commonwealth unnecessarily utilizes Commonwealth funds. It also inhibits the Commonwealth from recording reimbursements in a timely manner. *(Department of Homeland Security - State Domestic Preparedness Equipment Support 97.004; Fiscal Year 2004 Single Audit Finding 52)*

Recommendation

The Office should continue to improve its federal grant management system to ensure proper submission, timely follow-up with federal grant managers, and timely receipt of any GANs that are required to remove grant special condition restrictions. This system should include timely reconciliations, supervisory review, and reporting to senior management including transfer of job responsibilities when there is staff turnover. This transfer of responsibilities should require submission of applicable information for GAN approval for timely allowable federal grant reimbursements.

Finding Number 39: Internal Controls over Federal Draw Downs Need to be Improved (Continued)

Department Corrective Action Plan

The Office will continue to utilize electronic databases to track new grants and grant conditions. In addition to that the office will work with state oversight agencies to quickly identify when Grant Adjustment Notices (GANs) are holding up reimbursements to the Commonwealth of Massachusetts.

Responsible Person: Derek Lennon and Cynthia Duggan
Implementation Date: November 2005

Finding Number 40: Improvements Needed over Reconciliations

The fiscal year 2004 single audit report disclosed that the Executive Office of Public Safety (Office) needed to improve the reconciliation process between its own records, the Massachusetts Management Accounting and Reporting System (MMARS) and the U.S. Department of Justice's LOCES system (the federal cash management system).

In response to the prior audit, the Office modified and/or created additional processes to ensure that all funds returned by subrecipients are accounted for and credited to the appropriate funding stream. The Office indicated in its corrective action plan that many changes in the reconciliation process were due to the implementation of the Commonwealth's new MMARS during fiscal year 2005. The reports and spreadsheets the Office previously used were no longer available and no standardized reports were available until April 2005. However, the Office has included the new drawdown process in its internal control guide and will use this process on a go-forward basis. The Office will utilize the accounts payable period to make the proper adjustments and corrections for the first 10 months of fiscal year 2005.

While the Office has taken some corrective action there is a need for improvement. Specifically, our tests of selected transactions disclosed the following:

- One expenditure of $5,717 was charged to the Byrne Grant during October 2004 in error. The Office identified and resolved the error in January 2005.
- A duplicate payment of $5,854 was paid to a town from the fiscal year 2002 Juvenile Accountability and Incentive Block Grant (JAIBG). The Office has contacted the town and has initiated recovery of these funds.
- A subrecipient issued a $5,228 expenditure refund to the Office on February 17, 2005. The subrecipient stated that a review of their records identified these funds as a fiscal year 2001 Byrne Grant overpayment. These funds were not deposited to the Office's account until March 8, 2005. The Office appropriately credited the funds to the fiscal year 2002 Byrne Grant because the fiscal year 2001 Byrne Grant had already been closed.

The Office of the State Comptroller's, Internal Control Guide for Departments, Chapter Three, Revenue, states in part:

> *Collected Revenue: Collected revenues are those that are paid to the department at the point where a service/good has been provided. The department should develop internal controls to ensure that staff who collect or process revenue understand the requirements of state finance law as well as governing policies and procedures issued by the Office of the Comptroller and/or the department. The staff responsible for recording collected revenue should carefully document all revenue activity in accordance with sound management practices and all governing policies. Collected revenue should be deposited into a Commonwealth account on a daily basis. Deposits should be reconciled daily by an individual independent of the collection process. Collected revenue should be reconciled monthly to the state accounting system records and to the monthly bank statement.*
>
> *Collected revenue should be credited to appropriate revenue source and fund, as authorized in statute.*

Finding Number 40: Improvements Needed over Reconciliations (Continued)

Massachusetts General Law Chapter 30, Section 27 states in part:

> *Except as otherwise expressly provided,…money received on account of the commonwealth shall be paid daily into the treasury thereof...*

Untimely or inadequate reconciliations can result in incorrect or invalid entries being made to the Commonwealth's accounting system and the inability to identify all revenues that are due to the Commonwealth. It could also lead to inaccurate reporting of federal funds received and discrepancies between grants, resulting in ineligible draw downs and reimbursement of funds to federal agencies. (*Department of Justice - Byrne Formula Grant Program 16.579, Juvenile Accountability Block Grant Program 16.523; Department of Homeland Security – State Domestic Preparedness Equipment Support 97.004; Fiscal Year 2003; 2004 Single Audit Finding 50)*

Recommendation

The Office should continue efforts to perform timely reconciliations of all accounts as is required. The reconciliation process should ensure that all funds are tracked, accounted for and deposited in a timely manner, and reflect accurate balances as required by OSC requirements, laws, and regulations. Also, the Office should review and make the appropriate adjustments for the first ten months of fiscal year 2005.
The Office should establish subrecipient contract conditions that require the return of all funds received in excess of the allowable contract expenditures. This contract condition and the proper procedure to forward funds to the Office for proper credit to their grants should be addressed in training and directives to the subrecipients.

Department Corrective Action Plan

The EOPS will continue to utilize the reconciliation procedures established in the internal control plan. The Programs Division will update and add a policy that requires Programs Division staff to make every attempt to deposit revenue on a daily basis, thus enforcing the necessity for timely deposits. The office will reiterate and stress at future sub-grantee trainings the importance of operating strictly on a reimbursement basis. EOPS staff already advises sub-grantees that excess cash should be returned immediately, but will disburse a policy to sub-grantees relative to the procedures for returning funds to the Programs Division.

Responsible Person: Derek Lennon
Implementation Date: November 2005

Finding Number 41: Monitoring of Subrecipients Needs Improvements

The fiscal years 2002, 2003 and 2004 single audit reports disclosed that the Executive Office of Public Safety (Office) needed to improve its financial monitoring procedures over subrecipients to ensure federal funds are spent in accordance with contract requirements and to ensure that subrecipients have adequate systems of accounting and internal controls. The fiscal year 2004 single audit disclosed that while the Office made progress in subrecipient monitoring, policies and procedures still need to be enhanced to (1) identify and monitor the subrecipient's audit reports that are required to be submitted in accordance with OMB Circular A-133 and (2) require on-site visits of subrecipients to determine if the subrecipients were monitoring the work of their independent accounting firms.

Our follow-up audit disclosed that the Office conducted financial monitoring activities by reviewing quarterly financial and programmatic reports submitted by subrecipients, conducting on-site programmatic and financial reviews and discussing various topics by telephone. The Office also conducted educational seminars for subrecipients outlining the reporting and documentation requirements as well as providing overall guidelines to assist subrecipients.

The Office also receives A-133 audits reports from some subrecipients but does not evaluate these reports or issue management decisions on the audit findings. The Office does not have a system in place to determine which subrecipients are required to have an A-133 audit.

The Office disburses federal funds to subrecipients for the Byrne Formula Grant, Juvenile Accountability Block Grant, and State Domestic Preparedness Equipment Support programs. According to OMB Circular A-133, Subpart D, Section 400 (d)(3) and (b)(5), the responsibilities of pass-through entities include:

> *Monitoring the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations and provisions of contract or grant agreements and that performance goals are achieved.*
>
> *Issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipients take appropriate and timely corrective action.*

With regard to the A-133 audit reporting requirement, all the Office's federal grant application instructions include a "Sub-grantee Requirements" section stating:

> *Local units of government whose towns or municipalities that expend $500,000 or more in a year in Federal awards shall have a single or program-specific audit conducted for that year in accordance with the provisions of the Office of Management and Budget's circular A-133. Applicant local units of government must submit a copy of their [most recent Fiscal Year] audit along with their grant applications.*

In response to the prior audit, the Office said it would develop a process to track A-133 audit reports and that the process would include issuing management decisions on audit findings within six months. Our follow-up audit disclosed that the Office received subrecipient A-133 reports, but due to insufficient staffing, did not review the reports, therefore, no one determined whether there were findings or reportable conditions which should have been followed up on in accordance with A-133.

With regard to desk reviews and site visits, the Office needs to better document its follow-up of issues discovered during the reviews. Issues with respect to equipment ordered and not delivered were identified but there was no evidence of a follow-up to determine whether the equipment was subsequently received.

Finding Number 41: Monitoring of Subrecipients Needs Improvements (Continued)

By not knowing which of its subrecipients are required to have an A-133 audit and by not reviewing A-133 audit reports, or issuing timely decisions on subrecipient A-133 findings, the Office cannot be assured that federal awards are used in compliance with contracts, laws, and regulations, or that fiscal records are being maintained properly and that subrecipients have adequate systems of accounting and internal controls. In addition, by not following-up on issues determined during the desk reviews and site visits, there is no assurance that the subrecipients have expended funds for the intended use. *(Department of Justice - Byrne Formula Grant Program 16.579, Juvenile Accountability Block Grant 16.523; Department of Homeland Security -- State Domestic Preparedness Equipment Support 97.004; Fiscal Year 2002; 2004 Single Audit Finding 48)*

Recommendation

The Office should:

- Review its personnel duties and responsibilities in order to ensure the review of each subrecipient's A-133 financial statements, audit findings, and corrective action plans.
- Take appropriate and timely corrective action to issue management decisions on audit findings within six months of receipt of subrecipients' audit reports.
- Complete all desk review and site visit worksheet questions and follow-up by indicating the action areas required to be completed and the timetable for completion.
- Require follow-up of the desk review and site visit worksheets of non compliance areas identified to determine if the subrecipient took necessary timely and adequate follow-up actions, such as, receiving all equipment purchased but not delivered.
- Develop a system to determine which subrecipients are required to have an A-133 audit.

Department Corrective Action Plan

The Office has developed an A-133 self-identifying sheet for sub-grantees to submit with all future contract packages. The sheet requires the sub-grantee to identify to EOPS the following: if the sub-grantee was required to have an A-133 report within the last year; any findings related to EOPS funds; the original date of the finding; the status of the Corrective Action Plan; and a copy of the corrective action plan. We have submitted the form to the DOJ, OJP compliance monitoring unit for approval, and received email confirmation that the form is sufficient for identifying and reviewing sub-grantee A-133 reports. The office will not sign or enter into a contract with a sub-grantee prior to having an A-133 and self-identifying form submitted. The office will review each form submitted and will evaluate the corrective action plan as well as the status of it, and issue a written management decision to the sub-grantee. As stated in the form, failure to comply with implementing Corrective Action Plans could result in a loss of funds administered by EOPS.

The Office will email sub-grantees the results of their site visits and whether there are any required follow-up actions. A copy of the email will be placed in the program file.

Responsible Person: Derek Lennon
Implementation Date: November 2005

Finding Number 42: Salaries Allocated to Federally-Funded Programs are not Supported by Proper Documentation (Continued)

The fiscal year 2003 and 2004 single audit reports disclosed that the Executive Office of Public Safety (Office) was not in compliance with OMB Circular A-87 requirements because it did not maintain personnel activity reports and did not have a cost allocation system to compare actual employees' hours to hours charged to the program. As a result our audit questioned $512,367 in fiscal year 2004 in salaries, fringe benefits and indirect costs that were charged to the Byrne Formula Grant (BFG), Juvenile Accountability and Block Grant (JABG), and Homeland Security Grants (HSG) I and II.

OMB Circular A-87 states, in part:

> *Where employees are expected to work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation. Such documentation must meet the following standards including: a) They must reflect an after-the-fact distribution of the actual activity of each employee, b) They must account for the total activity for which each employee is compensated, c) They must be prepared at least monthly and must coincide with one or more periods, and d) They must be signed by the employee.*

Our follow-up review disclosed that the Office implemented new policies and procedures to provide proper supporting documentation for all salaries and related costs that complied with OMB Circular A-87 requirements. However, the new policies and procedures were not implemented due to insufficient staffing. The Office indicated that "Due to NewMMARS and additional staff turnover in the position identified to be responsible for tracking percentage changes as written in by staff, the EOPS did not monitor employee sign in for the" period July 1, 2004 through March 5, 2005. For the period July 1, 2004 through March 5, 2005, the Office used a manual process to charge salary and related costs charged to federal grants. The costs charged were those budgeted but were then compared with actual on a monthly basis to determine if adjustments were necessary. In addition, these allocations were later confirmed by letter, on an employee-by-employee basis, attesting that the allocation used reflected the actual time which should have been charged to the federal grants.

While we acknowledge that the process implemented for July 1, 2004 to March 5, 2005 allows the Office to conclude that the proper salaries and related costs were charged to federal grants, it was not strictly in compliance with OMB Circular A-87

Beginning in March 2005 the Office reestablished a policy of employee weekly confirmation of time allocated to programs. This is the same weekly process implemented in response to the prior years' audit reports. The process, however was not adhered to and the Office did not take timely action to ensure that duties of employees responsible for monitoring were continued when there was staff turnover or changes to the accounting system. *(Department of Justice - Byrne Formula Grant Program 16.579, Juvenile Accountability Block Grant 16.523; Department of Homeland Security - State Domestic Preparedness Equipment Support 97.004; Fiscal Year 2002; 2004 Single Audit Finding 45)*

Recommendation

The Office should continue to comply with the provisions of OMB Circular A-87, and develop a systems solution to the process of charging actual salary and related costs to federal grants in order to avoid reliance on a manual process. Because of the recurring nature of the issue, it is imperative that the Office ensure that there is continuity for employee turnover and system changes.

Finding Number 42: Salaries Allocated to Federally-Funded Programs are not Supported by Proper Documentation (Continued)

Department Corrective Action Plan

The EOPS will continue to require weekly personnel activity reports, initialed by both employee and supervisor, which surpasses the OMB Circular A-87 requirement of monthly personnel activity reports. The office will compare employee activity reports to the automated LCM budgeted information on a quarterly basis. Where employee actual activity differs by greater than ten percent to budgeted activity, adjustments will be entered into the accounting system. At the completion of the fiscal year, EOPS will compare actual activity reports to yearly budgeted amounts and make a final adjustment to ensure that the agency salary allocations reflect actual work performed.

Responsible Person: Derek Lennon
Implementation Date: November 2005

Executive Office of Public Safety
Findings not Repeated from Prior Years

1. The Office was not in compliance with the standard contract requirements for payments made within the service contract dates. Payments were made to a municipal police department for the establishment of a Drug Task Force outside the service contract dates. The Office continues to use its 15-step bill paying process to ensure that payments are made within the periods covered under the contract or contract amendments. A review of selected test transactions during the fiscal year 2005 single audit did not disclose any similar issues. *(Fiscal Year 2004 Single Audit Finding 44)*

2. The Office and their subrecipients did not process federal funds within a timely period resulting in fiscal year 2004 excess federal funds totaling $1,948,239. The Office developed internal reports and worked with the Office of the State Comptroller to ensure that funds are credited to the appropriate federal grant. A review of transactions during the fiscal year 2005 single audit did not disclose any issues. *(Fiscal Year 2004 Single Audit Finding 46)*

3. The Office paid federal funds to subrecipients for the reimbursement of administrative expenses without sufficient documentation supporting the expenditures resulting in questioned cost of $3,304,957 in the Homeland Security, Byrne Formula Grant and the Juvenile Accountability Incentive Block Grant programs. The Office updated its requirements for reimbursement and supporting documentation and developed an educational tool that notifies subrecipients of the documentation to be submitted to EOPS for reimbursement, as well as the documentation to be maintained at the subrecipient level for inspection during fiscal and programmatic site visits. Office personnel intend to use this schedule for the next funding cycle of grants. The Office conducted on site reviews to determine that the obligations came due within the required period. *(Fiscal Year 2004 Single Audit Finding 47)*

4. Financial managers who have signatory authority at the Office approved payment vouchers after the payment was made and entered into the Massachusetts Management Accounting and Reporting System (MMARS). The Office continues to use its new policies that were implemented February 1, 2004, to be consistent with the OSC's bill paying policies, to process payments after the appropriate signature approval. *(Fiscal Year 2004 Single Audit Finding 49)*

5. During the FY 2003 single audit, it was revealed that former Office employees and subrecipients were the subject of a federal investigation. The investigation concerns the Byrne Formula Grant funding received during the tenure of those employees. During FY 2003, the Office expended $10,999,270 in Byrne Formula Grant funds. The Office indicated in its Status of Prior Years Audit Findings that no further action is required because two years have passed since the finding was submitted to the federal government and the federal government is not following up on the finding and has not issued a management decision. OMB Circular A-133, Section 315 (b)(4) states:

   When the auditee believes the audit findings are no longer valid or do not warrant further action, the reasons for this position shall be described in the summary schedule. A valid reason for considering an audit finding as not warranting further action is that all of the following have occurred: Two years have passed since the audit report in which the finding occurred was submitted to the federal clearinghouse; The Federal agency or pass-through entity is not currently following up with the auditee on the audit finding; and A management decision was not issued. As a result in accordance with A-133 this finding is no longer valid and does not warrant any further action. *(Fiscal year 2004 Single Audit Finding 51)*

Massachusetts Emergency Management Agency
Background

The Massachusetts Emergency Management Agency (MEMA) was established under the Civil Defense Act, Chapter 639 of the Acts of 1950. Chapter 6A, Section 18, of the Massachusetts General Laws, placed MEMA within the Executive Office of Public Safety (EOPS). MEMA is responsible for coordinating federal, state, local, and private resources to protect the public during disasters and emergencies. MEMA's function is to: 1) help develop plans for effective response to all forms of threat from natural or technological hazards, such as hurricanes, winter storms, floods, fires, hazardous material incidents, tornadoes, earthquakes, nuclear accidents, or terrorism; 2) train emergency personnel to protect themselves and the public, and 3) assist individuals and communities in recovering emergency-related losses. MEMA's resources network includes public health and safety officials; emergency workers; fire, police, public works, and transportation officials; nonprofit and volunteer agencies private businesses and industry; and federal agencies.

For fiscal year 2005 MEMA administered approximately $32 million in Federal Public Assistance Grant funds.

The Agency's major federal program was:

CFDA#	Federal Program Description
93.658	Federal Public Assistance Grant Program

No findings resulted from our audit of this federal award program.

Massachusetts Highway Department
Background

The Massachusetts Highway Department (Department), within the Executive Office of Transportation and Construction, plans, constructs and maintains the state highway system, which consists of approximately 9,505 lane miles of highway and 2,900 bridges. To accomplish this, the Department operates approximately 122 maintenance facilities located throughout the state, including administrative offices, garages, and repair and storage buildings. Most of the facilit ies are small and serve maintenance needs.

During fiscal year 2005, the Department administered appropriated funds of approximately $31 million. In addition, the federal government on a reimbursement basis provided about $424 Million.

The federal funding to the Department is detailed in the accompanying Schedule of Expenditures of Federal Awards. The Department's major program was:

CFDA #	Federal Program Description
20.205	Highway Planning and Construction

Finding Number 43: Subrecipient Identification and Award Documents Need Improvement

The Massachusetts Highway Department (Department) needs to continue to improve its system for identifying, and communicating to subrecipients thereby ensuring compliance with the provisions of the Single Audit Act Amendments of 1996.

Section 7502 (f)(2) of the Single Audit Act Amendments of 1996 (Act), states that each pass-through entity shall provide subrecipients with the program name and identifying number as specified in the *Catalog of Federal Domestic Assistance* (CFDA) as well as the federal requirements, which govern the use of such awards.

A subrecipient is an entity that expends federal awards received from a pass-through entity, such as the Department, to carry out a federal program. OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, the implementing regulations of the Act, indicates certain characteristics that should be considered in identifying subrecipients. For instance, subrecipients assume the responsibility for making programmatic decisions as well as complying with applicable federal requirements. Their performance is measured in terms of meeting the federal program's objectives rather than just providing goods or services to the Department. Vendors are those entities, which provide goods and services to many different purchasers within their normal business operations. They operate in a competitive environment; and/or provide goods or services that are ancillary to the operation of the federal program. Vendors are not subject to Single Audit requirements. Not informing the subrecipients that they are receiving federal awards can affect the type of audit they should obtain.

During a review of some new agreements the Department has with other component units of state government, it was noted that in four (4) instances the Department treated these entities as vendors. Additionally, two (2) other older agreements extended during the year with an increase in funds were also treated as vendors. The funds awarded under these agreements had the characteristics of a pass-through-subrecipient relationship.

While the Department has made an effort to identify subrecipients that are municipalities, there continues to be some uncertainty as to the type of activity and entity that may qualify as an award to a subrecipient, which is part of the Commonwealth but not accounted for in MMARS. Payments to other governments are often coded as design or construction indicating that the Department is undertaking those activities rather than delegating the responsibility to those entities. In addition, award documents at times do not inform recipients of all applicable requirements, when the Department plans to seek reimbursement under federal programs. The Department estimated that approximately $4.7 million or 1 percent of the $480 million in payments made under the State Roads and Bridges Program were made to other governments and non-profit organizations in fiscal year 2005 that could be construed as subrecipients. (*Department of Transportation – Highway Planning and Construction 20.205; Fiscal Year 1999; 2004 Single Audit Finding 26)*

Recommendation

The Department should continue its efforts to identify subrecipients. All new and amended contracts with other governments including component units of the Commonwealth should be reviewed by one bureau within the Massachusetts Highway Department to ensure all federally funded agreements or extensions the Department enters into are properly classified as either vendors or subrecipients, as defined by OMB Circular A-133 (Circular). This review would also determine whether all the agreements contained contract language, which includes the program name and identifying number for the various types of awards its passes through as well as the applicable federal requirements.

Finding Number 43: Subrecipient Identification and Award Documents Need Improvement (Continued)

Department Corrective Action Plan

MassHighway is using standard contract language in all subrecipient agreements, including program name, identifying CFDA number, and audit requirements, with a few exceptions as noted in the audit finding. Two agreements that were cited in the audit for not containing the standard contract language for subrecipients were amendments to an older agreement that did not contain the standard language. It was an omission on the contract manager's part not to include the standard contract language for subrecipients in the amended agreement. Additionally, MassHighway entered into an agreement with a public authority that was not identified as subrecipients. It was the opinion of the contract manager that these agreements were a vendor relationship, not a subrecipient. Planning and Highway Engineering will continue to make the determination as to whether a contract or agreement should be classified as a vendor or subrecipient. The Chief Counsel's office will verify that the contract language is appropriate for a subrecipient before it goes to the Commissioner for signature.

Responsible Person: Sue Bristol, Undersecretary (EOT)
Implementation Date: 11/01/2005

Finding Number 44: Proceeds from the Sale of Federally-Funded Property not Deposited or Transferred on a Timely Basis

The Massachusetts Highway Department (Department) did not deposit the proceeds from the sale of property acquired with federal awards on a timely basis. In addition, there was a delay in transferring $296,915 to the Massachusetts Highway Trust Fund.

The Common Rule as stated at Title 49 of the *Code of Federal Regulations* for the U.S. Department of Transportation Section 18.31 "Real Property" permits the Department to sell property previously purchased with federal funds. Under 23 USC 156, the federal share of the proceeds from property purchased with awards from the Highway Trust Fund can be used to fund other eligible highway projects. The Department makes those funds available to other eligible highway projects by transferring the federal share of the proceeds to Fund 290, the Massachusetts Highway Trust Fund. When the Right-of-Way Bureau receives checks from the sale of real estate it forwards them to Fiscal Management for deposit. A Department policy requires that transfers to the Highway Trust Fund must occur within 30 days of being received by Fiscal Management. It is also the Commonwealth's policy to deposit all checks within one day of receipt.

During testing for fiscal year 2005, it was noted that 4 of the 5 checks selected from real estate sales were not deposited within 1 business day. Those checks were held from 2 to 7 business days before being deposited. In addition, transfers to the Highway Trust Fund totaling $296,915 were not made within 30 calendar days for all 5 items tested. The transfers took 37, to 137 days. Department personnel stated that delays occurred in processing transactions while learning and implementing New MMARS. (*Department of Transportation – Highway Planning and Construction 20.205*)

Recommendation

The Department should streamline the time between the receipt of a check for the sale of real property and its deposit into the Commonwealth's accounts. All checks should be deposited within one day of regardless of whether complete information is available concerning the federal-aid project number. In addition, every effort must be made to transfer the funds to the Highway Trust Fund within 30 calendar days.

Department Corrective Action Plan

The Department is a large agency that receives and processes a large number of checks every day. The Department has made great imp rovements in assuring checks received by the Department are deposited within one day as required by the policy of the Office of the Comptroller. The Right of Way section currently hand delivers their checks for the sales of land to a responsible Fiscal person. Also, if there are issues with the checks received, we are making copies of the checks and getting them deposited while we work on resolving the issues. We are also working with our IT section to update our check login system.

With the implementation of New MMARS there was some confusion at the beginning of the Fiscal Year as we became accustomed to the new forms and procedures. This confusion has been alleviated. Additionally, some of the delays in transferring to the Highway Trust fund involve issues with DCAM that need to be resolved before we can make the transfer. We will expedite the resolution of issues with DCAM and assess the possibility on a case by case basis of processing the transfer "as is" while working on a viable solution.

Responsible Person: Glenn Behmer, Director of Revenue
Implementation Date: 11/01/2005

Finding Number 45: Documentation of Debarment and Suspension Compliance Needs Improvement

The Massachusetts Highway Department (Department) could not provide 5 of 17 debarment and suspension certificates for construction contractors.

Under Title 49 Part 29 of the U.S. Department of Transportation's *Code of Federal Regulations*, the Department is prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred at the time the contract is executed. Covered transactions include procurement contracts for goods or services equal to or in excess of $25,000 ($100,000 prior to November 26, 2003) and all nonprocurement transactions e.g., federal awards to subrecipients. All subrecipients and applicable contractors receiving individual awards as specified above, must certify that the organization and its principals are not suspended or debarred. The Department may rely upon the certification unless it knows that the certification is erroneous. The Commonwealth requires all departments to obtain such a certificate.

To ensure compliance, the Massachusetts Highway Department requires its potential construction contractors to submit a signed statement indicating the organization is not debarred or suspended from performing work of any kind by any federal agency or authority. This statement is obtained on a yearly basis during the pre-qualification process for a contractor to become eligible to submit proposals. The Department does not have to comply with Title 801 Part 21.00, *Code of Massachusetts Regulation* and the "Procurement Policies and Procedures Handbook," since they exempt horizontal construction, e.g. roads, bridges, tunnels. As a result, those participating in horizontal construction activities do not complete the Commonwealth's Terms and Conditions, which requires the contractor to certify that it is not suspended or debarred from federal procurements.

Of the 25 expenditures selected for testing, 17 expenditures related to 16 construction contracts. The Department could not locate four (4) of the 16 debarment and suspension certificates relating to those contracts. Department staff indicated that the information obtained during the prequalification process was destroyed due to the lack of space. The Commonwealth's record retention policies pertaining to construction contracts require that records be maintained for seven years after the final contract payment. None of the contractors tested were currently on the federal debarment and suspension list. *(Department of Transportation – Highway Planning and Construction 20.205)*

Recommendation

The Department should instruct all bureaus awarding contracts to retain federal debarment and suspension certificates obtained as part of the prequalification process in accordance the Commonwealth's record retention policies so they are available to demonstrate compliance.

Department Corrective Action Plan

The Department identified this issue in November of 2004. Prior to 2004, some records were being destroyed prematurely in the Prequalification section. Since 2004 the Department has maintained all records as per the Commonwealths Records Retention Schedule. Therefore, because we are unable to recreate the destroyed records, we could be at risk for this finding in future years. However, any new contracts since November of 2004 will have all the complete information.

Responsible Person: Michael Schwartz, Construction Contract Engineer
Implementation Date: November 2004

Massachusetts Highway Department
Findings not Repeated from Prior Years

1. The Department paid construction contractors before receiving certified payrolls. In addition, some payroll submissions did not contain a Statement of Compliance. During the year, the Department received the certified payrolls and Statement of Compliance prior to paying the construction contractors. (*Fiscal Year 2004 Single Audit Finding 27*)

2. The Department did not properly record payroll and accrued vacation, which resulted in an under billing of $130 to federal programs and an over accrual of vacation time. In another instance, there was an erroneous $180 posting of relocation expenditures resulting in an under billing to the federal government. During the year, the Department properly recorded the accrued vacation and relocation expenditures. (*Fiscal Year 2004 Single Audit Finding 28*)

Various Departments
Finding not Repeated from Prior Years

1. The major programs at the Office of Child Care Services (Office) were not audited as part of the fiscal year 2005 single audit, but a follow-up of the prior year audit finding was performed. The Office did not have adequate internal controls for the use, review, and payment of cell phone bills. The Department updated its internal controls to establish procedures regarding the proper usage of cell phones, including that no personal calls are allowed. Also, a quarterly review process was implemented whereby the Assistant Director of Audit Resolution reviews cell phone bills for proper usage, timely payment, proper accounts being charged, and issues a report to management that includes the scope and results of the review. *(Fiscal Year 2004 Single Audit Finding 53)*

Commonwealth of Massachusetts
Higher Education
Student Financial Assistance Programs at Other Institutions
Background

As part of the Single Audit of the Commonwealth, the Office of the Comptroller, the Office of the State Auditor of the Commonwealth and Deloitte & Touche LLP entered into a cooperative agreement to provide the necessary audit coverage for the student financial assistance programs funded by the U.S. Department of Education and administered by the Commonwealth's colleges and universities. The institutions selected for audit were determined using a risk-based approach. The institutions covered by this arrangement are as follows:

State Colleges

Bridgewater State College
Fitchburg State College
Framingham State College
Mass. Maritime Academy
Mass. College of Art
Mass. College of Liberal Arts
Salem State College
Westfield State College
Worcester State College

Community Colleges

Berkshire Community College
Bristol Community College
Bunker Hill Community College
Cape Cod Community College
Greenfield Community College
Holyoke Community College
Massasoit Community College
Mass. Bay Community College
Middlesex Community College
Mt. Wachusett Community College
North Shore Community College
Northern Essex Community College
Quinsigamond Community College
Roxbury Community College
Springfield Technical Community College

During fiscal year 2005, the Office of the State Auditor performed the audit of the student financial assistance programs at four institutions selected using the risk-based approach. These institutions were: Middlesex Community College, Massachusetts College of Liberal Arts and Bridgewater State College. As a result of these audits, findings are presented for Middlesex Community College and Bridgewater State College. A fiscal year 2004 finding for Roxbury Community College is also repeated here.

The University of Massachusetts contracted for an audit in accordance with OMB Circular A-133 for fiscal year 2005 with an independent public accounting firm. Separate reports on compliance, internal controls as well as the Schedule of Expenditures of Federal Awards and Data Collection Form are issued as a result of this audit. The findings resulting from the audit of the University of Massachusetts are excluded from this report.

Finding Number 46: Untimely Student Exit Counseling Sessions and Inadequate Coordination between College Departments for the Administration of the Federal Perkins Loan Program

The fiscal year 2004 single audit disclosed that Bridgewater State College (College) was not timely in conducting exit counseling sessions with students and complying with the due diligence requirements regarding the coordination of information among its departments that manage and administer Federal Perkins Loans (FPL). The prior report noted that it took four months for the College's Perkins Loan Department (PLD) to convert to repayment status the six students in our audit test who were no longer enrolled at least half time. Furthermore procedures were not in place by the College to ensure that students received proper notification and exit counseling for their Perkins Loan repayment responsibilities.

Our follow up audit disclosed that the College has made some improvements in its policies and procedures over student loans, however, improvements are still needed in coordination of student enrollment data and the timely scheduling of exit counseling.

Specifically, our test of six student files disclosed that one student withdrew from the College in the middle of the Spring Semester 2005 and had not been given an exit counseling session as of August 2005, nor had the Loan Management Company been notified of the student's separation from the school. In addition, the PLD was unaware of the student's early withdrawal until it was brought to their attention during our audit. Federal regulation, 34 CFR 674.42(b), Exit Interview states:

> *(1) An institution must ensure that exit counseling is conducted with each borrower either in person, by audiovisual presentation, or be interactive electronic means. The institution must ensure that exit counseling is conducted shortly before the borrower ceases at least half-time study at the institution.*

Also, the Student Financial Aid Department did not notify the PLD of the student's early withdrawal resulting in the College not meeting the due diligence requirements applicable to the coordination of information mandated for the FPL program. Federal regulation, 34 CFR 674.41, Due Diligence -General Requirements states:

> *(b) Coordination of information. An institution shall ensure that information available in its offices (including admissions, business, alumni, placement, financial aid and registrar's offices) is provided to those offices responsible for billing and collecting loans, in a timely manner, as needed to determine-*
>
> *1. The enrollment status of the borrower;*
> *2. The expected graduation or termination date of the borrower;*
> *3. The date the borrower withdraws, is expelled or ceases enrollment on at least a half-time basis; and*
> *4. The current name, address, telephone number and Social Security number of the borrower.*

By not having effective procedures in place the College delayed the student from entering their proper grace period prior to beginning their repayment of the loan. These delays caused the student to be given an extended six-month grace period for repayment of their Perkins loan. According to 34 CFR 674.31 (b) 2(B) the repayment period begins 9 months after the borrower ceases to be at least a half-time regular student at an institution of higher education. Furthermore, the 2004-2005 Federal Student Aid Handbook, Chapter 4, Volume 6, Perkins Loans, requires that the initial grace period begin the day after the day the borrower drops below half-time enrollment.

Finding Number 46: Untimely Student Exit Counseling Sessions and Inadequate Coordination between College Departments for the Administration of the Federal Perkins Loan Program (Continued)

Because the College did not exercise due care and diligence in managing and administering the FPL program it compromises the federal government's ability to effectively administer these Title IV loans because accurate enrollment status information is the foundation on which the federal government determines deferment eligibility, grace periods, repayment schedules, and the government's payments of interest subsidies. (*Department of Education - Federal Perkins Loans 84.038; Fiscal Year 2004 Single Audit Finding 60)*

Recommendation

The College must ensure that its departments coordinate accurate changes in student enrollment information on a timely basis, students are notified timely of their repayment responsibilities, students are given timely exit counseling, and students are placed in proper grace period and repayment status.

Department Corrective Action Plan

The College concurs with the finding. The Financial Aid and Fiscal Affairs offices are working on formalizing all policies and procedures relating to the two areas. We have made significant progress regarding policies and procedures for exit counseling of students, but acknowledge that additional reports are required to ensure proper exit counseling.

Responsible Person: Darlene Costa-Brown, Associate Vice-President For Fiscal Affairs/Controller, and Janet Gumbris, Director of Financial Aid
Implementation Date: June 30, 2006

Finding Number 47: Submission of Federal Work-Study Timesheets Needs Improvement

The fiscal year 2004 single audit report disclosed that Bridgewater State College (College) discovered fraudulent timesheets within its Federal College Work-Study Program (FWS) resulting in a theft of $998. A student submitted false timesheets to the College's payroll department for work that was not performed during four weeks of the 2003 spring semester and during six weeks of the 2004 spring semester. The student perpetrated this fraud by forging the signatures of the supervisors of the FWS programs for which he was employed.

In its corrective action plan, the College stated that "As a part of updating the Internal Control Plan, the Office of Human Resources will revise the policies and procedures surrounding the FWS Program and to ensure compliance the updated policies and procedures will be communicated to all College departments participating in the FWS Program."

Our follow-up audit disclosed that the College updated its policies and procedures for the FWS Program. Included in these updates were steps to improve monitoring the awards to students, the status of the awards as the academic year progresses and the monitoring of timesheets for authorized signatures. These new policies and procedures require that authorized staff deliver student timesheets to the FWS office (not the students), timesheets are only written in pen, and an authorized signature list is maintained by FWS office staff to ensure all signatures are authorized. The updated policies and procedures were communicated to all College departments participating in the FWS program and staff was advised of their responsibilities with regard to payroll policies and procedures and student employee practices.

To determine if the internal controls were functioning as written, three fiscal year 2005 pay periods were tested. Our tests disclosed that department staff was not following the new policies and procedures. Specifically, we observed students directly submitting signed timesheets contrary to the College's FWS Policy Manual. Furthermore, our testing 1,060 timesheets disclosed the following:

- 79 timesheets had been written in pencil and had been signed by a supervisor. The College could not determine who brought the timesheet to the FWS office.

- 15 timesheets were altered with no indication of who had altered them (hours were changed by using white out and the change was not initialed). There was no evidence that the altered timesheet had been approved before or after they were submitted to the supervisor.

- 5 timesheets were for over 20 hours, which is contrary to the FWS policy that prohibits a student from working over 20 hours per week.

- 83 timesheets were not submitted on the College's required pre-printed timesheets. The College accepted these timesheets without the payroll systems pre-printed feature, which includes the pay period, pay rate, employee identification number, return date, accounts to be charged and the student's classification title. Students were allowed to fill in the control information and submit timesheets to the payroll office, thus circumventing the College's internal controls. New students were not required to use the pre-printed timesheets for their initial pay period, however, the timesheets we tested were for students working beyond their initial pay period. The College's FWS Policy Manual does not permit handwritten timesheets.

- 2 timesheets had been submitted by one student for the same pay period resulting in an overpayment of $201. Even though the student was paid twice for the same pay period, the duplicate payment did not cause the student to exceed the FWS award. However, the student was paid for hours not worked. We notified the College of this occurrence and they are reviewing this matter.

Finding Number 47: Submission of Federal Work-Study Timesheets Needs Improvement (Continued)

- 7 timesheets could not be located by the College.
- An authorized signature list was not maintained for FWS timesheets; as a result, the College could not be certain that all signatures were those of authorized staff.

Further, the College did not have a system in place to ensure that no one is paid for hours not worked and no one works more than 20 hours per week. The College is required by 34 CFR 675.19 (2)(i), as cited below, to establish fiscal procedures in order to have safeguards in place over the certification of student's FWS program work prior to making a payment to the student.

> *Include a certification by the student's supervisor, an official of the institution or off-campus agency that each student has worked and earned the amount being paid. The certification must include or be supported by, for students paid on an hourly basis, a time record showing the hours each student worked in clock time sequence, or the total hours worked per day…*

The College's Student Employment Manual also states in part that:

> *The supervisor is responsible for submitting timesheets to the Payroll Office by noon on the due date in order to produce a paycheck by the next Friday. The due date is five days after the end of the pay period. This allows the student ample time to have the timesheet completed and submitted with the authorized signature(s). It is the student's responsibility to get the timesheet to his or her supervisor to be signed. Once signed it is the supervisor's responsibility to submit all timesheets. Student employees will not be paid without a signed timesheet.*

The College's Controller stated that the College plans to revise the student handbook concerning the FWS program, further develop controls to enforce policies and procedures in the FWS Manual and to more closely monitor student timesheets and their submission. *(Department of Education - Federal Work-Study Program 84.033; Fiscal Year 2004 Single Audit Finding 58)*

Recommendation

The College should review and improve its internal controls within its FWS program. Procedures must be established to ensure that internal controls are functioning as intended. These internal controls must be extended throughout all College departments participating in the FWS program. College staff should again be advised of their responsibilities with regard to payroll procedures and student employee practices. The College should periodically monitor adherence to these procedures and provide ongoing oversight to prevent conditions cited from recurring.

Department Corrective Action Plan

The College concurs with this finding. We recognize that any Internal Control Plan is a dynamic document and we will continue to revise and review all internal controls relating to the Work Study program.

To ensure compliance within the Program, the College will periodically perform internal audits of the Work Study Program.

Responsible Person: Peter Martel, Associate Vice-President for Human Resources, and Darlene Costa-Brown, Associate Vice-President For Fiscal Affairs/Controller
Implementation Date: June 30, 2006

Finding Number 48: Cash Management over Perkins Loans Needs Improvement

Bridgewater State College (College) awarded $1,394,000 in Federal Perkins Loans (FPL) for the 2004/2005 academic year, however, the College only had $854,000 FPL funds available to award resulting in $540,000 in College funds being disbursed for the FPL program.

The FPL program is a campus based loan program funded with three sources of revenue (1) by direct federal contributions, (2) college contributions equaling at least one third of the federal contribution, (amounting to approximately $48,627 for the 2004/2005 academic year), and (3) school level loan collections and other program income. Prior to the award year on the annual Fiscal Operations Report and Application to Participate (FISAP), the College is required to calculate its level of expenditure (LOE) for the two preceding award years. Based on the calculation, the U.S. Department of Education (ED) awards the College the federal contribution (FCC). The LOE calculated by the College was $1,500,000. The LOE is the maximum dollar amount that ED allows a school to expend from the school's loan fund in a given award year. The Blue Book, Chapter 3 states:

> *The LOE equals the total of Federal Capital Contribution (FCC), Institutional Capital Contribution (ICC), funds available from the school's projected collection of Federal Perkins Loans in repayment, estimated Perkins Loan cancellation reimbursements, and anticipated cash on hand (FCC + ICC + collected loans + cancellation reimbursements + cash on hand = LOE)*

Our audit disclosed that the College was unaware of accurate FPL expenditures because it did not perform monthly reconciliations of its fiscal and program records and therefore made loans exceeding the funds available. In addition, the College could not provide documentation supporting the LOE calculation submitted on the 2003 FISAP for the 2005 award year. Federal regulation, 34 CFR Section 674.19, Fiscal Procedures and Records states:

> *(1) An institution shall establish and maintain program and fiscal records that are reconciled at least monthly. (2) Each year an institution shall submit a Fiscal Operations Report plus other information the Secretary requires. The institution shall insure that the information reported is accurate and shall submit it on the form and at the time specified by the Secretary.*

In addition, Chapter 2 of The Blue Book states;

> *Although it is important to keep original records used in processing financial aid, schools must also have a recordkeeping system that traces transactions involving those records. A school's recordkeeping procedures should allow for establishing and maintaining a clear (easily followed) audit trail. A clear audit trail is defined as maintaining required documentation that supports each transaction involving receiving or expending federal funds. A school may maintain records in a manual, paper-based system or in a computer database, or it may use a combination of these methods. For example, a school that uses an automated system to manage records might also maintain paper files that contain original documents needed to support the electronic information stored in a database. As imaging technology becomes more available, schools might choose to maintain electronically imaged documents instead of paper originals.*

The College did not meet cash management requirements applicable to the coordination and managing the FPL program because it did not perform monthly reconciliations of program records to the fiscal records and did not properly establish and maintain clear documentation supporting the LOE amounts reported on the FISAP. This inadequate management system could deny future students the opportunity to obtain the loans necessary for them to attend the College. (*Department of Education - Federal Perkins Loans 84.038)*

Finding Number 48: Cash Management over Perkins Loans Needs Improvement (Continued)

Recommendation

The College must ensure that the Perkins Loan fund is not over expended in the future by performing monthly reconciliations between program and fiscal records, accurately calculating the LOE and establishing and maintaining clear audit trails that support each transaction and calculation.

Department Corrective Action Plan

The College concurs with this finding. The Fiscal Affairs and Financial Aid offices have developed more formal coordination with regards to the Perkins Loan Program. In addition, the Internal Auditor will assist in properly documenting procedures surrounding the Perkins Loan Program.

It should be noted that the LOE is based upon estimated collections from the previous fiscal year. For fiscal year 2005, student repayments were lower than expected. Because of new consolidation options for students, the College anticipates student repayments to increase in fiscal 2006.

Responsible Person: Darlene Costa-Brown, Associate Vice-President For Fiscal Affairs/Controller and Janet Gumbris, Director of Financial Aid
Implementation Date: June 30, 2006

Finding Number 49: Aggregate Loan Limit for Federal Perkins Loans Exceeded

Middlesex Community College (College) exceeded the aggregate loan limit in its award of Federal Perkins Loans to one student. During the academic period between fall 2002 and spring 2005, the College awarded a student $8,258 in Federal Perkins Loan (FPL) financial aid funds. The student graduated in spring 2005, and received FPL funds over three academic years. The College is an associate degree granting institution, which offers programs that can be completed over a two-year period, after which time a student can continue working toward a bachelor's degree at another college.

Federal regulation, 34 CFR 674.12, states that:

> *The aggregate loan maximums for the FPL program are: $8,000 cumulative for a student who has not successfully completed two years of a program leading to a bachelor's degree, $20,000 cumulative for a student who has successfully completed 2 years of a program leading to a bachelor's degree, but who has not completed the work necessary for the degree.*

College officials stated that they do not consider the College to be a two-year institution because it takes longer than two years for many of their students to complete their course of study. Therefore, the College interpreted the above regulation as allowing a student $4,000 per academic year, until such time as the student completes the program of study, regardless of how many years it takes to accomplish that goal, with the maximum of $20,000 to be awarded. There is some uncertainty on our part if the College's interpretation meets the intent of the regulation. We believe that the intent of the regulation is to limit an $8,000 maximum award for associate degree granting institutions, while allowing a maximum aggregate amount of $20,000 toward the completion of a bachelor's degree.

We contacted the U.S. Department of Education to request clarification of this regulation, but at the time of the completion of our field work, we had not received a reply. However, on October 13, 2005, the U.S. Department of Education responded that the intent of the regulation is to limit the Perkins award to an aggregate maximum amount of $8,000 regardless of how many years it takes the student to complete the program.

As this award exceeded federal limitations, the result is a higher debt for the student, as well as unavailable future funds if the student decides to transfer to another school to earn a bachelor's degree. Additionally, this affects the availability of FPL funds to other College students requiring financial aid. *(Department of Education- Federal Perkins Loan Program 84.038)*

Recommendation

The College should transfer the excess Perkins award back into its Perkins Fund Account. Additionally, the College should review all of its Federal Perkins Fund awards to determine if any additional accounts have been exceeded and return any additional excess awards to its Perkins Account. Finally, the College should incorporate aggregate loan limits into its written policies and procedures for the FPL program.

Department Corrective Action Plan

The student's Federal Perkins Loan has been corrected and the Perkins Fund Account is in the process of being restored. The College has reviewed all Federal Perkins Loan awards for fiscal years 2003, 2004 and 2005 and has found each recipient to be within the $8,000 aggregate loan limit. The Financial Aid Department has incorporated the aggregate loan limit into its written policies and procedures.

Responsible Person: Vincent P. Funaro, Associate Dean of Enrollment Services
Implementation Date: Immediately

Finding Number 50: Outstanding Checks Need to be Transferred to the Office of the State Treasurer's Unpaid Check Fund

Middlesex Community College (College) needs to expedite its processing of outstanding or returned checks. A review of the College's May 31 and June 30, 2005 bank reconciliations indicated old outstanding checks being carried as part of the reconciliations. We identified 365 checks totaling $46,439 that had been outstanding for a period of 12 to 39 months. Of these checks, $38,904 represented student refunds for financial aid (federal and/or state funds). The remaining balance of $7,535 represented outstanding checks to College employees or vendors.

Chapter 29, Section 32 of the Massachusetts General Laws (MGL) requires that checks outstanding over one year be transferred to the Office of the State Treasurer (OST) Unpaid Check Fund (UCF) as follows:

> *Any check issued by the State Treasurer or by any agent or agency of the Commonwealth, other than checks issued in payment of obligations of the State Board of Retirement and the Teachers' Retirement Board, which is not presented for payment within one year from its date shall be payable only at the Office of the State Treasurer. On the thirtieth day of June in each year the Comptroller shall transfer to the abandoned property fund all funds which are identified by the State Treasurer as funds of the Commonwealth which have remained in the unclaimed check fund for at least one year.*

College officials indicated that they did not transfer these funds to the OST's UCF because a decision was made to place these monies in what they considered to be an "Escheat Fund", titled Unclaimed Check Fund, maintained by the College. In this manner, the College officials explained that they could disburse the funds if and when they located the payee. College officials indicated that yearly transfers were made from the outstanding checklist to the College's Unclaimed Check fund.

The College provided us with documentation indicating that the balance in their Unclaimed Check Fund, as of June 30, 2005, totaled $414,323 (including the $46,439 listed above). This amount represented 2,407 checks dated from December 2, 1991 through June 30, 2004. In addition, included in this overall total were 178 checks totaling $32,232, for which a date could not be determined, but were part of a check series that pre-dated 1991. Although we were able to verify the unclaimed check balance of $414,323 to the College's reconciled general ledger, these outstanding checks should have been transferred to the OST's Unpaid Check Fund.

Once the College was made aware of MGL, Chapter 29, Section 32, they took steps to review their unclaimed check fund, determine if any payees could be located in order to reissue those checks and to finalize a transfer to the OST.

On September 9, 2005, the College prepared a check in the amount of $393,661 payable to the Commonwealth of Massachusetts, to be transferred to the Office of the State Treasurer's Unpaid Check Fund. This check represented the balance of outstanding funds in their unclaimed check fund, as follows:

June 30, 2005 General Ledger Balance	$414,323
Less: Employee checks to be re-issued (payroll and expense reimbursements)	20,662
Total of College's Unclaimed Check Fund to be transferred to OST	$393,661

The retaining of outstanding or returned checks without timely disposition is not an efficient or economical use of College fiscal resources. Also, the rightful owners of these funds are not receiving funds they are entitled to. As of the end of our fieldwork, MCC had yet to submit the $393,661 to the OST. (*Department of Education - Federal Supplemental Educational Opportunity Grants 84.007, Federal Work-Study Program 84.033, and Federal Pell Grant Program 84.063)*

Finding Number 50: Outstanding Checks Need to be Transferred to the Office of the State Treasurer's Unpaid Check Fund (Continued)

Recommendation

The College should immediately transfer the outstanding check funds totaling $393,661 to the UCF. Additionally, the College should implement the necessary procedures that require the transferring of outstanding checks over one year old to the UCF within one year of its payable date, in accordance with Chapter 29, Section 32 of the MGLs. If the College has any questions regarding the transfer of outstanding checks to the UCF it should contact the OST.

Department Corrective Action Plan

The College transferred $393,661 to the Office of the State Treasurer prior to the audit exit conference on October 20, 2005. The College will comply with the auditors' request in the future.

Responsible person: Richard Dery, Director of Financial Services
Implementation date: Immediately

Finding Number 51: Roxbury Community College Administration Improved

During the fiscal year 2005 Single Audit, the Roxbury Community College (College) continued to make significant progress in improving its administration over Student Financial Assistance (SFA) programs and all other financial areas.

Our follow-up audit disclosed that the College has taken corrective action and made significant progress on two prior audit findings. The College took corrective action by implementing policies, procedures and internal controls to ensure that bills at the Reggie Lewis Center and all other departments are being paid on a timely basis. The College continues to make improvements in the accounting, reporting and recording of non-appropriated funds.

The College made significant progress by improving upon its overall administration and fiscal operations previously reported in prior years' Single Audits and independent audits since 1997. The College is continuing to improve its Jenzabar financial operating system and has implemented many updated improvements throughout its entire financial operation.

The College has made improvements in its the overall financial administration, internal control plan, SFA programs and Jenzabar system as follows:

- The Internal Control Plan has been updated to include improved written procedures for all significant portions of its operations. Positive steps have been taken by the College's administration to improve its control environment, risk assessments, control activities, information and communication, and overall monitoring within its operations. The College began integrating improvements starting in September 2004 and continuing through April 2005 in updating its Internal Control Plan.

- Steps have been taken to ensure its administrative practices are reviewed annually and procedures are updated within each department. The College now holds individual department heads responsible for their department's compliance with College policies and procedures and conducts periodic meetings to this effect. The College is continuing to implement administrative improvements that were identified in its previous corrective action plan update.

- Improvement continues in the administration, documentation, and oversight of SFA programs. The overall improvement of SFA administration has been identified as a major priority for the College. Coordination and communication between the Admission's and Registrar's Offices in maintaining accurate and secure student files have significantly improved. The College has stated that this will remain a priority during the years to come.

- The College's Jenzabar system, although in place and working, was not providing sufficient assurance and output documentation necessary for consistent reliance of the College's financial records. The College staff relied heavily on other supporting documentation, such as, spreadsheets to summarize the type of data that should have been readily available from the Jenzabar system for reporting and verification purposes. The College acknowledged the shortfalls and continued to make improvements to the system throughout fiscal year 2005.

Finding Number 51: Roxbury Community College Administration Improved (Continued)

Our follow-up review disclosed that the Jenzabar system was significantly updated and functioned at an improved level in the latter part of fiscal year 2005. The College has been able to significantly improve its operating and control environment utilizing the system as follows:

- The General Ledger accounts were posted and updated in January 2005 to reflect much of the prior six months activity. The activity such as students accounts receivables, cash adjustments entries from monthly reconciliations and other adjusting data was recorded late because of the effort needed to correct prior year activity that had to be accomplished before the fiscal year 2005 activity was accurately posted.

- Student billing and accounts receivable information as well as other accounts were recorded into the Jenzabar system as planned starting in January 2005 and continued to do so through the end of fiscal year 2005. An improvement in segregation of duties and addressing previous problems and shortfalls in the area of student receivable collections was made with the hiring of a full-time Bursar in March 2005. This has allowed staff more time to address Jenzabar system recording issues that had previously affected the overall data integrity and programming issues.

- Financial reports were generated that were previously unavailable because of programming problems. Financial reports necessary for administrative fiscal monitoring were being generated from Jenzabar with accuracy starting in April 2005. College officials began using the reports during May 2005 in their day-to-day monitoring activities.

The College's independent audit firm issued a report of the College's financial statements for fiscal year 2004. The auditor's report identified conditions that continued from the fiscal year 2003 audit report. The report disclosed that the College did not have 1) a completely integrated general ledger system, 2) an accurate listing of student accounts receivable from its computer software system, and 3) adequate controls in remitting employee retirement withholdings to the appropriate administrator. The independent audit firm is currently auditing the College's fiscal year 2005 financial statements and following up on these conditions listed above. *(Department of Education - Federal Supplemental Educational Opportunity Grants 84.007, Federal Work-Study Program 84.033, and Federal Pell Grant Program 84.063; Fiscal Year 2001; 2004 Single Audit Finding 62)*

Recommendation

The College should continue to implement improvements and monitor its Jenzabar system to ensure that the applications are performing as planned. Correction of prior years' audit results should be monitored to ensure that full corrective action is implemented and full resolution is achieved.

Department Corrective Action Plan

As the auditing team observed, the College has made a lot of progress with the use of the Jenzabar System. Our next leap in effectiveness will come with the installation of version 2.1. This version corrects a number of quirks that prevents the College from outputting some data to get ready to use results. For example, payments made after June 30th, but before August 31st, cannot be appropriately directed to the appropriate fiscal year. This is resolved in 2.1 version and will allow for queries or system reports that do not have to be reviewed closely for previous year postings. Posting tuition payments to a prior fiscal year will also be a feature of this new version. The reports that

Finding Number 51: Roxbury Community College Administration Improved (Continued)

Department Corrective Action Plan (Continued)

will be available surpass the capabilities of the previous version. Cost Center Manager Reports can be done as a system report instead of the custom report that was developed to accomplish the same result with the older version. General Ledger reports are also part of the system package that will also negate the need to maintain for refine custom reports for these summaries. In addition to the software upgrade, training will be offered on campus for the Business Office Staff this year. The training will be a refresh of the module for all staff as well as report generation for more senior staff. The combination of the upgraded version, training, and continued monitoring of the data within the system will assure a grater degree of effectiveness with the system.

Responsible Person: Chuks Okoli, Comptroller
Florence Craig, Accounting Manager
Implementation Date: February 2006

Institutions of Higher Education
Findings not Repeated from Prior Years

1. Bridgewater State College (College) did not comply with regulations that require it to make at least two disbursements during a payment period in the Direct Student Loan Program. Our review of Direct Student Loan Program disbursements indicated the College has taken corrective action and was in compliance with program requirements for distribution of payments during the loan payment period. (*Fiscal Year 2004 Single Audit Finding 59*)

2. The Bridgewater State College (College) did not implement a quality assurance system required by the United States Department of Education (USDOE) to ensure the College is complying with program requirements in the Federal Direct Student Loan program. The College has taken corrective action whereby it maintains a file on quality assurance, is aware of the need for ongoing assessments and has developed improved management initiatives to address this need. The College further revised its policies and procedures to include a self-examination of existing practices to evaluate the efficiency and effectiveness of its financial aid programs. The College conducted the self-examination in February 2005, documented the results in its QA file and continues to monitor the assessment on an on-going basis. (*Fiscal Year 2004 Single Audit Finding 61*)

3. Bunker Hill Community College (College) needed to improve upon its practices and procedures in handling outstanding or returned checks. College policies did not comply with Chapter 29, Section 32 of the MGLs, which requires checks outstanding over one year old to be transferred to the Office of the State Treasurer's (OST) Unclaimed Check Fund or federal grantee. The College took corrective action and immediately began to transfer funds to the OST's Unclaimed Check Fund in accordance with Chapter 29, Section 32 of the Massachusetts General Laws. The College revised its internal control manual to include a procedure to address this issue. (*Fiscal Year 2004 Single Audit Finding 56*)

4. The College did not adhere to its own internal control practices in regard to distribution of Federal College Work-Study (FWS) checks to program participants. While the College's internal control policy required student identification when checks were picked up, the policy was not always complied with. The College took immediate steps to ensure that the College policy was adhered to regarding the distribution of FWS checks. Currently, the College is in compliance with FWS payroll distributions procedures and payroll distributions tested were found to be in compliance with stated policy. (*Fiscal Year 2004 Single Audit Finding 57*)

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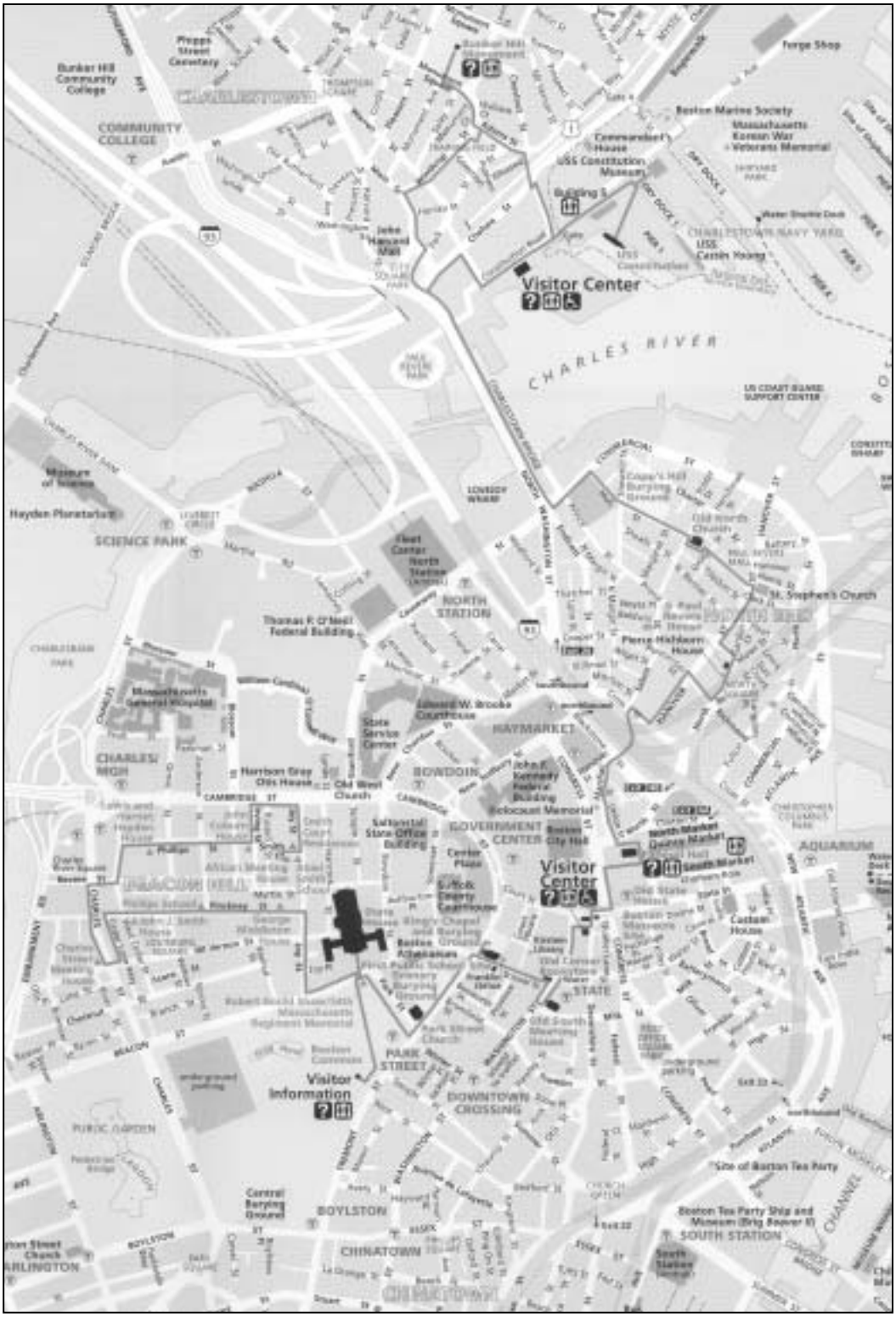
SECTION VI

Schedule of Expenditures of Federal Awards



Freedom Trail Map – *Courtesy of National Park Service*

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Report on the Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2005

CFDA#	FEDERAL PROGRAM DESCRIPTION	EXPENDITURES
	DEPARTMENT OF AGRICULTURE	
10.025	Plant and Animal Disease, Pest Control, and Animal Care	$ 96,937
10.054	Emergency Conservation Program	3,492
10.072	Wetlands Reserve Program	31,436
10.156	Federal-State Marketing Improvement Program	82,033
10.163	Market Protection and Promotion	50,990
10.199	Federal Operating Reimbursements - Egg Grading	6,515
10.435	State Mediation Grants	125,012
10.550	Food Donation	14,466,540
10.551	Food Stamps	347,366,729
10.555	National School Lunch Program	123,224,666
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	88,991,757
10.558	Child and Adult Care Food Program	43,834,463
10.559	Summer Food Service Program for Children	4,327,040
10.560	State Administrative Expenses for Child Nutrition	2,180,623
10.561	State Administrative Matching Grants for Food Stamp Program	32,583,767
10.568	Emergency Food Assistance Program Administrative Costs	1,202,945
10.572	WIC Farmers' Market Nutrition Program (FMNP)	546,887
10.576	Senior Farmers Market Nutrition Program	55,390
10.652	Forestry Research	792
10.663	Forestry – Miscellaneous	2,309
10.664	Cooperative Forestry Assistance	1,094,013
10.678	Forest Stewardship Program	10,673
10.769	Rural Business Enterprise Grants	48,945
10.913	Farm and Ranch Lands Protection Program	2,772,046
		663,106,000
	DEPARTMENT OF COMMERCE	
11.405	Anadromous Fish Conservation Act Program	37,284
11.407	Interjurisdictional Fisheries Act of 1986	47,662
11.419	Coastal Zone Management Administration Awards	2,790,475
11.420	Coastal Zone Management Estuarine Research Reserves	485,347
11.427	Fisheries Development and Utilization Research and Development Grants and Cooperative Agreements Program	7,267
11.463	Habitat Conservation	1,118,168
11.472	Unallied Science Program	55,211
11.474	Atlantic Coastal Fisheries Cooperative Management Act	423,073
11.499	National Oceanic and Atmospheric Administrative	1,038,879
		6,003,366
	DEPARTMENT OF DEFENSE	
12.113	State Memorandum of Agreement Program for the Reimbursement of Technical Services	1,490,652
12.400	Military Construction, National Guard	2,929,368
12.401	National Guard Military Operations and Maintenance (O&M) Projects	252,545
12.607	Community Economic Adjustment Planning Assistance	153,530
12.999	Department of Defense, Miscellaneous	513
		4,826,608

CFDA#	FEDERAL PROGRAM DESCRIPTION	EXPENDITURES
	DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT	
14.182	Section 8 - New Construction or Substantial Rehabilitation	6,593,381
14.228	Community Development Block Grants / State's Program	34,502,732
14.231	Emergency Shelter Grants Program	2,361,968
14.235	Supportive Housing Program	6,820,751
14.238	Shelter Plus Care	280,659
14.239	HOME Investment Partnerships Program	18,738,602
14.241	Housing Opportunities for Persons with AIDS	802,339
14.401	Fair Housing Assistance Program State and Local	660,213
14.855	Section 8 Rental Voucher Program	2,400,329
14.856	Lower Income Housing Assistance Program Section 8 Moderate Rehabilitation	19,511,056
14.871	Section 8 Housing Choice Vouchers	195,580,484
14.900	Lead-Based Paint Hazard Control in Privately-Owned Housing	854,474
		289,106,988
	DEPARTMENT OF THE INTERIOR	
15.605	Sport Fish Restoration	1,687,998
15.611	Wildlife Restoration	794,403
15.614	Coastal Wetlands Planning, Protection and Restoration Act	2,320,236
15.622	Sportfishing and Boating Safety Act	620,063
15.633	Landowner Incentive	63,369
15.808	U.S. Geological Survey Research and Data Collection	11,399
15.904	Historic Preservation Fund Grants-In-Aid	681,947
15.916	Outdoor Recreation Acquisition, Development and Planning	2,110,059
15.999	Department of Interior - Miscellaneous	254,082
		8,543,556
	DEPARTMENT OF JUSTICE	
16.202	Offender Reentry Program	656,585
16.203	Sex Offender Management Discretionary Grant	7,917
16.393	Residential Substance Abuse Treatment for State Prisoners	498,269
16.523	Juvenile Accountability Incentive Block Grants	2,829,596
16.527	Supervised Visitation, Safe Havens for Children	364,761
16.528	Training Grants to Stop Abuse and Sexual Assault of Older Individuals or Individuals with Disabilities	83,476
16.540	Juvenile Justice and Delinquency Prevention Allocation to States	1,052,227
16.542	Part D - Research, Evaluation, Technical Assistance and Training	105,541
16.543	Missing Children's Assistance	239,190
16.550	State Justice Statistics Program for Statistical Analysis Centers	6,409
16.555	National Criminal History Implementation Program	1,782,473
16.560	National Institute of Justice Research, Evaluation, and Development Project Grants	53,104
16.564	Crime Laboratory Improvement Combined Offender DNA Index System Backlog Reduction	546,102
16.575	Crime Victim Assistance	7,351,947
16.576	Crime Victim Compensation	845,351
16.579	Byrne Formula Grant Program	9,851,251
16.580	Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	333,995

CFDA#	FEDERAL PROGRAM DESCRIPTION	EXPENDITURES
16.582	Crime Victim Assistance / Discretionary Grants	9,368
16.585	Drug Court Discretionary Grant Program	282,897
16.586	Violent Offender Incarceration and Truth in Sentencing Incentive Grants	5,729,300
16.588	Violence Against Women Formula Grants	2,426,041
16.589	Rural Domestic Violence and Child Victimization Enforcement Grant Program	419,154
16.590	Grants to Encourage Arrest Policies and Enforcement of Protection Orders	408,908
16.592	Local Law Enforcement Block Grants Program	365,544
16.595	Community Capacity Development Office	429,438
16.606	State Criminal Alien Assistance Program	5,796,694
16.607	Bulletproof Vest Partnership Program	22,598
16.609	Community Prosecution and Project Safe Neighborhoods	692,353
16.631	Department of Justice - Other	472,715
16.710	Public Safety Partnership and Community Policing Grants	98,948
16.712	Police Corps	9,434
16.727	Enforcing Underage Drinking Laws Program	90,140
16.733	National Incident Based Reporting System	67,220
16.999	Department of Justice - Miscellaneous	12,157,569
		56,086,515
	DEPARTMENT OF LABOR	
17.002	Labor Force Statistics	2,415,517
17.005	Compensation and Working Conditions	107,566
17.207	Employment Service	17,602,524
17.225	Unemployment insurance (Note 8)	1,517,489,651
17.235	Senior Community Service Employment Program	1,704,420
17.245	Trade Adjustment Assistance Workers	16,731,003
17.258	WIA Adult Program	11,709,700
17.259	WIA Youth Activities	15,691,431
17.260	WIA Dislocated Workers	39,610,100
17.266	Work Incentives Grant	722,752
17.267	WIA Incentive Grants Section 503 Grants to States	51,386
17.500	Occupational Safety and Health	23,133
17.504	Consultation Agreements	1,403,773
17.600	Mine Health and Safety Grants	74,643
17.801	Disabled Veterans' Outreach Program (DVOP)	1,468,109
17.802	Veterans' Employment Program	510,058
17.804	Local Veterans' Employment representative Program	1,422,807
17.805	Homeless Veterans Reintegration Project	197,173
17.999	Department of Labor - Miscellaneous	2,890
		1,628,938,636
	DEPARTMENT OF TRANSPORTATION	
20.106	Airport improvement Program	263,104
20.205	Highway Planning and Construction	451,747,908
20.217	Motor Carrier Safety	57,610
20.218	National Motor Carrier Safety	2,386,981
20.420	Transport Security	360,000
20.507	Federal Transit Formula Grants	472,696
20.509	Formula Grants for Other Than Urbanized Areas	4,028,528

CFDA#	FEDERAL PROGRAM DESCRIPTION	EXPENDITURES
20.513	Capital Assistance Program for Elderly Persons and Persons with Disabilities	1,803,799
20.514	Transit Planning and Research	2,442
20.600	State and Community Highway Safety	9,565,836
20.700	Pipeline Safety	143,445
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants	166,541
		470,998,890
	EQUAL EMPLOYMENT OPPORTUNITY COMMISSION	
30.002	Employment Discrimination State and Local Fair Employment Practices Agency Contracts	1,711,686
		1,711,686
	NATIONAL FOUNDATION ON THE ARTS AND THE HUMANITIES	
45.024	Promotion of the Arts Grants to Organizations and Individuals	563,600
45.025	Promotion of the Arts Partnership Agreements	136,658
45.026	Folk and Traditional Arts Initiatives	18,440
45.149	Promotion of the Humanities Division of Preservation and Access	169,400
45.310	State Library Program	3,213,457
		4,101,555
	NATIONAL SCIENCE FOUNDATION	
47.074	Biological Sciences	98,071
47.076	Education and Human Resources	153,593
		251,664
	VETERANS ADMINISTRATION	
64.014	Veterans State Domiciliary Care	3,254,137
64.015	Veterans State Nursing Home Care	13,895,279
64.016	Veterans State Hospital Care	75,810
64.203	State Cemetery Grants	2,196,262
		19,421,488
	ENVIRONMENTAL PROTECTION AGENCY	
66.032	State Indoor Radon Grants	193,904
66.439	Targeted Watershed Grants	175,904
66.456	National Estuary Program	829,021
66.461	Regional Wetland Program Development Grants	29,609
66.463	Water Quality Cooperative Agreements	60,915
66.471	State Grants to Reimburse Operators of Small Water Systems for Training and Certification Costs	30,144
66.472	Beach Monitoring and Notification Program Implementation Grants	228,898
66.474	Water Protection Grants to the States	544,292
66.500	Environmental Protection - Consolidated Research	129,033
66.605	Performance Partnership Grants	12,166,019
66.606	Surveys, Studies, Investigations and Special Purpose Grants	258,425
66.608	Environmental Information Exchange Network Grant Program	513,050

CFDA#	FEDERAL PROGRAM DESCRIPTION	EXPENDITURES
66.630	Environmental Protection Agency - Other	569,677
66.700	Consolidated Pesticide Enforcement Cooperative Agreements	299,540
66.701	Toxic Substances Compliance Monitoring Cooperative Agreements	457,463
66.708	Pollution Prevention Grants Program	53,354
66.709	Multi-Media Capacity Building Grants for States and Tribes	23,283
66.802	Superfund State, Political Subdivision, and Indian Tribe Site Specific Cooperative Agreements	850,572
66.804	State and Tribal Underground Storage Tanks Program	106,304
66.805	Leaking Underground Storage Tank Trust Fund Program	737,146
66.808	Solid Waste Management Assistance Grants	16,623
66.810	Chemical Emergency Preparedness and Prevention (CEPP) Technical Assistance Grants Program	20,027
66.817	State and Tribal Response Program Grants	1,299,508
66.999	Environmental Protection Agency - Miscellaneous	11,065,373
		30,658,084
	DEPARTMENT OF ENERGY	
81.041	State Energy Program	2,315,300
81.042	Weatherization Assistance for Low-Income Persons	6,640,706
81.079	Regional Biomass Energy Programs	420
81.090	State Heating Oil and Propane Programs	17,616
81.117	Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis / Assistance	13,203
81.119	State Energy Program Special Projects	277,215
		9,264,460
	UNITED STATES INFORMATION AGENCY	
82.999	United States Information Agency - Miscellaneous	99,417
		99,417
	DEPARTMENT OF EDUCATION	
84.002	Adult education State Grant Program	10,376,080
84.010	Title I Grants to Local Educational Agencies	233,982,909
84.011	Migrant education State Grant Program	1,833,774
84.013	Title I Program for Neglected and Delinquent Children	1,455,619
84.027	Special Education Grants to States	253,329,215
84.031	Higher Education Institutional Aid	665,485
84.033	Federal Work-Study Program	210,552
84.042	TRIO Student Support Services	1,182,933
84.044	TRIO Talent Search	427,153
84.047	TRIO Upward Bound	637,621
84.048	Vocational Education Basic Grants to States	18,366,522
84.066	TRIO Educational Opportunity Centers	160,563
84.069	Leveraging Educational Assistance Partnership	1,040,274
84.126	Rehabilitation Services Vocational Rehabilitation Grants to States	44,779,455
84.128	Rehabilitation Services Service Projects	201,599
84.132	Centers for Independent Living	1,564,796

CFDA#	FEDERAL PROGRAM DESCRIPTION	EXPENDITURES
84.161	Rehabilitation Services Client Assistance Program	213,596
84.169	Independent Living State Grants	63,567
84.173	Special Education Preschool Grants	10,390,835
84.177	Rehabilitation Services Independent Living Services for Older Individuals Who are Blind	614,359
84.181	Special Education Grants for Infants and Families with Disabilities	7,099,889
84.184	Safe and Drug-Free Schools and Communities National Programs	197,584
84.185	Byrd Honors Scholarships	754,498
84.186	Safe and Drug-Free Schools and Communities State Grants	8,335,455
84.187	Supported Employment Services for Individuals with Severe Disabilities	715,371
84.190	Christa McAuliffe Fellowships	8,378
84.195	Bilingual Education - Professional Development	50,882
84.196	Education for Homeless Children and Youth	984,032
84.213	Even Start State Educational Agencies	4,603,350
84.215	Fund for the Improvement of Education	329,563
84.224	Assistive Technology	2,004,116
84.235	Rehabilitation Services Demonstration and Training Programs	239,988
84.243	Tech-Prep Education	1,657,281
84.255	Literacy Programs for Prisoners	192,042
84.265	Rehabilitation Training State Vocational Rehabilitation Unit in-service Training	31,365
84.282	Charter Schools	2,695,604
84.287	Twenty-First Century Community Learning Centers	19,889,660
84.298	State Grants for Innovative Programs	5,944,264
84.318	Education Technology State Grants	11,289,466
84.323	Special Education - State Personnel Development	1,376,882
84.330	Advanced Placement Program	535,682
84.331	Grants to States for Incarcerated Youth Offenders	42,653
84.332	Comprehensive School Reform Demonstration	5,656,181
84.334	Gaining Early Awareness and Readiness for Undergraduate Programs	3,631,184
84.336	Teacher Quality Enhancement Grants	441,703
84.346	Vocational Education Occupational and Employment information State Grants	151,069
84.350	Transition to Teaching	132,848
84.352	School Renovation Grants	1,589,965
84.357	Reading First State Grants	16,240,023
84.358	Rural Education	163,931
84.365	English Language Acquisition Grants	9,761,655
84.366	Mathematics and Science Partnerships	1,853,032
84.367	Improving Teacher Quality State Grants	52,053,187
84.369	Grants for State Assessments and Related Activities	12,973,531
84.999	Department of Education - Miscellaneous	108,410
		755,231,631
	DEPARTMENT OF HEALTH AND HUMAN SERVICES	
93.003	Public Health and Social Services Emergency Fund	14,309,017
93.044	Special Programs for the Aging Title III, Part B Grants for Supportive Services and Senior Centers	9,049,917
93.045	Special Programs for the Aging Title III, Part Nutrition Services	12,901,486
93.048	Special Programs for the Aging Title IV and Title II Discretionary Projects	573,118

CFDA#	FEDERAL PROGRAM DESCRIPTION	EXPENDITURES
93.052	National Family Caregiver Support	3,838,735
93.053	Nutritional Services Incentive Program	3,586,605
93.103	Food and Drug Administration Research	237,416
93.104	Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	1,056,375
93.110	Maternal and Child Health Federal Consolidated Programs	707,937
93.114	Applied Toxicological Research and Testing	2,500
93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	2,255,781
93.118	Acquired Immunodeficiency Syndrome IDS) Activity	411,209
93.126	Nurse Anesthetist Traineeships	5,495
93.127	Emergency Medical Services for Children	97,068
93.130	Primary Care Services Resource Coordination and Development	115,071
93.136	Injury Prevention and Control Research and State and Community Based Programs	1,909,112
93.150	Project s for Assistance in Transition from Homelessness (PATH)	1,148,361
93.153	Coordinated Services and Access to Research for Women, Infants, Children, and Youth	866,468
93.161	Health Program for Toxic Substances and Disease Registry	428,083
93.165	Grants To States for Loan Repayment Program	96,533
93.184	Disabilities Prevention	270,338
93.197	Childhood Lead Poisoning Prevention Projects State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	1,280,113
93.206	Human Health Studies Applied Research and Development	118,204
93.226	Research on Healthcare Costs, Quality and Outcomes	1,335,738
93.235	Abstinence Education Program	402,404
93.238	Cooperative Agreements for State Treatment Outcomes and Performance Pilot Studies Enhancement	102,000
93.239	Policy Research and Evaluation Grants	359,030
93.241	State Rural Hospital Flexibility Program	259,697
93.243	Substance Abuse and Mental Health Services Projects of Regional and National Significance	338,757
93.251	Universal Newborn Hearing Screening	95,519
93.259	Rural Access to Emergency Devices Grant	90,291
93.262	Occupational Safety and Health Program	573,777
93.268	Immunization Grants	35,225,005
93.283	Centers for Disease Control and Prevention Investigations and Technical Assistance	36,584,025
93.301	Small Rural Hospital Improvement Grant Program	77,440
93.393	Cancer Cause and Prevention Research	101,847
93.556	Promoting Safe and Stable Families	6,075,257
93.558	Temporary Assistance for Needy Families	296,460,255
93.563	Child Support Enforcement	65,632,618
93.564	Child Support Enforcement Research	11,849
93.565	State Legalization Impact Assistance Grants	81,151
93.568	Low-Income Home Energy Assistance	88,386,270
93.569	Community Services Block Grant	14,512,620
93.575	Child Care and Development Block Grant	118,541,560

CFDA#	FEDERAL PROGRAM DESCRIPTION	EXPENDITURES
93.576	Refugee and Entrant Assistance Discretionary Grants	1,443,705
93.583	Refugee and Entrant Assistance Wilson / Fish Program	7,957,574
93.586	State Court Improvement Program	268,378
93.590	Community – Based Child Abuse Prevention Grants	732,509
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund	75,010,236
93.597	Grants to States for Access and Visitation Programs	136,873
93.599	Chafee Education and Training Vouchers Program (ETV)	1,161,578
93.600	Head Start	120,428
93.617	Voting Access for Individuals with Disabilities Grants to States	45,457
93.623	Basic Center Grant	108,939
93.630	Developmental Disabilities Basic Support and Advocacy Grants	1,379,669
93.631	Developmental Disabilities Projects of National Significance	228,407
93.643	Children's Justice Grants to States	480,862
93.645	Child Welfare Services State Grants	4,492,675
93.647	Social Services Research and Demonstration	234,354
93.652	Adoption Opportunities	316,971
93.658	Foster Care Title IV-E	85,011,221
93.667	Social Services Block Grant	83,406,266
93.669	Child Abuse and Neglect State Grants	424,599
93.671	Family Violence Prevention and Services / Grants for Battered Women's Shelters Grants to States and Indian Tribes	1,650,624
93.674	Chafee Foster Care Independence Program	2,828,207
93.767	State Children's Insurance Program	110,479,721
93.773	Medicare Hospital Insurance	12,883,216
93.775	State Medicaid Fraud Control Units	2,660,611
93.777	State Survey and Certification of Health Care Providers and Suppliers	5,693,547
93.778	Medical Assistance Program	4,621,558,642
93.779	Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	1,092,549
93.786	State Pharmaceutical Assistance Programs	763,451
93.913	Grants to States for Operation of Offices of Rural Health	98,661
93.917	HIV Care Formula Grants	22,480,430
93.926	Healthy Start initiative	4,515,362
93.940	HIV Prevention Activities Health Department Based	9,432,831
93.941	HIV Demonstration, Research, Public and Professional Education Projects	323,953
93.942	Research, Treatment and Education Programs on Lyme Disease in the United States	160,817
93.943	Epidemiologic Research Studies of Acquired Immunodeficiency Syndrome IDS) and Human Immunodeficiency Virus (HIV) Infection in Selected Population Groups	158,759
93.944	Human Immunodeficiency Virus (HIV) / Acquired Immunodeficiency Virus Syndrome IDS) Surveillance	1,212,870
93.945	Assistance Programs for Chronic Disease Prevention and Control	915,953
93.952	Trauma Care Systems Planning and Development	2,947
93.958	Block Grants for Community Mental Health Services	8,512,442
93.959	Block Grants for Prevention and Treatment of Substance Abuse	35,431,787
93.977	Preventive Health Services Sexually Transmitted Diseases Control Grants	1,721,099
93.978	Preventive Health Services Sexually Transmitted Diseases Research, Demonstrations, and Public Information and Education Grants	320,226

CFDA#	FEDERAL PROGRAM DESCRIPTION	EXPENDITURES
93.988	Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	704,764
93.991	Preventive Health and Health Services Block Grant	2,776,916
93.994	Maternal and Child Health Services Block Grant to the States	12,435,407
93.999	Department of Health and Human Services - Miscellaneous	797,616
		5,845,086,161
	CORPORATION FOR NATIONAL AND COMMUNITY SERVICE	
94.004	Learn and Serve America School and Community Based Programs	755,023
		755,023
	SOCIAL SECURITY ADMINISTRATION	
96.001	Social Security Disability Insurance (Note 3)	34,235,245
96.008	Social Security Benefits Planning, Assistance, and Outreach Program	289,409
96.999	Social Security Administration - Miscellaneous	612,330
		35,136,984
	DEPARTMENT OF HOMELAND SECURITY	
97.003	Agricultural Inspection	80,263
97.004	State Domestic Preparedness Equipment Support Program	29,409,205
97.012	Boating Safety Financial Assistance	803,051
97.017	Pre-Disaster Mitigation (PDM) Competitive Grants	90,383
97.021	Hazardous Materials Assistance Program	14,882
97.023	Community Assistance Program State Support Services Element (CAP-SSSE)	180,841
97.029	Flood Mitigation Assistance	77,489
97.036	Public Assistance Grants	44,740,212
97.038	First responder Counter-Terrorism Training Assistance	460
97.039	Hazard Mitigation Grant	655,430
97.041	National Dam Safety Program	75,974
97.042	Emergency Management Performance Grants	2,073,603
97.043	State Fire Training Systems Grants	12,978
97.045	Cooperating Technical Partners	35,822
97.054	Community Emergency Response Teams	196,604
97.056	Port Security Grant Program	180,300
		78,627,497
	TOTAL - FEDERAL DEPARTMENTS	**9,907,956,209**
	Programs administered by Public Institutions of Higher Education (Note 5)	82,888,193
	TOTAL FEDERAL EXPENDITURES	**$ 9,990,844,402**

NOTE 1 - BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards is presented on the Commonwealth's statutory basis of accounting. It is drawn primarily from the Massachusetts Management Accounting and Reporting System (MMARS), the centralized accounting system which is the basis for the Commonwealth's combined financial statements - statutory basis as published in the Commonwealth's Statutory Basis Financial Report for the fiscal year ended June 30, 2005.

The Schedule of Expenditures of Federal Awards is presented by catalog of federal domestic assistance number (CFDA#) and also includes certain programs administered by the Commonwealth's public institutions of higher education, except for the University of Massachusetts, which issues its own Schedule of Expenditures of Federal Awards and Data Collection Form, and the activity of certain non-cash programs. The institutions and responsible administrative departments maintain the detail of such program activity.

Statutory basis expenditures are generally recorded when the related cash disbursement occurs. At year-end, payroll is accrued and payables are recognized for goods or services received by June 30, to the extent of approved encumbrances. With the exception of certain actuarially determined accruals related to Medicaid claims liabilities, statutory basis expenditures are consistent with GAAP with regard to grant activity.

The following is a reconciliation of the Schedule of Expenditures of Federal Awards to the combined financial statements-statutory basis (amounts in thousands):

Total federal revenues per Statutory Basis Financial Report	$	8,276,897
Add:		
Programs administered by public institutions of higher education		82,888
State share of Unemployment Insurance funds from Note 8		1,226,914
Expenditures		12,729
Non-cash programs:		
Food stamp script		347,367
Value of donated food		14,466
Vaccine purchases directly by federal government		29,583
Total expenditures of Federal Awards per schedule	$	9,990,844

The Commonwealth receives payments from the federal government on behalf of Medicare eligible patients for whom it has provided medical services at its state-operated medical facilities. Since these payments represent insurance coverage provided directly to individuals under the Medicare entitlement program, they are not included as federal financial assistance. The Commonwealth has generally combined its departmental program accounts by federal catalog number, and it has made a concerted effort to reduce the number of program accounts lacking full catalog number identifiers. In the current year, CFDA# 10.553 and 10.556 were consolidated with 10.555 (all related to the National School Lunch Program) in accordance with the way the grant was received by the Commonwealth.

NOTE 2 - REPORTING ENTITY

The Schedule of Expenditures of Federal Awards includes various departments, agencies, boards and commissions governed by the legislature, judiciary and/or constitutional officers of the Commonwealth of Massachusetts. It also includes research grants and contracts and federally-funded financial assistance to students provided to the Commonwealth's institutions of public higher education, excluding the University of Massachusetts, which is reported separately, and the values of food stamps and commodities received under U.S. Department of Agriculture programs.

The Schedule of Expenditures of Federal Awards does not include federal funds received and expended by independent authorities and other organizations included in the reporting entity under the criteria of the Governmental Accounting Standards Board, as described in Note 1 to the Commonwealth's general purpose financial statements published in the Comprehensive Annual Financial Report for the fiscal year ended June 30, 2005. These authorities and organizations are responsible, where necessary, for obtaining separate audits of their federal awards.

NOTE 3 - SOCIAL SECURITY DISABILITY INSURANCE PROGRAM

The Massachusetts Rehabilitation Commission operates the Social Security-Disability Insurance Program and the Supplemental Security Income Disability Program (CFDA 96.001) under a single state appropriation and departmental program account. On an operating basis, expenditures are allocated between the programs based on medical expenses incurred; personnel and overhead costs are determined by the Social Security Central Office. For the fiscal year ended June 30, 2005 expenditures of $16,090,565 were attributed to the Supplemental Security Income Disability Program.

NOTE 4 - DONATED FOOD VALUE

Donated food represents surplus agricultural commodities received from the U.S. Department of Agriculture valued in accordance with federal guidelines. Commodity inventories at June 30, 2005 totaled approximately $1,303,969.

NOTE 5 - HIGHER EDUCATION FEDERAL FINANCIAL ASSISTANCE PROGRAMS

The 24 public institutions of higher education, excluding University of Massachusetts, record expenditures for financial assistance programs as follows:

Federal Supplemental Educational Opportunity Grant	84.007	$3,481,989
Federal Work Study Program	84.033	3,681,228
Federal Pell Grants	84.063	61,184,794
Other Federal Student Services	Various	14,540,182
		$82,888,193

NOTE 6 - FEDERAL FAMILY EDUCATION (FFEL) AND FEDERAL DIRECT STUDENT LOANS (FDL)

The Schedule of Expenditures of Federal Awards does not include FFEL (CFDA 84.032) nor FDL (84.268) which are made directly to individual students. For Massachusetts' residents, FFEL loans are guaranteed by the American Student Assistance Corporation, which is not part of the reporting entity of the Commonwealth. FDL loans are made directly by the U.S. Department of Education. FFEL loans made to students enrolled in the Commonwealth's public institutions of higher education during fiscal year 2005 totaled $49,495,148; FDL loans totaled $58,011,744.

NOTE 7 - FEDERAL PERKINS LOAN PROGRAM

The Federal Perkins Loan Program (CFDA 84.038) is administered by the Commonwealth's public institutions of higher education, excluding the University of Massachusetts. Fiscal year 2005 activity included federal revenues of $233,988, loan repayments of $2,417,960, and loan funds disbursed of $3,310,291. Loans outstanding at June 30, 2005 totaled $18,326,468.

NOTE 8 – UNEMPLOYMENT INSURANCE PROGRAM (UI) CFDA 17.225

The U.S. Department of Labor, in consultation with the Office of Management and Budget officials, has determined that for the purpose of audits and reporting under OMB Circular A-133, state UI funds as well as federal funds should be considered federal awards for determining Type A programs. The State receives federal funds for administrative purposes. State unemployment taxes must be deposited to a state account in the Federal Unemployment Trust Fund, used only to pay benefits under the federally approved state law. State UI funds as well as federal funds are included on the Schedule of Expenditures of Federal Awards. The following schedule provides a breakdown of the state and federal portions of the total expended under CFDA Number 17.225:

State UI Funds	$ 1,226,914,171
Federal UI Funds	290,575,480
Total Expenditures	$ 1,517,489,651

NOTE 9 - PROGRAM CLUSTERS

In accordance with Subpart A §_.105 of OMB Circular No. A-133, *Audits of States, Local Governments and Non-Profit Organizations*, the Commonwealth has clustered certain programs in determining major programs. The following represents the clustered programs:

Special Program for the Aging, Title III, Part B	CFDA# 93.044
Special Programs for the Aging Title III, Part C	CFDA# 93.045
Nutrition Services Incentive Program	CFDA# 93.053
Medical Assistance Program	CFDA# 93.778
State Medicaid Fraud Control Unit	CFDA# 93.775
State Survey & Certification of Health Care Providers	CFDA# 93.777
Special Education-State Grants	CFDA# 84.027
Special Education-Preschool Grants	CFDA# 84.173
National School Lunch Program	CFDA# 10.555
School Breakfast Program	CFDA# 10.553 (Note 1)
Special Milk Program	CFDA# 10.556 (Note 1)
Summer Food Service Program	CFDA# 10.559
Food Stamps	CFDA# 10.551
State Administrative Matching for Food Stamps	CFDA# 10.561
Student Financial Assistance	Various

NOTE 10 – SUBRECIPIENTS

In OMB Circular A-133 § _.105 subrecipients are defined as non-Federal entities that expend federal awards received from a pass through entity to carry out a Federal program, but do not benefit from that program. In fiscal year 2005, the Commonwealth passed through the following amounts to subrecipients:

CFDA#	FEDERAL PROGRAM DESCRIPTION	EXPENDITURES
10.163	Market Protection and Promotion	$ 10,237
10.551	Food Stamps	179,725
10.555	National School Lunch Program	122,394,393
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	59,758,222
10.558	Child and Adult Care Food Program	43,309,223

CFDA#	FEDERAL PROGRAM DESCRIPTION	EXPENDITURES
10.559	Summer Food Service Program for Children	4,285,686
10.568	Emergency Food Assistance Program administrative costs	1,180,081
10.664	Cooperative Forestry Assistance	289,113
10.678	Forest Stewardship Program	10,000
11.419	Coastal Zone Management Administration Awards	274,892
11.420	Coastal Zone Management Estuarine Research Reserves	18,068
11.499	National Oceanic and Atmospheric Administrative	233,776
12.607	Community Economic Adjustment Planning Assistance	153,530
14.182	Section 8 - New Construction or Substantial Rehabilitation	3,847,171
14.228	Community Development Block Grants / State's Program	33,594,266
14.231	Emergency Shelter Grants Program	2,176,088
14.235	Supportive Housing Program	6,643,648
14.238	Shelter Plus Care	280,659
14.239	HOME Investment Partnerships Program	17,618,387
14.241	Housing Opportunities for Persons with AIDS	789,241
14.856	Lower Income Housing Assistance Program Section 8 Moderate Rehabilitation	18,580,977
14.871	Section 8 Housing Choice Vouchers	195,580,484
14.900	Lead-Based Paint Hazard Control in Privately-Owned Housing	799,946
15.622	Sportfishing and Boating Safety Act	515,965
15.904	Historic Preservation Fund Grants-In-Aid	64,000
15.916	Outdoor Recreation Acquisition, Development and Planning	1,783,644
15.999	Department of Interior - Miscellaneous	8,414
16.202	Offender Reentry Program	139,580
16.393	Residential Substance Abuse Treatment for State Prisoners	176,082
16.523	Juvenile Accountability Incentive Block Grants	1,235,219
16.527	Supervised Visitation, Safe Havens for Children	300,904
16.540	Juvenile Justice and Delinquency Prevention Allocation to States	560,733
16.542	Part D - Research, Evaluation, Technical Assistance and Training	105,541
16.560	National Institute of Justice Research, Evaluation, and Development Project Grants	24,094
16.564	Crime Laboratory Improvement Combined Offender DNA Index System Backlog Reduction	201,907
16.575	Crime Victim Assistance	6,569,637
16.579	Byrne Formula Grant Program	7,182,499
16.585	Drug Court Discretionary Grant Program	185,549
16.586	Violent Offender Incarceration and Truth in Sentencing Incentive Grants	1,449,733
16.588	Violence Against Women Formula Grants	1,619,111
16.589	Rural Domestic Violence and Child Victimization Enforcement Grant Program	329,701
16.595	Community Capacity Development Office	330,017
16.607	Bulletproof Vest Partnership Program	2,380
16.609	Community Prosecution and Project Safe Neighborhoods	147,742
16.733	National Incident Based Reporting System	55,000
17.207	Employment Service	4,677,837
17.225	Unemployment insurance	510,420

CFDA#	FEDERAL PROGRAM DESCRIPTION	EXPENDITURES
17.235	Senior Community Service Employment Program	1,631,408
17.258	WIA Adult Program	10,852,138
17.259	WIA Youth Activities	14,745,806
17.260	WIA Dislocated Workers	29,526,232
17.266	Work Incentives Grant	641,258
17.267	WIA Incentive Grants Section 503 Grants to States	51,386
17.801	Disabled Veterans' Outreach Program (DVOP)	10,151
17.802	Veterans' Employment Program	366,064
17.804	Local Veterans' Employment representative Program	6,060
17.805	Homeless Veterans Reintegration Project	55,000
20.205	Highway Planning and Construction	583,228
20.507	Federal Transit Formula Grants	439,715
20.509	Formula Grants for Other Than Urbanized Areas	3,375,648
20.513	Capital Assistance Program for Elderly Persons and Persons with Disabilities	7,783
20.600	State and Community Highway Safety	1,921,168
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants	15,872
45.024	Promotion of the Arts Grants to Organizations and Individuals	563,600
45.025	Promotion of the Arts Partnership Agreements	124,000
45.026	Folk and Traditional Arts Initiatives	18,440
45.310	State Library Program	1,422,573
66.439	Targeted Watershed Grants	40,596
66.456	National Estuary Program	49,270
66.463	Water Quality Cooperative Agreements	58,726
66.474	Water Protection Grants to the States	296,946
66.605	Performance Partnership Grants	2,181,354
66.606	Surveys, Studies, Investigations and Special Purpose Grants	18,069
66.701	Toxic Substances Compliance Monitoring Cooperative Agreements	51,985
66.708	Pollution Prevention Grants Program	25,000
81.042	Weatherization Assistance for Low-Income Persons	6,190,423
81.117	Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis / Assistance	2,500
81.119	State Energy Program Special Projects	214,670
84.002	Adult education State Grant Program	7,791,046
84.010	Title I Grants to Local Educational Agencies	223,644,842
84.011	Migrant education State Grant Program	1,833,774
84.013	Title I Program for Neglected and Delinquent Children	910,701
84.027	Special Education Grants to States	233,389,422
84.042	TRIO Student Support Services	2,590
84.044	TRIO Talent Search	2,150
84.047	TRIO Upward Bound	16,159
84.048	Vocational Education Basic Grants to States	16,648,259
84.069	Leveraging Educational Assistance Partnership	1,040,274
84.126	Rehabilitation Services Vocational Rehabilitation Grants to States	6,555,040
84.128	Rehabilitation Services Service Projects	106,739
84.132	Centers for Independent Living	1,474,669

CFDA#	FEDERAL PROGRAM DESCRIPTION	EXPENDITURES
84.169	Independent Living State Grants	28,872
84.173	Special Education Preschool Grants	7,514,738
84.177	Rehabilitation Services Independent Living Services for Older Individuals Who are Blind	182,933
84.181	Special Education Grants for Infants and Families with Disabilities	5,085,728
84.185	Byrd Honors Scholarships	754,466
84.186	Safe and Drug-Free Schools and Communities State Grants	7,576,082
84.187	Supported Employment Services for Individuals with Severe Disabilities	541,685
84.196	Education for Homeless Children and Youth	745,174
84.213	Even Start State Educational Agencies	4,296,401
84.215	Fund for the Improvement of Education	78,090
84.224	Assistive Technology	1,988,372
84.235	Rehabilitation Services Demonstration and Training Programs	101,549
84.243	Tech-Prep Education	1,559,132
84.255	Literacy Programs for Prisoners	10,024
84.282	Charter Schools	2,466,497
84.287	Twenty-First Century Community Learning Centers	19,415,135
84.298	State Grants for Innovative Programs	4,777,193
84.318	Education Technology State Grants	10,749,328
84.323	Special Education - State Personnel Development	248,676
84.330	Advanced Placement Program	382,864
84.332	Comprehensive School Reform Demonstration	5,563,776
84.334	Gaining Early Awareness and Readiness for Undergraduate Programs	3,170,871
84.346	Vocational Education Occupational and Employment information State Grants	99,256
84.350	Transition to Teaching	90,391
84.352	School Renovation Grants	1,588,294
84.357	Reading First State Grants	13,154,311
84.358	Rural Education	156,186
84.365	English Language Acquisition Grant s	9,150,073
84.366	Mathematics and Science Partnerships	1,689,235
84.367	Improving Teacher Quality State Grants	48,351,745
93.003	Public Health and Social Services Emergency Fund	10,802,077
93.044	Special Programs for the Aging Title III, Part BGrants for Supportive Services and Senior Centers	7,706,620
93.045	Special Programs for the Aging Title III, Part Nutrition Services	12,901,486
93.048	Special Programs for the Aging Title IV and Title II Discretionary Projects	524,595
93.052	National Family Caregiver Support	3,556,872
93.053	Nutrition Services Incentive Program	2,699,893
93.104	Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	1,054,200
93.110	Maternal and Child Health Federal Consolidated Programs	39,953
93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	80,787
93.118	Acquired Immunodeficiency Syndrome IDS) Activity	23,327
93.136	Injury Prevention and Control Research and State and Community	991,537

CFDA#	FEDERAL PROGRAM DESCRIPTION	EXPENDITURES
	Based Programs	
93.150	Projects for Assistance in Transition from Homelessness (PATH)	1,147,150
93.153	Coordinated Services and Access to Research for Women, Infants, Children, and Youth	731,722
93.197	Childhood Lead Poisoning Prevention Projects State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	298,833
93.238	Cooperative Agreements for State Treatment Outcomes and Performance Pilot Studies Enhancement	57,322
93.239	Policy Research and Evaluation Grants	359,030
93.243	Substance Abuse and Mental Health Services Projects of Regional and National Significance	150,477
93.268	Immunization Grants	354,437
93.283	Centers for Disease Control and Prevention Investigations and Technical Assistance	11,982,115
93.556	Family Preservation and Support	4,084,627.41
93.565	State Legalization Impact Assistance Grants	10,216
93.566	Refugee and Entrant Assistance State Administered Programs	2,668,170
93.568	Low-Income Home Energy Assistance	87,787,768
93.569	Community Services Block Grant	13,772,378
93.575	Child Care and Development Block Grant	115,889,339
93.576	Refugee and Entrant Assistance Discretionary Grants	1,336,097
93.583	Refugee and Entrant Assistance Wilson / Fish Program	1,407,935
93.590	Community - Based Child Abuse Prevention Grants	565,135
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund	58,235,874
93.597	Grants to States for Access and Visitation Programs	28,654
93.599	Chafee Education and Training Vouchers Program (ETV)	60,780
93.600	Head Start	13,000
93.617	Voting Access for Individuals with Disabilities Grants to States	4,150
93.630	Developmental Disabilities Basic Support and Advocacy Grants	498,034
93.631	Developmental Disabilities Projects of National Significance	24,500
93.643	Children's Justice Grants to States	174,795
93.645	Child Welfare Services State Grants	768,043
93.652	Adoption Opportunities	273,335
93.667	Social Services Block Grant	80,708,849
93.669	Child Abuse and Neglect State Grants	82,100
93.671	Family Violence Prevention and Services / Grants for Battered Women's Shelters Grants to States and Indian Tribes	1,288,409
93.674	Chafee Foster Care Independence Program	14,457
93.779	Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	453,889
93.786	State Pharmaceutical Assistance Programs	55,743
93.917	HIV Care Formula Grants	18,752,245
93.940	HIV Prevention Activities Health Department Based	5,937,805
93.941	HIV Demonstration, Research, Public and Professional Education Projects	314,453
93.944	Human Immunodeficiency Virus (HIV) / Acquired	131,854

CFDA#	FEDERAL PROGRAM DESCRIPTION	EXPENDITURES
	Immunodeficiency Virus Syndrome IDS) Surveillance	
93.945	Assistance Programs for Chronic Disease Prevention and Control	513,765
93.958	Block Grants for Community Mental Health Services	8,266,952
93.959	Block Grants for Prevention and Treatment of Substance Abuse	25,931,162
93.977	Preventive Health Services Sexually Transmitted Diseases Control Grants	106,757
93.978	Preventive Health Services Sexually Transmitted Diseases Research, Demonstrations, and Public Information and Education Grants	12,734
93.988	Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	212,465
93.991	Preventive Health and Health Services Block Grant	574,827
93.994	Maternal and Child Health Services Block Grant to the States	4,196,114
94.004	Learn and Serve America School and Community Based Programs	659,388
96.001	Social Security Disability Insurance	460,328
96.008	Social Security Benefits Planning, Assistance, and Outreach Program	63,980
97.004	State Domestic Preparedness Equipment Support Program	23,042,339
97.012	Boating Safety Financial Assistance	13,031
97.017	Pre-Disaster Mitigation (PDM) Competitive Grants	90,383
97.029	Flood Mitigation Assistance	77,489
97.036	Public Assistance Grants	36,020,831
97.039	Hazard Mitigation Grant	625,889
97.042	Emergency Management Performance Grants	710,566
97.054	Community Emergency Response Teams	158,560

Revolutionary Timeline

1630
Puritans establish the town of Boston.

1670
The first Old South Meeting House, a two-story cedar hall, is built.

1761
James Otis speaks against the Writs of Assistance at the Old State House.

1764
The Sugar Act taxation and Currency Act infuriate Colonists.

1765
The Stamp Act taxation sparks rioting in Boston.

1768
September 18 – British garrison troops in Boston.

1770
March 5 – The Boston Massacre leaves five dead. British uphold the Tea Act.

1773
December 16 – The Boston Tea Party prompts the Intolerable Acts as punishment.

1775
April 18 – Paul Revere and William Dawes, Jr., ride from Boston to alert the countryside that British troops are headed to Lexington.

1775
April 19 – The British retreat to Boston after the Battles of Lexington and Concord.

1775
June 17 – The Battle of Bunker Hill leaves heavy casualties.

1776
March 17 – Washington liberates Boston. British evacuate with troops and local Tories.

1776
July 18 – Declaration of Independence is read from the Old State House balcony.

1788
June 21 – The Constitution is ratified.

1789
George Washington makes triumphal visit to Boston as first President.

1795
Construction begins for the new State House.

1797
USS Constitution is launched.

1809
The Park Street Church is built.

1822
Boston is incorporated as a city.

1829
July 4 – William Lloyd Garrison speaks against slavery at the Park Street Church.

1843
June 17 – Bunker Hill Monument is dedicated.

1863
The 54th Regiment marches to the Civil War under Colonel Robert Gould Shaw.

Statue of Samuel Adams