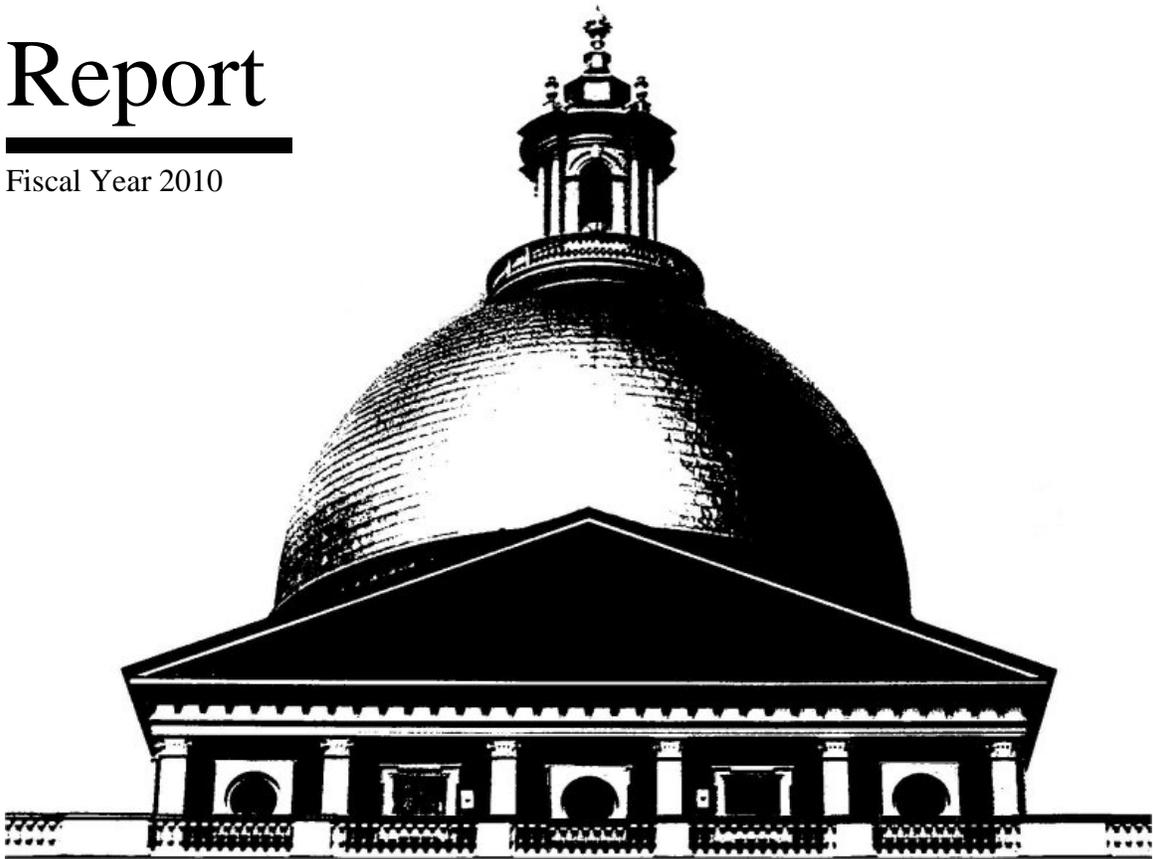


Office
of the
State
Auditor

Annual
Report

Fiscal Year 2010



A. Joseph DeNucci

Auditor of the Commonwealth



The Commonwealth of Massachusetts

AUDITOR OF THE COMMONWEALTH

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November 2010

His Excellency Deval Patrick, Governor
Honorable Timothy P. Murray, Lt. Governor
Honorable Therese Murray, President of the Senate
Honorable Robert A. DeLeo, Speaker of the House of Representatives
Honorable Steven C. Panagiotakos, Chairman of the Senate Ways and Means Committee
Honorable Charles A. Murphy, Chairman of the House Ways and Means Committee
Honorable Members of the General Court:

I am pleased to submit herewith the Annual Report of Audit Results and Activities of the Office of the State Auditor (OSA) for the period July 1, 2009 through June 30, 2010.

As I approach the close of my sixth term as State Auditor, I want to thank you for your support of the work of this office. Your assistance has helped me to make the OSA a catalyst for financial, administrative, and programmatic improvements in state government, and to achieve my primary goal as a public official, to make a difference in people's lives.

Over the years, my audits and BSI investigations have identified billions of dollars in cost-savings opportunities; unnecessary and unallowable expenditures; and provider and recipient fraud, waste, and abuse. Moreover, through cooperative efforts with law enforcement and state funding agencies, OSA audit and investigative results have led to the recovery of more than a hundred million dollars in fraudulently obtained and misused state funds. Additionally, through my Division of Local Mandates, I have helped to protect cities and towns from unfunded mandates and advocated for state funding and reform of local programs. As important, the work of my office has directly resulted in substantial improvements in agency internal controls, non-tax revenue collection, and data integrity protection across state government. Moreover, recommendations and inter-agency projects have resulted in meaningful reform of the state's purchase of service system, higher education trust fund administration, and school building assistance for construction and renovation projects. They have also strengthened contract-related oversight; increased municipal Medicaid reimbursements; and enhanced MassHealth fraud detection and prevention activities.

I have also remained a "watchdog for the underdog," auditing programs everyone depends on, in areas such as public safety and public health, and also focusing on programs that serve the state's most vulnerable residents. By documenting underfunding in certain programs that serve low-income individuals, my audits helped to restore funding for the repair of public housing units with serious health and safety problems, and to provide a supplement in low-income fuel assistance.

Of particular interest during this report period, my office completed follow-up audits on Sanitary Code compliance at public housing projects and a statewide review of the adequacy of the Commonwealth's housing program for individuals with special needs. The broad range of our other audits included several reports concerning oversight of American Recovery and Reinvestment Act funding, as well as reviews of personal care attendant claims payments, the MBTA's RIDE program, the Division of Administrative Law Appeals, the transfer of County Sheriff's Offices to the Commonwealth, and statewide elevator inspections.

Copies of individual audit reports are available by calling the OSA at (617) 727-2075 or (617) 727-6200. Recent audits, Division of Local Mandates studies, and annual reports can also be downloaded from the OSA's website (<http://www.mass.gov/sao>).

It has been an honor and privilege to serve the people of Massachusetts as State Auditor for nearly twenty-four years. I strongly urge you to continue your support for the important oversight provided by this office. Again, thank you; and I wish you the best.

Sincerely,

A handwritten signature in black ink, reading "A. Joseph DeNucci". The signature is fluid and cursive, with a prominent initial "A" and a trailing flourish.

A. Joseph DeNucci
Auditor of the Commonwealth

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OFFICE OF THE STATE AUDITOR: AUTHORITY AND RESPONSIBILITIES

The Office of the State Auditor (OSA) operates under the direction of the State Auditor, A. Joseph DeNucci, an independently elected constitutional officer. The OSA provides the Governor, the Legislature, auditees, oversight agencies, and the general public with an independent and objective evaluation of the Commonwealth's financial and programmatic activities. As mandated by Chapter 11, Section 12, of the Massachusetts General Laws (MGLs), the OSA audits the operations of state government, including state agencies, higher education institutions, the state court system, and authorities. The Auditor also performs audits of vendors and contractors that do business with the Commonwealth, and carries out mandated responsibilities relative to privatization initiatives. Furthermore, the Auditor is responsible, under MGL Chapter 11, Section 6B, for the Division of Local Mandates, which is charged primarily with determining the financial impact of legislation and regulations on cities and towns. In addition, under provisions of Chapter 184 of the Acts of 2002, the Bureau of Special Investigations, which investigates fraud within public assistance programs, became a division of the OSA.

The OSA conducts financial, performance, and information technology audits in accordance with "Government Auditing Standards" issued by the Comptroller General of the United States. These standards are known in the profession both as Generally Accepted Government Auditing Standards and as the Yellow Book standards. OSA audit activities include the following objectives:

- Determining whether the Commonwealth's resources are properly safeguarded;
- Determining whether such resources are properly and prudently used;
- Evaluating internal controls to help ensure integrity in financial management systems;
- Determining an auditee's compliance with legal and regulatory requirements;
- Determining whether computer systems and technology environments meet control objectives regarding security, integrity, and availability;
- Evaluating and determining a program's results, benefits, or accomplishments; and
- Ensuring that all audit results are disclosed to the public and the auditees.

All OSA audit results and recommendations are intended to assist agency and program administrators by indicating areas where internal controls, financial operations, program results, and efficiency and effectiveness can be improved. The OSA also offers technical assistance where appropriate. In short, the OSA is not simply a critic but is an agent, advocate, and catalyst for improved management and delivery of government services.

AUDIT RESULTS, RECOMMENDATIONS, AND INITIATIVES: OVERVIEW

During fiscal year 2010, the Office of the State Auditor issued 225 audit reports covering agencies, authorities, institutions of public higher education, human service entities, judiciary/law enforcement entities, vendors, and various other state activities. For a complete listing of audit reports, see the Appendix on page 66. In these reports the OSA disclosed millions of dollars in financial and operational deficiencies and provided recommendations intended to safeguard the Commonwealth's assets and improve the effectiveness and efficiency of governmental operations.

OSA audits are not intended to sensationalize, but rather to present an accurate appraisal of financial management, legal compliance, and, where appropriate, program effectiveness and efficiency. Risk analyses, preliminary surveys, and referrals from state agencies assist the OSA in focusing on areas in which weaknesses may exist. Most audit reports highlight matters that need to be improved, even though these findings may be exceptions in otherwise well-managed operations. However, effective government operations and corrective actions in response to prior audit findings are also acknowledged in audit reports.

Audit results and recommendations are important to auditees, and in a majority of instances auditees have indicated a willingness to take appropriate corrective actions. Audit results, viewed in the aggregate, give focus to problem areas for legislators and administration officials and are the basis of OSA legislative and administrative initiatives and recommendations.

The following information demonstrates that OSA audits have promoted the safeguarding and enhancement of the Commonwealth's assets and assisted auditees in improving their financial and managerial operations.

AUDIT SUMMARIES

Education

During the report period, the OSA released 22 audits pertaining to education entities. These reports include an audit of The Education Cooperative, a public collaborative, and audits of federal student assistance programs at seven public colleges. This section also includes a charter school review focused on compliance by the state's charter schools with mandated audit and financial reporting requirements.

The Education Cooperative

The OSA conducted an audit of The Education Cooperative, a public collaborative that provides special education and other services to sixteen Metro West school districts. Education collaboratives operate under the control of a Board of Directors composed of representatives selected by member school committees, with day-to-day activities managed by an Executive Director. The Commonwealth's Department of Elementary and Secondary Education approves collaboratives and is responsible for their financial and programmatic oversight. During the period covered by the audit, July 1, 2006 through February 28, 2009, The Education Cooperative employed 132 individuals and had revenues of \$7.2 million, mostly from service fees and tuitions charged to member districts. As detailed below, the audit identified oversight issues, questionable and unallowable expenditures totaling more than \$334,000, and teachers and other staff who did not meet mandated licensing requirements.

- The Department of Elementary and Secondary Education was not fulfilling its statutorily assigned oversight responsibilities relative to collaborative activities. Specifically, the Department did not have effective compliance monitoring, financial reporting, and auditing systems for education collaboratives and did not consistently hold them to standards governing public school districts and charter schools. Moreover, lack of Department oversight potentially contributed to the specific problems and control deficiencies disclosed in The Education Cooperative audit.
- The Education Cooperative provided excessive and unauthorized salary enhancements and fringe benefits to its Executive Director, who retired subsequent to the audit period. These included an annuity to supplement his salary even though the salary alone (\$154,157 in fiscal year 2008) exceeded what was paid to the executive directors of both of the Commonwealth's larger education collaboratives. In addition, shortly after his hiring in 2003, the Executive Director, without Board approval, authorized reimbursement payments to himself in lieu of participation in one of the collaborative's health insurance plans. The OSA estimated that under this arrangement he received a total of \$44,520 over six years. With respect to time and attendance, the Executive Director did not accurately record vacation and other leave time and appeared to have received collaborative wages for days he worked for a private Illinois consulting company.
- The Education Cooperative had at least \$59,267 in unnecessary and unallowable expenditures for food, alcohol, and meeting expenses at retreats and for holiday parties. In addition, collaborative managers expended at least \$125,832 for unbudgeted and inadequately documented payments for lobbying and other consultant services.
- Due to inadequate accounting and budgetary controls, The Education Cooperative charged excessive fees to school districts, resulting in a \$1,465,139 surplus over a multi-year period. This is inconsistent with legal restrictions on the use of government fees to generate surpluses exceeding the cost of providing services.

Education

- During the audit period, The Education Cooperative employed teachers and other staff who did not meet mandated licensing requirements. A sampling of personnel records of collaborative educators found licensing issues for 29 of 52 individuals reviewed.

The Department of Elementary and Secondary Education indicated in its response that it was taking steps to strengthen its oversight of collaborative activities.

Audits of Federal Student Assistance Programs

The OSA, in this report period, completed seven reviews of student financial assistance programs funded through the United States Department of Education. These reviews were conducted in conjunction with the Single Audit of the Commonwealth for the fiscal year ended June 30, 2009 to determine compliance with federal regulations regarding student assistance and state laws and regulations. The reviews found generally improving compliance with federal regulations and procedures for administering student federal financial assistance. Noted deficiencies, as well as corrective actions, are detailed below.

- ***Berkshire Community College*** needed to update and fully document its internal control plan, particularly in the areas of risk assessment and risk response. In addition, its disbursement notification letters to students who received Federal Family Education Loan program funds did not include certain required information, such as disbursement dates and timeframes for some student responses. Finally, contrary to federal regulations, the College did not notify the National Student Loan Data System of enrollment status changes for all students receiving federal loans. Audit testing of files for 30 such students disclosed that status changes had not been reported for fourteen students who had withdrawn from the College and for eight additional students who changed from full-time to part-time status. As a result, for the period under review, the College could not verify all students' loan privileges or always assist in determining grace periods and repayment schedules.
- ***Bristol Community College*** had substantially improved the management and monitoring of student work-study timesheets by requiring student signatures attesting to hours worked and appropriate hand-signed supervisory approvals. In addition, the College was continuing to update its internal control plan, though required risk assessments had not yet been implemented.
- ***Massachusetts Bay Community College*** needed to improve its procedures for outstanding or returned student work-study checks. At the close of the audit period, the College had 985 checks totaling \$169,099 that had remained uncashed for longer than six months, 722 of which, totaling \$92,310, were outstanding for over two years. As a result, the College was not in compliance with federal student assistance regulations or with state law requiring that checks outstanding for over one year be transferred to the State Treasurer's Unclaimed Check Fund. In addition, an audit sample of 30 loan recipients who had graduated, withdrawn, or reduced attendance hours found that the College had not reported changes in enrollment status for 23 students and was late in reporting status changes for five additional students. As a result, loans were not moved into repayment status as required, and student entitlements to grace and deferment periods may have

been compromised. Furthermore, the College did not notify students and parents regarding loan disbursements from federal program funds within the required timeframe and did not have a sufficiently comprehensive and detailed internal control plan.

- ***Massachusetts Maritime Academy (MassMaritime)*** did not have written agreements with off-campus employers relative to working conditions and compensation for students employed through the Federal Work Study program. These agreements are required under federal regulations in order to protect students and explicitly designate the share of their compensation to be paid by an off-campus employer. In addition, MassMaritime needed to update and enhance its internal control plan to include all required information, such as the timing and amounts of disbursements, when notifying students of loan availability through the Federal Direct Loan program; and to increase the timeliness of notification to the National Student Loan Data System of student status changes.
- ***Massasoit Community College*** needed to improve its cash management procedures by reporting all financial assistance awards, as required, on the designated federal automated system before requesting fund drawdowns. The audit identified instances in which requests for federal funds that were correctly calculated were only partially authorized because necessary information had not been entered into the federal system. In these instances, the College temporarily utilized its own funds to make up for the drawdown shortfall, which was inefficient and noncompliant with federal regulations. The College also needed to consistently verify students' eligibility for federal financial assistance; submit to the National Student Loan Data System, in a timely manner, all student status changes; and update and improve its internal control plan to address and mitigate identified risks.
- ***Mount Wachusett Community College*** had satisfactorily resolved issues reported in a prior audit by comprehensively updating its internal control plan and by implementing a procedure of timely and accurate reporting to the National Student Loan Data System of enrollment status changes for all students in receipt of federal loans.
- ***Westfield State College*** had taken corrective action to resolve all but one of the issues identified in a prior audit. The current audit found that the College had improved Federal Work Study program payroll procedures, submitted student enrollment status changes as required, and properly identified and retained program interest income earned on its Federal Perkins Loan Fund. However, the College still needed to update and fully document its internal control plan to bring it into compliance with the requirements of the state's Internal Control Statute.

Charter School Review

State law requires that all charter schools file annual independent audits of their accounts with the Department of Elementary and Secondary Education and the OSA, and that these reports be in a form prescribed by the State Auditor. The State Auditor is also authorized to examine the records of charter schools and review their budgets, finances, and financial dealings. Pursuant to this authority, the OSA developed a basic chart of accounts, pro forma budgets, and financial

Education

reports in addition to those required by Generally Accepted Accounting Principles. These models were included in a report issued in October 1998.

During December 2009, the OSA sent all charter schools a notice reminding them that they are required to have an annual independent audit performed and to send a copy of the resulting report to the OSA, as well as to the Department of Elementary and Secondary Education, on or before January 1, in accordance with Chapter 71, Section 89, of the General Laws. During fiscal year 2010, the OSA conducted reviews of 62 charter school independent audit reports for the fiscal year ended June 30, 2009. Four reports were submitted after the required deadline.

To date, nineteen charter school reviews have been issued and forty-three are ongoing. Those schools whose independent audit reports do not fully comply with audit requirements are notified of their deficiencies and are requested to take corrective action. Additionally, the OSA requests corrective action plans addressing issues noted in the audit reports and management letters that accompany the charter school audits.

INITIATIVES

The following is an update of ongoing initiatives in the area of education.

Student Financial Aid Programs

The OSA is continuing to conduct audits of federal student financial assistance programs at the Commonwealth's institutions of public higher education. During fiscal year 2011, audits of these programs will be conducted at selected schools, including Berkshire Community College, Cape Cod Community College, Greenfield Community College, Massachusetts Bay Community College, Massachusetts College of Art and Design, Massachusetts Maritime Academy, Massasoit Community College, and Westfield State University.

Education Collaboratives

The OSA is conducting a series of audits on education collaboratives, which are formed through written agreements among two or more school committees to conduct joint programs or provide services that complement and strengthen school programs of member school committees. The audit will review the accounts and activities of selected collaboratives to determine whether they are operating in compliance with applicable laws, rules, and regulations and whether their revenues and expenditures are reasonable and allowable. The audit scope will include, but not be limited to, an examination of internal controls, bank records and accounts, payroll activities, contract administration, and financial reporting. The first of these audits was issued in this report period and is the first review detailed in this section.

Department of Early Education and Care: Day Care Inspections

The OSA is conducting an audit of the Department of Early Education and Care's day care provider management system to determine whether management monitors required inspections, including compliance with required timeframes; follow-up reviews; and actions taken for noncompliance with applicable requirements. The audit will review selected Department day care center provider files to determine whether there is adequate supporting documentation for the inspections, and will review the Department's management system for assessing, suspending, and fining day care providers that are not complying with applicable laws and regulations.

AUDIT SUMMARIES

Health and Human Services

During fiscal year 2010, the OSA issued nineteen audits pertaining to health and human service agencies, providers, and activities. Audit work in this area covered activities administered under the Executive Office of Health and Human Services and the Executive Office of Elder Affairs. Utilizing both agency and contract workers, these entities provide a broad array of services, including medical assistance; public health initiatives; mental health programs; programs that serve the developmentally disabled; rehabilitation services; child protection, childcare, and family assistance programs; refugee assistance; juvenile justice programs; and home care and other senior services. Issued reports with significant findings, which are summarized in the section that follows, include a follow-up audit of Personal Care Attendant claims payments, an audit of Department of Mental Health oversight of client funds, and an audit of GROW Associates, Inc., a private vendor that provides services under state contracts.

Personal Care Attendant (PCA) Claims Payments

The OSA conducted a follow-up audit of billings paid by MassHealth for personal care attendant (PCA) services performed at a time when consumers said to have received this care may have been residents of inpatient facilities. Such payments are unallowable under both federal and state regulations and are considered to be potentially fraudulent. PCAs assist people with long-term disabilities to live at home independently by helping them with various activities of daily living. In fiscal year 2008, MassHealth paid over \$331 million for PCA services. The prior audit, which reviewed a sample of 200 periods of service for 30 consumers selected by the U.S. Department of Health and Human Services' Inspector General, found that MassHealth's internal controls and procedures were inadequate to prevent or discover the payment of claims for PCA services to residents of nursing facilities and hospitals. As summarized below, the current audit found a recurrence of claims paid for non-covered PCA services and also examined related issues to determine whether the well-being of consumers and their assets were at risk.

- The OSA found that 27 (90%) of the 30 consumers from the prior audit had recurrences of claims paid for services during time periods when the individuals may have been residents of inpatient facilities. These potentially fraudulent claims totaled \$207,283, indicating an ongoing problem that will continue unless MassHealth takes remedial action. MassHealth officials responded that they would ensure that consumers and PCAs are aware of the serious nature of making a false claim by amending existing PCA forms to specifically include the potential penalties for committing fraud. The agency is also undertaking efforts to enhance program oversight and, where feasible, recover overpayments.
- The PCA program, which has expanded in recent years to include frail elderly and cognitively limited populations, did not offer adequate protections to program participants. PCA hiring was unregulated, with no requirements for background checks or training. Although PCAs are regularly in unsupervised contact with vulnerable clients, they were not held to the same standards as employees of home health and homemaker agencies. Furthermore, consumers had only limited access to background checks for prospective PCAs, had to pay for Criminal Offender Record Information (CORI) checks, and did not receive assistance in interpreting CORI reports. The OSA's Bureau of Special Investigations conducted background checks for the PCAs included in the audit's sample population. During the audit period, the 30 consumers employed a combined total of 82 PCAs. Of these, eighteen had been convicted of a major felony; seven had served time in prison; twelve were involved in violent crimes; nine had been convicted of drug offenses; and ten were guilty of theft. Most of the PCAs guilty of felonies had multiple offenses. Although the sample reviewed was small, based on these results, the audit expressed serious concern that consumers' personal safety and the security of their assets were at risk. The OSA recommended that the program offer to provide, free of charge, background checks for prospective attendants. In order to make informed hiring decisions and receive maximum protections, consumers need background information that is timely, readable, and accurate.

Department of Mental Health: Client Funds

The OSA conducted an audit of policies and procedures for oversight by the Department of Mental Health (DMH) of client funds. Audit activities included site visit reviews at the Central Office, two DMH area offices, a City of Lawrence local office, and the Solomon Carter Fuller Mental Health Center (Fuller MHC). As summarized below, the OSA found oversight and internal control weaknesses that could place DMH client funds at risk of loss and misuse.

- The DMH Central Office and area offices did not conduct sufficient site reviews of client funds records and procedures. For example, no site reviews had been conducted at either the Lawrence office or Fuller MHC for more than a year. Furthermore, periodic reporting on client funds by local offices and centers was minimal. DMH officials responded that limited staffing prevented the conduct of site-based reviews, but that efforts would be made through information technology enhancements to improve internal controls at local sites. In addition, insufficient personnel and time were dedicated to the oversight of DMH-contracted vendors that maintain client funds. Specifically, one part-time employee at the Central Office was responsible for conducting reviews of 53 vendors with client fund resources totaling approximately \$16 million. In the two years preceding February 2009, five vendor reviews had been initiated and two reports, both of which required corrective action plans, had been issued. DMH officials responded that they would pursue the budgetary resources necessary to conduct additional reviews of client funds managed by vendors.
- DMH did not have sufficient written policies or procedures to guide employees in the processing of deceased or unclaimed patient funds. As a result, unclaimed funds were often inappropriately retained by the Department or various mental health centers. The audit found, for example, that the Central Office had deceased patient canteen funds totaling \$34,640 that had been retained for more than four years. Under state law, these funds are considered abandoned property and should be promptly transferred to the Office of the State Treasurer. While the audit was in progress, DMH initiated the transfer process, but as of April 6, 2009, the Treasurer's Office had not received the funds. The audit also noted that Fuller MHC was not identifying on its records whether client fund accounts were active or inactive. Further review determined that 80 accounts belonged to patients who had left the facility. More aggressive action was required to find these patients or, if this proved impossible, to properly transfer the funds. In response to this finding, after additional internal review, Fuller MHC transferred \$33,845 in client funds to the State Treasurer's Abandoned Property Division.
- The Fuller MHC had one individual responsible for all client fund activities, including handling receipts, making deposits and disbursements, maintaining client records, and performing reconciliations, with no further oversight. In addition, this employee was inappropriately writing petty cash fund checks to herself and expending the cash without further supervision or review. The OSA emphasized the necessity of addressing these internal control deficiencies by ensuring that financial duties are adequately segregated and appropriately monitored. DMH responded that corrective action would be taken.

The Massachusetts Rehabilitation Commission

The OSA, in conjunction with the Single Audit of the Commonwealth for the fiscal year ended June 30, 2009, conducted a review of the financial activities of the Massachusetts Rehabilitation Commission (MRC). The audit reviewed prior findings; assessed internal controls; and evaluated compliance with laws, regulations, and requirements governing federally funded agency programs. For fiscal year 2009, MRC received \$94.8 million in appropriations, \$77 million of which consisted of federal funds. The audit found that the agency had corrected recording errors that had resulted in an understatement of \$174,682 in Vocational Rehabilitation program funds. Specifically, MRC was performing a reconciliation every month between the Massachusetts Management Accounting and Reporting System and U.S. Social Security Administration records to ensure that federal Vocational Rehabilitation program funds are accurately recorded and reported. However, other issues were identified, as summarized below.

- Although MRC had improved the timeliness of eligibility determinations for individuals applying for Vocational Rehabilitation services, the agency had not yet achieved full compliance with the 60-day timeframe required by regulations. Noting that MRC was now generating a monthly report of delayed determinations and had decreased the percentage of noncompliant cases from 25% to 11%, the OSA recommended that MRC continue to implement improvements, including increased oversight, as planned. The audit also found that MRC needed to more fully document and substantiate data submitted on the annual financial cost report required by the federal government for the Vocational Rehabilitation program.
- In terms of general internal controls, MRC needed to improve its supervisory review of employee attendance records. Specifically, 20% of timesheets tested did not have supervisory approval signatures, a necessary payroll control. MRC officials indicated that they would take immediate corrective action on this matter.

GROW Associates, Inc.

The OSA examined various administrative and operational activities of GROW Associates, a nonprofit organization that provides employment support and training programs for individuals with developmental disabilities. The audit found that GROW Associates had appropriately addressed prior audit findings by reimbursing the Commonwealth for unallowable salary and fringe benefit expenses, improving controls over billings and receivables, and implementing a timesheet reporting system. However, as detailed below, the audit identified new issues, including the provision of additional state funding to the entity through questionable contract amendments.

- The Department of Developmental Services, the provider's state funding agency, inappropriately approved changes to two contracts totaling \$1.4 million so that GROW Associates, which was experiencing financial problems, could maintain its funding level while providing 25% fewer services. This was inconsistent with regulations that require state agencies to obtain the best value possible for services provided. The OSA acknowledged the Department's concern that GROW Associates might go out of business. However, the audit maintained that the practice of amending contracts solely

for the purpose of giving a provider additional funding did not meet regulatory requirements and could also be viewed as discriminatory in that such funding was not available to all contracted providers under an established state policy.

- GROW Associates inappropriately allocated or misreported substantial amounts of funding. For example, during fiscal years 2007 and 2008, the provider charged a total of \$177,797 in administrative salaries to two of its state-funded programs instead of allocating these expenses across all of its programs as required under state guidelines. As a result, GROW Associates' financial reports significantly overstated the actual level of salary expenses and staffing provided in these two programs, while understating its overall administrative compensation. In addition, GROW Associates misreported a total of \$80,000 designated during fiscal years 2007 and 2008 for its Family Support Services program as Employment Support program funding and expenses. As a result, GROW Associates provided inaccurate information to funding and oversight agencies that assess its program administration and make funding decisions.
- GROW Associates charged against its state contracts \$2,364 used to pay late fees and other penalties. Under state regulations, these expenses are unallowable and should be repaid to the Commonwealth. In addition, during fiscal year 2008, GROW Associates spent \$9,398 specifically given by the Department of Developmental Services to fund home renovations for one of its consumers, on non-renovation-related items. These included \$5,000 in vacation expenses incurred by the consumer and his family, as well as \$2,500 in mileage reimbursements for staff. Since these funds were not used for the purpose for which they were provided, they represent unallowable costs that should also be repaid.

INITIATIVES

The following is an update of ongoing initiatives in the area of health and human services.

Office of Medicaid (MassHealth): Advanced Imaging Review

The OSA has completed an audit of oversight by MassHealth of Advanced Imaging centers, hospitals, and doctors that receive payment for performing Advanced Imaging examinations on MassHealth recipients. The audit, which included an examination of utilization reviews and prior approvals, as well as a trend analysis of the top Advanced Imaging providers over the past five years, is currently available online or from the State Auditor's Office at (617) 727-2075 or (617) 727-6200.

Office of Medicaid (MassHealth): Administration of Dental Claims

The OSA is conducting a review of MassHealth's Dental Program and the contract awarded to Dental Service of Massachusetts, Inc., to administer the program. The audit will determine whether tested dental claims filed by participating dental providers were properly supported by required documentation; services were delivered; and claims were complete, accurate, and in compliance with applicable laws and regulations. The audit will also determine the extent and effectiveness of MassHealth's internal controls over and its monitoring of dental providers.

Office of Medicaid (MassHealth): Home Health Services to Dual Eligible Recipients

The OSA is conducting an examination of payments made by MassHealth for home health services provided to recipients eligible for both Medicare and Medicaid. The audit is focusing on determining whether Medicaid payments duplicate payments already reimbursed through a Medicare prospective payment system. The audit will cover payments made during federal fiscal years 2006 and 2007 and is being conducted jointly with the U.S. Department of Health and Human Services' Office of the Inspector General.

Office of Medicaid (MassHealth): Application Process and Eligibility Verification

The OSA is conducting an audit to determine the adequacy and effectiveness of the MassHealth eligibility verification process. Audit procedures include, but are not limited to, identifying federal and state eligibility requirements; examining the application process for MassHealth benefits; determining the adequacy of eligibility verification procedures; and reviewing a statistical sample of client files. This audit will evaluate whether the Massachusetts Office of Medicaid is effectively managing its application process and has established necessary checks and balances to ensure that only eligible applicants are receiving MassHealth benefits.

AUDIT SUMMARIES

Housing Authorities

Massachusetts public housing is built and managed under the direction of the Department of Housing and Community Development. Its Division of Public Housing and Rental Assistance oversees the operation of 247 local housing authorities, which provide housing for low- and moderate-income families, the elderly, and individuals with disabilities. OSA audits help to ensure the solvency and proper operation of local housing authorities by determining whether adequate accounting and administrative controls are in place, and whether authorities are in compliance with laws and regulations governing eligibility, rents, inspections, tenant selection, and unit turnover.

During fiscal year 2010, the OSA issued 71 housing authority reports, a significant number of which reviewed conditions at public housing units for special needs individuals or followed up on prior findings of Sanitary Code violations and long-term neglect of public housing units resulting from funding delays and shortages. Findings from these audits, as well as selected internal control and compliance reviews, are summarized in the section that follows.

Department of Housing and Community Development

The OSA, in conjunction with the Single Audit of the Commonwealth for the fiscal year ended June 30, 2009, conducted a review of the financial activities of the Department of Housing and Community Development (DHCD). The audit assessed internal controls and evaluated compliance with laws, regulations, and requirements governing state- and federally funded agency programs. For fiscal year 2009, DHCD administered approximately \$722 million, of which \$529 million represented federal funds. The audit identified two issues, which are summarized below.

- In reviewing DHCD's Section 8 Housing Authority Choice Voucher Program, the OSA found that nine regional administration contracts, which expired in December 2007, were extended and subsequently re-signed without going out to bid. As a result, DHCD was not complying with federal and state procurement regulations intended to ensure that the best possible services are obtained at the most reasonable cost. Although DHCD officials believed that their selection process had been appropriate, they stated that they would "re-procure, through a competitive process, the program administration at the expiration of the current contract."
- DHCD officials were not properly reconciling the balances of Low Income Home Energy Assistance Program funds available for distribution with amounts reported on the state's automated Massachusetts Management Accounting and Reporting System. As a result, DHCD was not in compliance with the Office of the State Comptroller requirement that a weekly reconciliation be performed in order to ensure that sufficient revenue has been received to fund federal grant expenditures. Furthermore, the OSA noted that there had been instances of negative balances, which had required DHCD to temporarily reallocate funds. DHCD responded that it was revising its cash drawdown reconciliation procedures to comply with Office of the State Comptroller requirements.

Internal Control and Compliance Audits

OSA audits of housing authorities' financial controls and compliance with laws and regulations governing specific programs found general compliance and adequate fiscal controls at most housing authorities reviewed. Of audits with reportable findings, payroll control weaknesses, unallowable employee benefits, insufficient operating reserves, and inadequate Board oversight were identified as issues that needed to be addressed. Findings from selected audits are summarized below.

- **Ludlow Housing Authority** had corrected the majority of its Sanitary Code violations by repairing a leaky roof, water-damaged ceilings, and cracked sidewalks, and had also taken steps to complete three modernization projects. In addition, a former Executive Director, who had been paid more than \$1,100 in unearned sick leave benefits at the time of her retirement, agreed to work 54 hours without pay, which fully resolved the issue. However, this former official had also exceeded by \$6,730 the earning limits allowed to her as a retired county employee and had received \$4,600 in extra pay for overtime hours that were not adequately documented, matters that had not been addressed. Moreover, several new issues were identified, including excessive delays in filling vacated

apartments, deficiencies in maintaining waiting lists, an outdated management plan, and the inappropriate use of modernization funds to provide two bonuses totaling \$3,500 for the current Executive Director.

- ***Monson Housing Authority*** was cited in a prior audit as having experienced a steady and substantial decline in its financial position as a result of poor administrative decisions and inadequate oversight by its Board of Directors. Although the current review found that the Authority, under a new Executive Director, had made certain administrative improvements and corrected deficiencies in tenant selection procedures and rent determinations, it had not been able to reverse the decline in its operating reserve. The June 30, 2009 operating reserve balance of \$35,445 was \$12,055 below DHCD's suggested minimum of \$47,500. As a result, the Authority may not have the financial resources necessary to respond to emergency situations or maintain its full range of services. The Executive Director responded that the decline in reserves during the current audit period was primarily caused by necessary expenditures for a boiler replacement, a new pick-up truck, and a parking lot expansion, all of which had been approved by DHCD.
- ***Montague Housing Authority*** had received two modernization grants, which were used to correct State Sanitary Code violations cited in a prior audit. However, certain new issues relative to payroll and personnel policies were identified. Specifically, the Executive Director did not sign employee timesheets, including her own. As a result, there was inadequate assurance that all payments made to employees were for time actually worked. On a related matter, the audit noted that the hours the Executive Director claimed to have worked on a modernization project for which she received additional reimbursement were not recorded on timesheets and appeared to be overstated. Finally, the Authority's personnel policies did not include limits on the numbers of vacation and compensatory hours an employee may accrue, which could expose it to unbudgeted accrual liabilities and consequent financial hardship.
- ***Raynham Housing Authority's*** control deficiencies resulted in the provision of certain unallowable benefits, as well as noncompliance with Internal Revenue Service reporting requirements. Specifically, the Authority did not take into consideration salary paid to an administrative assistant, who also served as a Board member, when approving this individual for housing in December 2009. With these payments, the individual exceeded the maximum income limit for public housing and should have been determined ineligible. Furthermore, according to state regulations, a local housing authority cannot hire one of its Board members for any paid position, including temporary or contract work. With respect to tax noncompliance, the Authority did not issue Form 1099-MISC for calendar years 2009, 2008, and 2007 to the Board member/administrative employee and four seasonal employees, all of whom had reportable income. As a result, state and federal taxes may not have been paid on these earnings, and the Authority could be subject to penalties.

Special Audit Section

Health and Safety Problems at Public Housing Units

As part of an ongoing comprehensive review of physical conditions at state-aided public housing projects, the OSA issued fourteen follow-up audits that assessed the degree to which mandated standards for the provision of safe, decent, and sanitary public housing were being met. This initiative began in 2007 with a statewide audit that found that chronic shortfalls in capital funding and state operating subsidies had led to severe deterioration of public housing units. Later in fiscal year 2007 and in fiscal year 2008, the OSA prepared 65 individual reports, based on site visits, which documented severe State Sanitary Code violations at housing authority apartments across the Commonwealth. In fiscal year 2009, 37 follow-up audits found that a positive response by both the Department of Housing and Community Development (DHCD) and individual housing authorities to earlier findings of health and safety problems had resulted in generally improved conditions at many housing projects. Current audits issued in fiscal year 2010 found continued improvement at the majority of housing authorities reviewed. However, housing officials expressed concern that state budget problems could make the progress of the previous two years difficult to sustain. The following summary includes recognition of corrective actions, as well as the identification of issues at certain housing authorities that still needed to be addressed.

- Although the great majority of housing authorities visited in fiscal years 2007 and 2008 had apartments with serious violations of the State Sanitary Code, site visits in fiscal years 2009 and 2010 found substantial physical improvements. Utilizing increased and timelier DHCD subsidies, eleven of the fourteen housing authorities that were revisited in 2010 had fully or largely corrected all Sanitary Code deficiencies. Several of these housing authorities successfully addressed large numbers of deficiencies. For example, Fall River Housing Authority corrected all 51 previously identified code violations; Watertown Housing Authority corrected all 64 pending code violations; and Cambridge Housing Authority addressed 75 of 78 prior instances of code noncompliance. Among the code violations cited and addressed were broken windowpanes, mold and mildew, insect infestation, water damage to walls and ceilings, cracks and holes in ceilings, crumbling cement stairs, and leaking roofs. Three additional authorities had partially addressed their code deficiencies, citing a lack of available funds as impeding progress in completing all necessary repairs.
- Prior audits had found that the great majority of funding applications for modernization projects were delayed or denied by DHCD. As a result, poor physical conditions at many housing authorities were exacerbated, in some instances rendering whole buildings uninhabitable. In addition, because DHCD tended to reject applications from housing authorities with a high level of reserves, risk was increased that reserves would be drained and therefore unavailable to meet unforeseen emergencies. During fiscal year 2009, grants and appropriations under a new housing bond authorization were beginning to alleviate this problem, and this progress continued in fiscal year 2010, with funding approved for modernization projects at nine of the fourteen housing authorities reviewed. Approved projects, which ranged from one request by Bedford Housing Authority to 30

requests by Watertown Housing Authority, included unit and site renovations, roof repairs, lead paint abatement, kitchen and bathroom upgrades, and oil tank removal.

- Prior audits had found that many housing authorities did not comply with DHCD guidelines for reoccupying vacant units within 21 working days. Although some progress had been made in addressing this issue, with most housing authorities improving their turnaround times, current audit work found that problems persisted. Specifically, very few housing authorities with previous deficiencies were preparing and filling vacated units in accordance with DHCD guidelines. For example, at Fall River Housing Authority the vacant unit turnaround time had increased from 64 to 81 days, and at Fitchburg Housing Authority, although turnaround time was reduced, the re-renting of apartments still averaged 150 days. As a result of delays in preparing and reoccupying apartments at eight housing authorities with significant re-renting problems, hundreds of thousands of dollars in potential rental income was lost, and eligible low-income individuals were deprived, at least temporarily, of needed housing. In response to this issue, housing authorities cited the need for extensive repairs and insufficient maintenance staff as the main reasons for units remaining vacant over an extended period of time.

Review of Physical Conditions at Special Needs Public Housing Units

The OSA conducted a statewide comprehensive audit of the physical conditions and the adequacy of resources available for the maintenance, repair, and upkeep of the state's housing program for individuals with special needs. The review included data obtained from the Department of Housing and Community Development (DHCD) and from site visits to 30 selected local housing authorities with a total of 652 special needs housing units throughout the state. These units are managed by private human service providers under contract with housing authorities and certain state agencies, principally the Department of Mental Health (DMH) and the Department of Developmental Services (DDS). Although some capital funding may be available for repair of these units, the special needs housing program generally does not receive operating subsidies and is dependent on rent revenues and assessments on providers for maintenance and repairs. The audit's most significant finding was that chronic underfunding has resulted in significant deterioration of special needs housing properties, jeopardizing the health and safety of tenants under the care of DMH and DDS. Audit findings and recommendations are summarized below.

- Lease agreements for special needs housing units did not adequately address funding or maintenance and repair issues. Specifically, while leases stipulated that the amount of rent indicated for the premises should include repairs, rents did not, in fact, cover maintenance and repairs. Furthermore, leases stated that the human services provider was responsible for interior cleaning and general custodial maintenance of exterior grounds, as well as emergency and routine repairs up to \$2,000 annually. The lease also stated that if the housing authority and provider could not agree on which entity was responsible for certain repairs, DHCD would be the arbitrator. The OSA found that these lease terms were administratively inefficient and detrimental to both timely maintenance and the repair of serious conditions that violate safety and health codes. In addition to

splits in responsibility and repair delays due to dispute resolution, the funding, even with \$2,000 per year per unit paid by the vendor, was insufficient to cover costs of materials and labor necessary to make the majority of units sampled safe, secure, and clean.

- The physical condition of many of the special needs housing units visited in the conduct of this audit had been allowed to deteriorate to the point that residents were being deprived of the decent, safe, and sanitary housing that the law mandates. The health and safety hazards noted included broken and missing floor and bathroom tiles, railings, and cabinets; extensive mold and mildew damage to interior walls; rotted and weather-damaged window frames, roofs, siding, and shingles; exposed wiring; failing heating systems; broken toilets; and animal infestation damage. In sum, many special needs units required urgent and substantial renovations at a time when housing authorities and human services agencies were facing severe budget cuts.
- DHCD recognized that the special needs housing stock faced many budgetary and operational issues, while capital and deferred maintenance demands continued to grow. Officials also said that changes in rent structure, contract modifications, and improved communication strategies were being implemented. These actions, they said, were steps in the right direction but would not resolve the program's problems given the current financial crisis. A coordinated response was also received from local housing authority officials, in which they expressed frustration with the departments of Mental Health and Developmental Services relative to routine cleaning, client assistance, and responsiveness in resolving maintenance and administrative issues. They also stated that the new maintenance fees and rental levels suggested by DHCD remained grossly inadequate given the deteriorated state of the housing units and the backlog of needed repairs.

INITIATIVES

The following is an update of ongoing initiatives in the area of housing authority audits.

Review of Housing Authorities

The OSA will continue to conduct reviews to determine whether local housing authorities are properly verifying tenant income, properly maintaining and administering tenant waiting lists, and complying with laws and regulations regarding rent redeterminations, vacancy turnarounds, site inspections, and subsidy calculations. The audits will also examine controls over procurements and cash management.

Review of Application Process and Eligibility Verification

The OSA is conducting a statewide audit of the application and eligibility verification process utilized by the Commonwealth's local housing authorities. The audit, which is reviewing the adequacy of management controls and the sufficiency of documentation maintained in tenant files, will assess whether applicants have been provided housing and charged rents in accordance with applicable laws, rules, and regulations. In addition, the audit will review annual rent determinations for timeliness and accuracy, as well as housing authority evaluations regarding tenant eligibility for continued occupancy.

AUDIT SUMMARIES

Independent Authorities

Independent entities, such as the Massachusetts Bay Transportation Authority (MBTA), the Massachusetts Turnpike Authority, and the Massachusetts Water Resources Authority, provide and oversee essential public services. As summarized in the section that follows, the OSA, during the report period, issued several audit reports of independent entities, including a review of the MBTA's RIDE Program and an assessment of the Turnpike Authority's Fast Lane Program.

Massachusetts Bay Transportation Authority (MBTA): The RIDE Program

The OSA conducted an audit of the MBTA's Administration of the RIDE, a transit program that provides door-to-door transportation to eligible individuals with disabilities. The program, which is operated in compliance with Americans with Disabilities Act requirements, is a shared-ride service that can accommodate persons who use wheelchairs and scooters. Since 1977, when the RIDE program began, the service has grown from a relatively small operation serving Brookline, Cambridge, and parts of Boston to one of the largest operations of its kind in the nation, serving 62 cities and towns. During the audit period, which ended June 30, 2008, the RIDE service area comprised four geographical sectors, each of which was operated under contract by a private transportation vendor. The one-way fare for each registered RIDE passenger trip was two dollars, with no additional charge for an accompanying personal care attendant. The MBTA had several controls in place to monitor the performance of its four vendors, including a software program used to record and track all requests for service, the disposition of each request, the number and type of passengers served, and all fare revenues collected. The MBTA was also able to evaluate on-time performance and determine whether contractually provided-for penalties or bonuses for monthly performance were warranted. Finally, the MBTA also had a system in place to ensure that customer complaints and concerns were answered in a timely fashion. However, as summarized below, the increasing demand for RIDE services, along with inadequate competitive bidding for provider contracts, threatened to result in a new "budget buster" for the financially troubled MBTA.

- RIDE program costs during the five-year contract period of fiscal years 2005 through 2009 were approximately \$270 million. The audit noted that only four companies had submitted bids to provide RIDE program services, and two of these vendors submitted bids only for their current operational service area. Moreover, these four bidders were the sole bidders and RIDE program operators since 1995. In addition to expanding demand for RIDE services, the lack of competition in bidding was likely a contributing factor in escalating RIDE program costs. The OSA recommended that the MBTA encourage more bidding for future contracts by decreasing the geographical size of its service areas, thus attracting bids from smaller companies. However, although MBTA officials recognized that large service areas presented certain problems, they reduced rather than increased the number of service areas from four to three for the Request for Proposals for RIDE services for the period July 1, 2009 through June 30, 2014. The same four companies competed for the new contracts after a fifth company withdrew its bid. The new contracts will cost the MBTA \$506.4 million, an increase of more than \$236 million, or 87%, over the prior five-year combined contract. Costs per trip under the new contract will increase from \$37.45 to approximately \$44.77 averaged over the contract period. During this time, the MBTA estimates that more than 11.3 million passenger trips will be made, a 51.6% increase over the previous five years.
- The MBTA needed to improve internal controls and oversight relative to RIDE program reimbursements for fuel usage by contracted vendors. Under the RIDE contract ended June 30, 2009, the MBTA reimbursed contractors for the actual price they paid per gallon of gasoline up to a set per diem amount, with contractors responsible for providing receipts for all gasoline purchases. The OSA found that \$15 million in fuel

reimbursements to RIDE vendors lacked adequate supporting documentation. Without this documentation, the MBTA could not be assured that it was paying only for fuel used for RIDE trips.

Massachusetts Turnpike Authority: Fast Lane Program

At the request of several State Senators, the OSA conducted an audit of the Turnpike Authority's Fast Lane Program in order to determine possible overcharges to motorists. The Turnpike Authority contracts out the operation of the Fast Lane Program, an electronic toll collection system, to Transcore Company, which operates three Fast Lane service centers, enrolls Fast Lane customers, issues transponders, sets up and manages accounts, and identifies toll violations. As detailed below, although there were some overcharges, Transcore's computer equipment operated at a 99.5% accuracy rate.

- The audit found or confirmed 113,940 instances, out of more than 119 million electronic toll collections, where motorists were overcharged, totaling \$190,441. This resulted in a .096% error rate, which fell within the Turnpike Authority's contract provision with Transcore requiring the Fast Lane Program to operate at a 99.5% accuracy rate. The OSA identified intermittent malfunctions of computer equipment as largely responsible for the overcharges. The Authority responded that faulty equipment had been repaired, and that the accounts of motorists who had been overcharged would be fully credited.
- The OSA recommended that the Turnpike Authority ensure that Transcore complete the 2009 certification of electronic toll equipment, which was in progress at the close of the audit period. The audit also recommended that the Authority and Transcore enhance their preventive maintenance of electronic toll collection equipment in order to detect any trends that vary from established guidelines. Finally, the audit asked that Transcore investigate potential Fast Lane scanners to separate vehicles following one another too closely. The Turnpike Authority agreed with these recommendations and indicated that they would be fully implemented.

Fall River Line Pier, Inc.

The OSA conducted a follow-up audit of certain activities of the Fall River Line Pier, Inc., a nonprofit corporation that operates and maintains a pier for the shipment of freight and merchandise. The entity operates under a 50-year lease with the Commonwealth that began on March 24, 1964. As most recently amended, the lease agreement requires that the Fall River Line Pier's annual net operating profits, as determined by the State Auditor, be paid to the Commonwealth during the following calendar year. In addition to examining administrative and accounting controls, the audit reviewed the status of prior audit results and assessed compliance with applicable laws, rules, and regulations. As summarized below, the major finding pertained to a longstanding unresolved prior audit issue.

- Three prior audits found that the Fall River Line Pier was not in compliance with the terms of its lease in that the entity did not transfer its net profits to the Commonwealth. The current audit determined that the entity was still not complying with the terms of the lease, and that excess profits owed to the Commonwealth had increased from \$207,672 to

Independent Authority

\$368,065, dating back more than a decade. In response to the prior OSA audit, the Fall River Line Pier included correspondence with its oversight agency, the Department of Recreation and Conservation, verifying that it had requested that the Department increase the Line Pier's Stabilization Reserve Fund from \$20,000 to \$50,000 and also allow the entity to retain past accumulated net profits to cover the costs of repairing and maintaining the pier and related facilities. As of the close of the current audit period, however, the lease agreement had not yet been amended. The OSA supports continuing negotiations between the Line Pier and the Department of Recreation and Conservation to resolve this matter. However, the OSA recommended that the Line Pier, in compliance with its lease agreement, should transfer to the Commonwealth its accumulated surpluses totaling \$368,065 for calendar years 1995 through 2008. In addition, the Department needs to be proactive in ensuring that the Fall River Line Pier fulfills its contracted obligations.

INITIATIVES

The following is an update of ongoing initiatives in the area of independent authority audits.

MBTA: Automated Fare Collection System

The OSA is completing its review and evaluation of the MBTA's automated fare collection system in order to assess the adequacy of the Authority's internal controls and determine whether the system is operating efficiently and effectively. The audit also includes a review of inventory controls over monthly MBTA passes, focusing on employer pass program sales, Web-based sales, private vendor sales, and free or discounted monthly passes.

MBTA: Commuter Rail Operations

The OSA is conducting an audit of the \$1.07 billion five-year operating contract between the MBTA and the Massachusetts Bay Commuter Railroad Company, which will review and assess the MBTA's contract controls and oversight, as well as evaluate the Company's on-time performance, vehicle and track maintenance record, and adherence to safety standards. The audit will also obtain and review proposed contract specifications for the new contract awarded, and identify and evaluate any major contract changes that may shift costs or reduce accountability.

MBTA: Real Estate Management

The OSA is reviewing certain real estate activities of the MBTA's private contractor, Transit Realty Associates (TRA). The audit will review all commissions and fees that TRA receives from concessions, leases, and the disposition of surplus property to determine whether they are proper, accurate, and in compliance with the terms of the contract. The audit will also review TRA's activities regarding the disposal of surplus property to determine whether said activities follow established policies and comply with applicable laws, rules, and regulations, and whether TRA is effectively managing its accounts receivable relating to MBTA real estate activities.

Massachusetts Port Authority (Massport)

The OSA is conducting an audit of Massport, with particular emphasis on administrative expenses, property management and lease/rental income, and homeland security activities and expenditures. The audit will also review Massport's automobile use policies and practices to assess their cost effectiveness and to determine if oversight is adequate.

AUDIT SUMMARIES

Judiciary/Law Enforcement

During fiscal year 2010, the OSA issued 75 audit reports of judiciary, law enforcement, and public safety entities. These reviews included audits of the Division of Administrative Law Appeals, the Massachusetts Trial Court's Law Library System, cash management systems at selected district courts, and the transfer of seven County Sheriff's Offices to the Commonwealth. Significant findings are summarized in the section that follows.

The Division of Administrative Law Appeals

The OSA conducted an audit of the Division of Administrative Law Appeals, an independent agency under the direction of a Chief Administrative Magistrate. The Division adjudicates disputes between state agencies or between private citizens and government decisions on such matters as pensions, disciplinary actions, and environmental issues. The major objective of the audit was to review the Division's internal controls and compliance with state laws and regulations for the period July 1, 2005 to May 31, 2009. As summarized below, the audit found deficiencies in both areas, which have resulted in substantial delays in the rendering of decisions.

- The Division of Administrative Law Appeals had not conducted a risk assessment or developed an internal control plan. These activities are required by state law in order to safeguard assets, maximize operational efficiencies, and monitor program performance. The absence of a comprehensive internal control plan creates vulnerabilities and may have contributed to the systemic problems noted below.
- The Division of Administrative Law Appeals needed to address case management problems that were delaying adjudications and increasing the inventory of open, outstanding cases. The following were the major case management issues cited:
 - Parties were not being notified in a timely manner that the Division had received the filing of an appeal. Previously, when a case was received, it was docketed and an acknowledgment was promptly sent out to the parties involved. However, since July 2007, the time between the receipt of an appeal and its acknowledgment had increased significantly.
 - There had been a significant decrease in the number of hearings held over the past few years. According to Division records, the average number of hearings conducted per month decreased from 33 in 2007 to sixteen in 2009.
 - The Division did not have well-defined case management time standards, did not adequately prioritize cases for processing, and did not have sufficient procedures for monitoring the oldest cases.
 - The Division's electronic case management system was inadequate and needed to be upgraded to include a complete summary record of each case. For example, the reporting of time between case events was not operational for certain data queries, and the software in use did not include a case scheduling component.
 - Although the Division's Chief Administrative Magistrate said that the agency's goal was to issue a decision within 90 days of the close of the record in a case, as of August 4, 2009, the Division had 121 cases where no final decision had been issued, even though draft decisions had been written. One of these cases had been pending for over 1½ years.
- The Division's Chief Administrative Magistrate generally agreed with the audit's findings and stated that although it would be a challenge to make all suggested

improvements in the face of fewer resources, the Auditor's recommendations would be seriously considered and implemented where possible.

Massachusetts Trial Court Law Library System

The OSA conducted an audit of financial and administrative controls at the Trial Court Law Library for the period July 1, 2006 to November 30, 2008. The Trial Court Law Library System consists of a central office and seventeen law libraries located throughout the state. A Coordinator, who oversees the development of specialized collections and library services for judges, lawyers, and the general public, heads the Law Library. This audit resulted in a comprehensive review along with seventeen individual reports that made site-specific recommendations for internal control and administrative improvements. Major findings and recommendations are summarized below.

- The Trial Court Law Library System had not updated its internal control plan as of the start of the audit engagement or completed required risk assessments. However, while the audit was in progress, the central Law Library began to address this issue by initiating risk assessments and more fully documenting internal control strategies. The Coordinator also indicated that internal control plans were being developed for all of the local library locations.
- The Trial Court Law Library System generated photocopying machine revenue totaling \$21,591 in fiscal year 2007 and \$17,052 in fiscal year 2008. The OSA review found that procedures for the collection, deposit, and transfer of this revenue varied by library location and did not generally comply with Administrative Office of the Trial Court policies and procedures. Specifically, some local libraries deposited cash from machines without reconciling revenue collections to copier meter readings; deposits were not always made to a Law Library-authorized bank account; and revenue transmittals did not always occur on a monthly basis. As a result, photocopy machine revenues were at increased risk of errors and irregularities, which might not be readily detected.
- The Trial Court Law Library System had health, safety, and security problems at various satellite libraries. Specifically, the audit identified six libraries with water infiltration issues, which subjected employees to potential health risks and increased the threat of damage to library holdings. In addition, eight libraries had potential security issues, including multiple unsecured entrance and exit points, unsecured storage areas, and lack of security personnel. The Law Library Coordinator agreed with these observations and noted that certain satellite libraries were scheduled for relocation.
- The Trial Court Law Library System could realize potential annual savings of \$500,000 by having the central Law Library purchase books and publications for the branch libraries. The Library Coordinator responded that the consolidated purchase of legal materials had begun and would be fully implemented during 2010.
- Law Library access is limited for residents of Suffolk County, the only county without a Law Library System location. Suffolk County's privately operated Social Law Library does provide support to the Supreme Judicial Court, judges, and state officials. However,

this library, which receives an annual appropriation of over \$2 million, as well as free rent and utilities at the John Adams Courthouse, is generally open only to dues-paying members. The OSA recommended that the Administrative Office of the Trial Court remedy this inequity by establishing a public presence in Suffolk County.

Barnstable Probate and Family Court

At the request of the newly elected Register of Probate, the OSA reviewed administrative and operational activities, including cash management, at Barnstable Probate and Family Court. The audit found generally adequate internal controls and compliance with relevant laws and regulations. However, as detailed below, an issue relative to custodial accounts, which was identified in a prior audit, had not been addressed.

- The Court was cited in a prior audit for not remitting abandoned custodial account assets to the Office of the State Treasurer as required. At that time, the Court had 226 passbooks valued at \$1,015,957 that had been held after the date that they should have been transferred. The current audit found that as of June 30, 2009, the Court had 264 passbooks valued at \$1,163,843, the oldest of which dated back to 1957, that needed to be reviewed for transfer. The OSA again recommended that the Court review its custodial funds and submit to the Treasurer's Office all passbooks deemed abandoned. The Treasurer's Office publishes a list of these accounts in an effort to find their owners, invests the funds to maximize interest, and affords the Commonwealth use of the funds until they are claimed. The new Register of Probate responded that she would devote the resources necessary to resolve the status of old custodial accounts.

Dorchester Municipal Court

The OSA conducted an audit of administrative and operational activities at Dorchester Municipal Court for the period July 1, 2006 to December 31, 2007. During this period, the Court collected revenues totaling \$2,778,245, most of which were remitted to the Commonwealth or disbursed to the Dorchester community. The audit focused on cash management, bail funds, case activity, and compliance with applicable state laws, rules, and regulations. Findings are summarized below.

- Dorchester Municipal Court needed to more fully document and test its internal control plan in order to fully comply with Chapter 647 of the Acts of 1989, the state's Internal Control Statute. The internal control document and related risk assessments are required in order to safeguard assets, maximize operational efficiency, and clarify the duties and responsibilities of employees.
- Dorchester Municipal Court's Probation Office had 1,428 accounts totaling \$118,509 that had been in default for more than 90 days and needed to be forwarded to the Clerk-Magistrate's Office, processed, and remitted to the State Treasurer's Office. In addition, the Probation Office was holding \$67,747 in court-ordered restitution that had been properly disbursed but returned because the recipients were not at the addresses of record. This money, which had been unclaimed for more than a year, and in some cases much longer, needed to be forwarded to the State Treasurer's Office as abandoned property.

- Dorchester Municipal Court needed to improve its management of bail funds. Bail in cash and other forms is the security given to a court by a defendant to help ensure the defendant's appearance in court at a future date. Should the defendant fail to appear in court, the posted bail is forfeited to the Commonwealth. Bail funds left unclaimed for three years by defendants eligible to request their return must be transferred to the State Treasurer's Office as abandoned property. The OSA's review of Court bail funds found that \$147,605 in abandoned and forfeited bail needed to be remitted to the State Treasurer. When this matter was brought to the attention of the Clerk-Magistrate, office personnel conducted a review of the accounts and transmitted a substantial portion of the retained bail funds to the State Treasurer.

Special Audit Section

District Courts: Cash Management Systems

The OSA, in fiscal year 2010, issued nineteen audit reports on revenue collection and bail management at selected district courts. The audit examined Probation, Indigent Counsel, and Victim Witness fees, as well as bail activity, all of which involve large dollar amounts. Major findings and recommendations from these court audits are summarized below.

- All of the courts reviewed would benefit from the establishment of a centralized accounts receivable system to track collections. In addition to strengthening control over potential revenues, such a system would allow for a summary of adjustments made, such as cash receipts reduced by either non-cash community service or adjustments in the original amounts ordered by the court. It would also enhance current established procedures. Of the total revenues of approximately \$75 million collected by all district courts during fiscal year 2008, over \$35 million in fees collected at individual court locations could have been processed through a centralized accounts receivable system. The OSA recommended that the Administrative Office of the Trial Court and the District Court Department develop an accounts receivable function as part of the financial module that will be incorporated into the MassCourts automated system.
- Ten of the district courts reviewed had two cash collection points, one in the Clerk-Magistrate's Office and another in the Probation Office, resulting in duplicative procedures, particularly for the receipt of funds. Provisions in the General Laws allow courthouses to have a single cash collection and disbursement point for both offices, and this more efficient procedure has been adopted by a number of courts. However, the District Court Department is not switching any more courts to central cashing until the next MassCourts system upgrade is implemented.
- Although all of the district courts reviewed imposed Victim Witness fee assessments as required, eight courts did not always apply partial payments made by a defendant to the Victim Witness fee assessment as a first priority. Under state statute, courts must apply all payments, including partial payments, made by individuals to the Victim Witness fee assessment before other criminal assessments can be made.

- The audit identified documentation and tracking issues relative to waivers of probation fees, which allow probationers to substitute community service for cash payments. Several courts did not consistently document the granting of waivers of probation fees in accordance with state law and District Court Department guidance. In some instances, courts also lacked a centralized system to track court-ordered community service and, therefore, could not readily determine how many community service work hours were owed, what community service equates to in dollars, and whether offenders were on track to fulfill the requirements of the court order.
- Although courts generally had made improvements in managing bail funds, several district courts still needed to strengthen controls over the review, disposition, and transfer of these funds. For example, a review at one court identified 51 instances totaling \$127,855 for which forfeiture orders had not been issued in a timely manner. The audit found similar issues at three other courts, as well as delays in transferring abandoned bail funds to the State Treasurer's Office. Retaining forfeited and unclaimed funds beyond allowable timeframes reduces Commonwealth revenues and increases the risk of loss or misuse of funds. All four courts indicated that although understaffing had caused delays in processing bail accounts, corrective action was underway.

Transfer of County Sheriff's Offices to the Commonwealth

Pursuant to Section 25 of Chapter 61 of the Acts of 2009, An Act Transferring County Sheriffs to the Commonwealth, the OSA conducted a transition audit of the transfer of the Barnstable, Bristol, Norfolk, Plymouth, Suffolk, Nantucket, and Dukes Sheriff's Offices. The audit, which resulted in a summary report and seven individual reports, detailed the transfer of assets, obligations, functions, and responsibilities of these Sheriff's Offices. The summary report also highlighted areas in which conflicting laws and regulations have affected the full transition of seven earlier transferred Sheriff's Offices. Unless resolved, these inconsistencies will continue to impact operations at all fourteen Sheriff's Offices, as well as state finances. Major findings are summarized below.

- The review found that the seven Sheriff's Offices had made significant progress between the transition date of January 1, 2010 and the legislatively mandated OSA reporting deadline of April 30, 2010. Specifically, 2,881 employees were successfully transferred from county government to the Commonwealth; significant amounts of property and equipment were transferred; initial spending plans and operational budgets were adopted; and a number of operational functions not conducted previously by the Sheriff's Offices were implemented.
- The OSA did express concern, however, regarding inconsistencies between earlier transitioned offices (Middlesex, Hampden, Worcester, Berkshire, Essex, Hampshire, and Norfolk) and those that became state entities in 2010. Prior audits disclosed inconsistencies among previously transferred Sheriff's Offices relative to financial operations, the status of civil process employees, computer systems, and revenue retention. Chapter 61 clarified certain revenue retention issues by providing that civil process and commissary funds, as well as telephone commissions, remain with the newly transitioned Sheriff's Offices rather than being deposited in the General Fund. However,

this revenue retention directive does not apply to the seven previously transferred Sheriff's Offices, perpetuating a major area of conflict and inconsistency. Furthermore, Chapter 61 does not require uniform procedures for recording and reporting the diverse funds that remain with the Sheriff's Offices. The OSA recommended that retained revenue accounts be established for all locally controlled funds, which would then be accounted for and reported on the Massachusetts Management Accounting and Reporting System. More generally, the audit recommended that the new Special Commission on Sheriff's Offices propose changes that resolve conflicting laws and increase uniformity in financial management policies and procedures at all fourteen Sheriff's Offices.

INITIATIVES

The following is an update of ongoing initiatives in the area of judiciary and law enforcement.

Trial Court Departments

As part of an ongoing effort to review significant expenditures at the Commonwealth's trial courts, the OSA will continue to audit selected courts. These audits will review and analyze internal controls over financial and management activities relating to the assessment, collection, and accounting for certain fees. The fees to be examined will include probation supervision, legal counsel, and victim/witness fees. The audits will also examine bail funds, with emphasis on abandoned, forfeited, and defaulted bails, in order to determine whether courts are managing bail funds in accordance with applicable laws and regulations.

Sex Offender Registry Board

The OSA is conducting an audit of the Massachusetts Sex Offender Registry Board to determine whether the Board is efficiently and effectively managing its funds and activities and complying with applicable laws and regulations. The audit is reviewing and evaluating internal controls over financial, management, and IT functions and activities to determine their adequacy. It will also review and analyze the processes and policies the Board has in place to ensure that the sex offender registry receives and catalogues all relevant information about sex offenders in the state. The audit will determine what kind of information sharing is done with other states and the federal government and whether existing information on sex offenders is accurate and up-to-date. As part of this audit, the OSA will evaluate the appeals hearing process to assess its timeliness and adequacy.

AUDIT SUMMARIES

Financial Management and Other Special Audits

During fiscal year 2010, the OSA issued 30 audit reports pertaining to financial management at various agencies, boards, commissions, and funds. Significant audits, findings from which are summarized in the section that follows, include State Agency Use of Contract Employees, state elevator inspections, and federal stimulus funding oversight. Also included are summaries of audits issued in conjunction with the Single Audit of the Commonwealth, including a report on the fiscal year 2009 Tax Cap Determination and reports on agency compliance with the Office of the State Comptroller's year-end closing instructions for Cash and Revenue Management and Encumbrance and Advance Fund Management.

Single Audit of the Commonwealth

The OSA is a partner with a major private accounting firm and other small firms in performing the Single Audit of the Commonwealth, a comprehensive annual financial and compliance audit of the Commonwealth as a whole that encompasses the accounts and activities of all state agencies. This audit satisfies the federal and state requirements to audit the Commonwealth of Massachusetts' financial operations, consisting of its accounts, programs, activities, funds, and functions, as well as specified compliance issues.

The OSA performs the following audit functions: (1) determining the relationship of Net State Tax Revenues to Allowable Tax Revenues (Tax Cap Determination), (2) reporting on agency compliance with the Office of the State Comptroller's Official Year-End Closing Instructions for Cash and Revenue Management, and (3) reporting on agency compliance with the Office of the State Comptroller's Year-End Closing Instructions for Encumbrance and Advance Fund Management.

As part of the Single Audit, the OSA also provides staff resources for the audit of federal programs, such as student financial assistance at state institutions of higher education. Finally, the OSA conducts audit procedures that are needed to render an opinion on the Commonwealth's Comprehensive Annual Financial Report, such as verifying certain accounts and documents at several agencies.

During fiscal year 2010, the OSA released 42 separate reports based on audit work for the Single Audit. These included performance of the statutorily required Tax Cap Determination, which is summarized on the following page, and assessments of compliance with year-end closing instructions for both cash and encumbrance management. Other audits conducted in conjunction with the Single Audit are detailed as part of the Education, Housing, and Health and Human Services sections of this report.

Chapter 62F: Tax Cap Determination

Pursuant to Chapter 62F of the Massachusetts General Laws, the State Auditor is charged with annually determining whether the net state tax revenues of a particular year exceeded allowable state tax revenues for that year. The most recent review determined that the net state tax revenues for the fiscal year ended June 30, 2009 of \$18,513,036,393.40 were below allowable state tax revenues of \$24,591,415,515 by the amount of \$6,078,379,121.60. Therefore, no excess revenues, as defined in Chapter 62F, MGLs, existed for fiscal year 2009. The Tax Cap Law, enacted by referendum in 1986, prohibits the Commonwealth from retaining tax revenue collections that exceed the average three-year growth of Massachusetts wages and salaries. The State Auditor is required to independently review the Commissioner of Revenue's annual report and determine by the third Tuesday in September whether net state tax revenues for the preceding fiscal year have exceeded allowable growth. Tax collections exceeding the allowable increase are to be returned to the taxpayers in the form of a tax credit. However, this has happened only once, in fiscal year 1987.

Agency Compliance with the State Comptroller's Year-End Closing Instructions for Cash and Revenue Management

The OSA observed and reviewed procedures for handling cash receipts and reporting, as well as revenue deposits, at fifteen state agencies. During audit work, which resulted in fifteen individual reports, the OSA provided the Office of the State Comptroller with pertinent information, including the following findings, so that appropriate final adjustments could be made to the Commonwealth's records.

- Brockton, Brookline, and Gloucester district courts; Dorchester Municipal Court; the Berkshire and Suffolk probate and family courts; and the Middlesex Sheriff's Department improperly accounted for some fiscal year 2009 revenue. Specifically, Brockton District Court did not deposit \$19,308.50 in receipts for June 30, 2009 by the required noon July 1st time limit; Berkshire Probate Court, which did not properly close its electronic register on June 30, 2009, reported \$667.50 in fiscal year 2009 receipts as fiscal year 2010 revenue; Suffolk Probate Court improperly recorded \$8,016.50 in fiscal year 2009 receipts as fiscal year 2010 revenue; and the Middlesex Sheriff's Department, which did not include certain Work Release Program inmate fees as part of its final deposit on June 30, 2009, improperly accounted for \$7,224 in fiscal year 2009 receipts. Brookline and Gloucester district courts, as well as Dorchester Municipal Court, were previously cited for a lack of compliance with year-end closing and reporting instructions. All three continued to have problems, with Brookline District Court improperly depositing \$862.50, Gloucester District Court improperly depositing \$2,630, and Dorchester Municipal Court improperly depositing \$33,883 in fiscal year 2009 receipts as fiscal year 2010 revenue. In addition, Dorchester Municipal Court was not depositing cash receipts on a daily basis, which is required in order to maximize interest income and reduce the risk of loss or theft of funds.
- Holyoke and Mount Wachusett community colleges and the University of Massachusetts at Lowell did not adhere to required procedures for the deposit of debt collection

revenues. In all three cases, debt collection agencies were depositing funds into their own bank accounts, then wire transferring them to the school, and were faxing to the school a deposit spreadsheet of wire transfers rather than copies of deposit slips and debt collection checks. Under state regulations, in order to prevent deposit and reporting delays, debt collection checks are to be made payable to the Commonwealth and deposited directly into a Commonwealth-approved bank account. Furthermore, without copies of deposit slips and checks, the schools could not be assured that all collected debt was properly accounted for.

Agency Compliance with the State Comptroller's Year-End Closing Instructions for Encumbrance Management

The OSA reviewed encumbrance transactions at fifteen state agencies to determine compliance with the requirement that goods and services purchased with fiscal year 2009 funds be received by June 30 and properly entered into the Massachusetts Management Accounting and Reporting System. Audit work, which resulted in fifteen individual reports, also included advance fund management activities at selected state agencies in order to evaluate documentation supporting open encumbrance balances. Agency compliance was high, with most advance funds and encumbrance transactions reviewed in compliance with closing instructions. However, some year-end closing issues were identified, as noted below.

- The Berkshire Sheriff's Department did not comply with the State Comptroller's closing instructions relative to the timely disposition of and proper accounting for certain payroll advance funds. As a result, \$3,000 in fiscal year 2009 funds was used to pay fiscal year 2010 obligations.
- The Department of Early Education and Care processed a fiscal year 2009 encumbrance transaction for \$24,250 for computer equipment that was delivered July 7, 2009, or seven days after the June 30th cut-off date. In addition, the computers had been ordered before funding had been approved. In response to these findings, the computers were returned, and the payment request was canceled.
- Roxbury Community College was late in paying utility bills for the Reggie Lewis Track and Athletic Center, an issue disclosed in previous audits. As a result, in fiscal year 2009, the College unnecessarily incurred late payment charges totaling \$5,655.55. Moreover, the College did not ensure that the late payment interest calculation complied with state regulations governing late penalty interest. Notwithstanding the fact that the College was subsequently able to negotiate the return of the late payment charges, the original payout indicated the need for improved internal controls over vendor payments.

Division of Capital Asset Management

In response to a request from a state senator, the OSA conducted a review of the Request for Proposals (RFP) process administered by the Division of Capital Asset Management (DCAM) for the leasing of office space for five state agencies. The objectives of the audit were to determine whether DCAM complied with applicable laws, rules, and regulations throughout the RFP and proposal evaluation process, and made selections in the best interests of the

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Commonwealth and the state agencies involved. The audit also examined a claim by a private leasing company, Equity Office Properties, that the Massachusetts Bay Transportation Authority (MBTA) would have earned up to \$6 million in potential income over the next three years had its proposals been chosen. A summary of audit findings follows:

- DCAM conducted the procurement process for the lease of office space for five state agencies in accordance with established procedures and legal requirements. The Division prepared and issued RFPs based on a documented, comprehensive facility plan. The Division also established a standard proposal evaluation strategy that focused on specific cost and quality criteria. The OSA review of the proposal evaluations found that the process used to select the winning proposals was thorough, fair, and in compliance with established policies and practices. The OSA also expressed confidence that the RFP process resulted in the best value to the Commonwealth and the agencies involved.
- Equity Office Properties, a company that had leased office space at South Station to the Department of Telecommunications, the Division of Banks, and the Division of Insurance, objected to DCAM's decision to relocate these three agencies. The leasing company claimed that the selection process was flawed and that its results would be costly to the MBTA, the owner of the South Station building. However, the OSA review indicated that the winning proposals were both appropriately selected and superior to Equity Office Properties' proposals in the areas of co-location potential, quality of the work environment, and leasing costs. Furthermore, the audit determined that the leasing company's claim that the MBTA risked losing approximately \$6 million as a result of the agencies' relocation was not supported. In fact, the audit noted that the MBTA, which is entitled to 50% of the company's net available income from its South Station ground lease, did not receive any cash distributions from Equity Office Properties for the past five years, even though the company collected over \$40 million in gross revenues during this period.

State Agency Use of Contract Employees

The OSA conducted a statewide review to determine whether state agencies are complying with laws, rules, and regulations governing the employment of contract employees. These employees work for the state under contract in an employer-employee relationship and are considered temporary hires. As such, they are not included in the full-time equivalent count of state employees. They are also distinguished from independent contractors or consultants, who are hired under separate procurement regulations primarily to perform services, such as creating software programs, that are outside the usual course of business of an agency. Although contract employees work under the direct supervision and control of the state agency that hires them, they cannot join the state retirement plan or employee insurance programs, nor are they eligible for other fringe benefits such as sick, vacation, or personal leave. Furthermore, contract employees cannot directly or indirectly supervise state employees, cannot be used as a permanent substitute for a state employee position, and cannot have signature authorization or transaction approval authority. During fiscal year 2008, \$386.1 million was expended to employ approximately 18,600 contract employees, of which approximately 16,600 were employed by state institutions of higher education. Major findings are summarized below.

- Management controls over contractual records needed to be strengthened. The audit found that required employment contract documents were not always used or were incomplete. Of 70 contract employee files tested, 36, or 51.4%, did not comply with established policy. In addition, of the 70 sampled cases, fifteen employees were working under contracts that had expired by a period of three months to several years.
- Although program guidance does not specifically state how long a contract employee can be retained as a temporary employee, the OSA considered three or more years to be an excessive length of time. As stated earlier, these workers cannot join the state retirement system and do not receive fringe benefits, which raises equity issues. The review identified 29 contract employees at six locations sampled who had worked from three to as many as 19 years in contract positions doing work that was equivalent to work being performed by regular state employees. Officials at some of the agencies visited stated that they would hire many of the contract workers if their funding policies and appropriation allowed them to do so. Executive Office for Administration and Finance officials responded that its Human Resources Division had initiated a program in November 2007 to convert certain contract employees to regular full-time status, and that, as of December 2008, 174 persons had been converted, with 81 pending. After that time, further conversions were curtailed due to state budget reductions.
- Public higher education institutions expended a significant portion of all contract funding. The audit found that for their employees Employment Status Forms were generally not utilized; some contract obligation levels were exceeded; and some administrative employees had worked under contract for more than three years. It is important to note, considering the number of employees involved, that contracted part-time teaching staff and work-study students fall into categories exempted from "lengthy contract duration" protocols. Their employment for long periods of time, therefore, complies with state laws and regulations. However, certain equity issues and issues arising from having large numbers of employees outside of the state's official employee count may still need to be addressed.

Department of Public Safety: Elevator Inspections

The OSA conducted an audit of the Department of Public Safety's monitoring of and controls over elevator inspections in the Commonwealth. As discussed below, the audit found, as had a prior report, that the Department had not developed systems to ensure that elevators were inspected annually, that elevators cited for safety violations or under repair were reinspected in a timely manner, or that appropriate fees and fines were imposed and collected.

- The Department of Public Safety had not developed internal control or administrative procedures to ensure timely elevator inspections or systematic reinspections of elevators in need of repairs. The audit found that 11,419 of 37,494 elevator certificates were expired, ranging from periods of less than one year to over four years, resulting in a public safety hazard that has been ongoing for many years.
- The Department of Public Safety's elevator inspection database contained numerous errors and omissions, and also lacked the capability of notifying or billing owners of

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elevators due for inspections. When the Department sent letters in March 2009 to owners of the 2,000 elevators with the longest expired inspection certificates, 490 letters were returned as undeliverable, evidence that the database had not been updated with current information regarding elevator ownership and locations. Department of Public Safety officials agreed that their database was inefficient and needed updating. They said, further, that funds had been appropriated to install a new system, expected to be operational in 2010, that will completely overhaul how the Department stores its data, issues its licenses, and enforces its statutes.

- The lack of timely annual inspections had led to lost revenue to the Commonwealth. Owners of nearly half of the elevators with expired certificates (5,437) had not applied for an annual inspection, the fee for which is \$400. This represents \$2,174,800 in lost revenue to the state. When situations where annual inspections had not been conducted for a number of years were factored in, the total amount of lost revenue rose to \$6.5 million. The audit also noted that although Department regulations allowed for a late fee of \$200, during the audit period no late fees had been imposed.

Division of Unemployment Assistance

The OSA conducted an audit of the Division of Unemployment Assistance within the Department of Workforce Development, which focused on accounts receivable management. Unemployment Insurance is a federal/state program jointly financed through federal and state employer payroll taxes and contributions. Although financing options may differ, all Massachusetts employers, public and private, contribute to the Unemployment Compensation Fund, which provides temporary unemployment benefits to eligible workers who have lost their jobs and are looking for employment. As detailed below, the audit found substantial weaknesses in the Division of Unemployment Assistance's procedures for dealing with delinquent Unemployment Insurance contributions.

- The Division of Unemployment Assistance maintained a high accounts receivable balance consisting of delinquent Unemployment Insurance contributions, accumulated interest and penalties, and old balances. At the close of the audit period, this balance totaled \$93,870,395 for 37,789 employers and included balances dating back to 1984. Of \$70,565,853 owed by private contributory employers, \$24,847,563, or 35%, represented accounts receivable balances between seven and 22 years old. The effect of business noncompliance with unemployment laws and regulations is extensive, with thousands of noncompliant businesses gaining an unfair competitive advantage over compliant employers, who, in effect, subsidize the Unemployment Compensation Fund. Furthermore, there was little incentive for egregious offenders to obey the law, since the Division rarely, if ever, used the most stringent collection measures available under statute, including maximum fines, felony convictions, and suspension of liquor licenses. Division officials responded that scheduled implementation of an enhanced computer system will result in substantial improvements in accounts receivable management.
- Nonprofit and government employers may choose to reimburse the Unemployment Compensation Fund when actual expenses are incurred, rather than pay more typical quarterly contributions. As of the close of the audit period, the Division was owed

\$23,283,154 from 1,016 employers who chose this option. This receivable amount represented actual benefits paid to employees, which must be repaid by the employer within 30 days of usage. However, the data system that maintains these balances was not able to age accounts receivable, severely hampering management's efforts to monitor debt and make sound decisions regarding collection activity. Again, the Division responded that it would address this deficiency through its new automated system.

Central Artery/Tunnel (CA/T) Project: Repair and Maintenance Trust Fund (CA/T Fund)

Under the terms of a January 2009 settlement of state claims against certain contractors that had worked on the CA/T project, \$414.9 million was deposited in a newly established CA/T Fund, disbursements from which are limited to non-routine repair and maintenance costs. As trustee and administrator of the CA/T Fund, the Secretary of the Executive Office of Transportation and Public Works (Executive Office) is responsible for ensuring that Fund balances are accurate and that expenditures are in accordance with statutory criteria. The OSA reviewed Executive Office oversight of fund activity from January 2008 through March 2009. Findings relative to the status of the Fund are summarized below.

- Although the Executive Office had established adequate internal controls relative to CA/T Fund disbursements, improvements were needed in controls over other key Fund activities, such as Fund transfers and the posting and reconciling of interest income. Specifically, on March 31, 2009, CA/T Fund assets of \$55,730,000 were transferred to the Massachusetts Turnpike Authority for repair and maintenance projects. In the opinion of the OSA this transaction and similar transfers did not represent cost payments; rather, they constituted transfers to a related state government entity. As such, they would remain an asset of the CA/T Fund until disbursed to a contractor for actual repair work. As such, interest earned from these transferred funds should also have been, but was not, retained and disclosed on required financial reports. Furthermore, the reported CA/T Fund balance did not include an additional \$1,191,830 in interest income, which, due to inadequate coordination between the Executive Office and the Office of the State Treasurer, was recorded and deposited as investment income to the Commonwealth. As result of these issues, the OSA found that the March 31, 2009 CA/T Fund balance of \$354,282,614 reported by the Executive Office did not fully and accurately disclose the status of the Fund. The Executive Office disagreed with the OSA finding relative to transferred funds, maintaining that monies transferred to other agencies should be considered disbursed and no longer part of the CA/T Fund. However, the Secretary did agree to work with the State Treasurer to restore the \$1,191,830 identified by the OSA as belonging to the CA/T Fund.

Hurricane Katrina Reserve Account

The OSA conducted an audit of the Hurricane Katrina Reserve Account for the period July 1, 2005 to March 31, 2007. The audit reviewed and analyzed financial controls in order to determine whether the controls were adequate, whether proper documentation was on file to support account receipts and disbursements, and whether state agencies involved in assisting

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evacuees properly tracked their costs for possible federal reimbursement. As summarized below, the audit found that due to certain documentation, coding, and compliance deficiencies, the Commonwealth did not maximize potential federal reimbursements for Katrina-related costs.

- State agencies that assisted evacuees did not submit full and accurate documentation for all of their reported Katrina-related expenditures. These agencies were directed to submit their disaster assistance expense documentation to the Massachusetts Emergency Management Agency (MEMA), which then forwarded this information to the Federal Emergency Management Agency (FEMA) for review. FEMA-approved reimbursements were deposited into and drawn down from the Hurricane Katrina Reserve Account. However, several agencies' submissions included undocumented expenditures and calculation and coding errors. As a result, FEMA rejected certain claims, and the Commonwealth received \$300,000 less than the amount requested by assisting agencies.
- State agencies did not seek reimbursement for all Katrina-related costs. Records indicate that agencies spent over \$1.2 million more than the amount for which they submitted documentation for reimbursement. Specifically, some agencies did not segregate all Katrina-related expenses as instructed by the Office of the State Comptroller. As a result, Massachusetts spent more to assist evacuees, including those relocated to Camp Edwards on Cape Cod, than was reimbursed by the federal government. The OSA recommended that the Executive Office for Administration and Finance and MEMA seek reimbursement for the \$1.2 million in costs that had not previously been claimed, if funding for this purpose was still available.

Special Audit Section

Federal Stimulus Funding Oversight

The American Recovery and Reinvestment Act, which was signed into law by President Obama on February 17, 2009, provided \$787 billion nationally for economic recovery and growth, protecting programs that assist those in greatest need, and providing tax relief. Initial expenditures increased Food Stamp allotments and extended unemployment benefits. These original outlays were weighted toward health and other safety net programs. Funding emphasis, as planned, is now shifting to a focus on long-term economic and employment growth through larger infrastructure and transportation projects, revival of the renewable energy industry, and education investment.

The Commonwealth is currently receiving its share of funding under the American Recovery and Reinvestment Act, a federal economic infusion expected to total approximately \$13.8 billion. As of June 30, 2010, Massachusetts had received over \$5.6 billion and expended approximately \$4.1 billion on various initiatives to promote job creation and assist those in greatest need. The OSA has undertaken a wide variety of Recovery Act audits, with emphasis on workforce development, education, housing, and transportation. In addition to the five fiscal year 2010 audits detailed below, the OSA has issued eleven additional audits as of October 19, 2010. These audits are available online or from the State Auditor's Office at 617-727-2075 or 617-727-6200. A number

of other audits are in progress, with several nearing completion. The OSA also continues to meet regularly with the offices of the Attorney General, Comptroller, Inspector General, and other members of the STOP Fraud Task Force to assure coordinated and collaborative fraud prevention activities and work initiatives.

- As part of a review of the Youth Summer Job Creation program at the Executive Office of Labor and Workforce Development, which was awarded \$27 million in Recovery Act funds, the OSA issued interim reports of local Workforce Investment Boards in Brockton, Lowell, and Quincy. All three entities properly utilized their awards, providing summer employment opportunities and training activities for eligible low-income individuals between the ages of 14 and 24. However, the reviews indicated a need to more accurately account for job placements and attendance and to address difficulties associated with meeting spending goals within designated timeframes. The Brockton Area Workforce Investment Board, for example, did not achieve its desired expenditure goal of 60% of its award in the summer of 2009. Moreover, all three entities were impacted by the program's strict eligibility, documentation, and reporting criteria, particularly given their staff limitations.
- A review of \$6,697,805 in federal stimulus funds awarded to Westfield State College indicated that, as of April 20, 2010, the College had expended \$3,196,650, the majority of which was used to pay adjunct and state employee compensation, for student financial aid, and for facility renovations. College officials stated that their stimulus funding would be fully expended by September 30, 2011. All expenditures were found to be allowable, properly reported, and in compliance with applicable laws, rules, and regulations.
- Plymouth Housing Authority was awarded a Recovery Act grant of \$174,206 for specific senior housing capital improvements. As of March 31, 2010, the Authority had expended the full amount of the grant. Based on its review, the OSA concluded that Plymouth Housing Authority expended these funds as intended; maintained adequate management controls; and complied with applicable laws, rules, and regulations.

INITIATIVES

The following is an update of planned and ongoing initiatives relative to various state agencies and programs.

Federal Stimulus Funding Oversight

The OSA is continuing to prioritize oversight of the Commonwealth's share of funding under the American Recovery and Reinvestment Act of 2009. Massachusetts is currently receiving this federal economic infusion, which is expected to total \$13.8 billion over 27 months, and as of the close of fiscal year 2010, had been awarded over \$5.6 billion, of which approximately \$4.1 billion had been expended. This funding must be strictly monitored in order to prevent wasteful spending, fraud, and misuse. In May 2009, Auditor DeNucci joined with the Attorney General, the Inspector General, and federal officials to form the Stimulus Oversight and Prevention (STOP) Fraud Task Force to assure coordinated and collaborative stimulus funding oversight. The Auditor also created a new audit division, which, under his direction and that of Deputy Auditors and senior staff, developed a work plan for recovery activities, beginning with the identification of all programs where funds were expected, the timing and specific flow of funding, the applicable compliance requirements, and possible areas of vulnerability. As an important aspect of providing guidance to agencies on preventive controls, the OSA is evaluating internal controls at designated agencies to assess whether they are capable of handling significantly increased expenditures; providing program performance and financial reporting; and mitigating risks of fraud, waste, and abuse. Auditors are also considering past relevant OSA findings, including Single Audit findings, and determining whether these have been adequately addressed. The OSA has issued sixteen audits of Recovery Act spending, five of which were completed in fiscal year 2010. Other audits are currently in progress, with several nearing completion. All issued audit reports are available online or from the OSA.

Single Audit of the Commonwealth

During fiscal year 2011, the OSA will once again partner with a private auditing firm in performing the Single Audit of the Commonwealth, a comprehensive annual audit of the Commonwealth as a whole that encompasses the accounts and activities of all state agencies. This audit satisfies the federal and state requirements to audit the Commonwealth of Massachusetts' financial operations consisting of its accounts, programs, activities, funds, and functions, as well as specified compliance issues.

As a partner in the "Single Audit," the OSA will also provide staff resources for the audit of federal programs to determine whether the state is in compliance with applicable federal laws, rules, and regulations. The OSA will also conduct audit procedures that are needed to render an opinion on the Commonwealth's Comprehensive Annual Financial Report.

In addition to conducting audits relative to agency compliance with year-end closing instructions and a report determining the relationship of net state tax revenues to allowable tax revenues, the OSA will issue audits of:

- Federal student assistance programs at selected colleges, including Berkshire Community College, Bristol Community College, Massachusetts Bay Community College, Massasoit Community College, Massachusetts Maritime Academy, Mount Wachusett Community College, and Westfield State University;
- Federal grant programs at the Department of Early Education and Care;
- Federal grant programs at the Department of Children and Families; and
- Federal grant programs at the Massachusetts Rehabilitation Commission.

Close-Out Audit of Agencies and Authorities Transferred to the Massachusetts Department of Transportation

In accordance with Chapter 25 of the Acts of 2009, which created the new Massachusetts Department of Transportation, the OSA is performing a close-out audit of each agency and authority transferred to the new Department. As mandated, the audit will include a catalogue of any issues relating to an agency's or authority's current and future finances and operations, current and future revenues or debt structure, and internal policies and procedures that the State Auditor believes are not within financial accounting board standards or are not in compliance with applicable laws and regulations.

AUDIT SUMMARIES

Information Technology Audits

During fiscal year 2010, the OSA's Information Technology (IT) Audit Division issued 25 audit reports detailing strengths and weaknesses of internal controls within IT-related areas.

The primary role of the IT Audit Division is to examine how well information technology is being controlled within state organizations and to make recommendations for enhancements that help ensure that control objectives are achieved and that risks to computer-based information systems and facilities are reduced. The IT Audit Division conducts general and application control examinations that provide independent, objective appraisals of the adequacy of internal controls over and within information systems and IT processing environments. One of the goals of IT auditing is to assist agencies in achieving and maintaining a technology environment that adequately safeguards assets, maintains data and system integrity, achieves organizational goals, and effectively and efficiently uses resources to achieve desired value. Information technology auditing also includes providing technical support to financial and performance auditors in evaluating IT-related or information systems-related controls and retrieving selected information from automated systems.

Audit objectives for information systems include determining whether adequate controls are in place to provide reasonable assurance that control objectives will be met regarding security, integrity, and availability of automated systems. The IT Audit Division may also examine administrative and operational controls as part of an IT audit or included in the scope of an integrated OSA audit. Audit work during this report period has continued to be focused on evaluating general controls, including security over and within the IT processing environment and, increasingly, assessing the extent to which entities address IT operational objectives. During this report period, audit results disclosed issues that warrant management attention in a number of areas, including disaster recovery and business continuity planning, inventory control, physical security, environmental protection, and system access security. The following section highlights findings from this report period.

Glavin Regional Center

The OSA's IT Audit Division completed an audit of IT-related general controls and financial-related activities at the Glavin Regional Center, a Department of Developmental Services (DDS) facility in Central Massachusetts. The Glavin provides residential services to individuals with developmental disabilities and various day programs. As summarized below, the audit identified several areas in which internal controls needed to be strengthened in order to protect information system capabilities and protect financial resources.

- Logical access security controls for the Glavin Regional Center's information system resources needed to be strengthened to ensure that only authorized users have access to its network, application systems, and data files. Although adequate policies and procedures were being followed to authorize and activate user privileges for access to the Center's network resources, user accounts were not consistently deactivated for staff who had left the Glavin's employment. In addition, the Glavin's minimum password requirement for logging on to its mission-critical Meditech system, which collects personally identifiable and health-related information on clients, was only three characters. This was not in compliance with DDS security standards, which require a minimum password length of eight characters. Finally, users were not required to change their passwords on a regular basis. These weaknesses increased the Glavin's vulnerability to unauthorized access to application systems and data.
- Although the Glavin had a Continuity of Operation Plan, as well as an alternate relocation site, it did not have a comprehensive business continuity strategy or an approved, detailed, and tested disaster recovery plan. As a result, the Glavin's client service activities could be seriously disrupted should a disaster render automated systems inoperable or inaccessible for an extended time.
- In order to better protect its financial resources, the Glavin needed to strengthen controls over agency gasoline credit card purchases and oversight of its Work Center Payroll, from which residents are paid for work at businesses within the community. With respect to credit card usage, the OSA found inconsistencies associated with the date and time of transactions, odometer readings, and vehicle miles per gallon. The Center stated that, in response to OSA recommendations, it had implemented new procedures to monitor mileage, ensure that employees enter their ID at the time of gasoline purchase, and track gasoline charges outside normal business hours.
- Regarding Work Center Payroll administration, the OSA found timesheet and daily production worksheet issues, including inaccuracies in the assignment of job codes and the absence of signatures acknowledging receipt of wages. The accurate recording of job codes helps assure that workers are functioning within their limitations and properly compensated. Similarly, acknowledging the receipt of wages is part of clients' training and work activities, with procedures in place to assist individuals who cannot sign their name. The OSA found a 16% error rate in following these procedures, especially with respect to countersigning for individuals with significantly diminished capacity. The Glavin took action while the audit was in progress to improve payroll controls.

- The Glavin needed to improve its monitoring and evaluating of Criminal Offender Record Information (CORI) background checks, especially for employees hired prior to 1990 when requirements for performing CORI checks differed from current practice. The OSA determined from a statistical sample of 53 employees tested that nine, or 17%, had not received a CORI check. Eight of these exceptions had been hired prior to 1990. The OSA recommended that, at a minimum, the Glavin conduct a review of all personnel who have direct unsupervised contact with vulnerable individuals and update its CORI investigations accordingly.

Additional Findings Categorized by Issues

Disaster Recovery and Business Continuity Planning

The overall objective of disaster recovery and business continuity planning is to provide reasonable assurance that mission-critical or essential computer operations can be restored within acceptable periods of time in the event of significant disruptions or loss of processing capabilities. Other contingency planning objectives are to ensure employee safety; to safeguard data, software, and critical documentation; to minimize security exposures and system damage; and to reduce the time and cost required to recover from system disruptions or failure. The IT Audit Division issued twenty-four reports during fiscal year 2010 that assessed the extent to which various agencies had addressed business continuity planning for essential operations supported by technology, and had adequate on-site and off-site storage of backup copies of magnetic media. Most of these audits also evaluated compliance with state requirements that all agencies develop Continuity of Operations (COOP) plans and designate alternate processing sites. Where relevant, the audits also assessed the extent to which agencies have used the COOP plans to initiate development of comprehensive disaster recovery and business continuity plans. Although three agencies had corrected prior deficiencies regarding disaster recovery and business continuity weaknesses, and two additional entities had no material findings, most of the entities reviewed still needed to strengthen controls in this area.

- The majority of agencies reviewed understood the need for and had developed strategies for recovering IT capabilities should a disaster render automated systems inoperable or inaccessible. In this regard, eight agencies had continuity of operations (COOP) plans as required by Executive Order 490 of 2007, while six other agencies had initiated, but had not completed and implemented, COOP plans or were utilizing the COOP plans of a supervising agency. While these COOP plans contain many elements of formal disaster recovery and business continuity plans, they focus on response to emergencies by high level officials and generally lack detailed procedures for recovering mission-critical applications and the computer systems upon which they reside. Thus, in spite of developing COOP plans, very few agencies reviewed had a comprehensive, approved, and tested formal disaster recovery and business continuity plan. As a result, most of these agencies would probably be able to resume some IT-supported business operations should a disaster occur, but would not be likely to do so within an acceptable time period.
- All of the agencies reviewed were aware of the importance of secure on-site and off-site storage of magnetic media. Furthermore, the majority of these agencies, to the extent

possible, had also made sufficient alternate processing arrangements. However, as detailed below, certain agencies still needed to address system backup and alternate processing issues.

- The Department of Fish and Game had not finalized the designation of an alternate processing site.
 - The Dr. John C. Corrigan Mental Health Center (MHC) and the Erich Lindeman MHC had verbal agreements with other mental health agencies to use their sites as alternate processing locations. These arrangements should be formally agreed to and documented.
 - The Registry of Vital Records Statistics had terminated the practice of exchanging weekly backup copies of systems and data files with the Cancer Registry, and, as a result, had no off-site backup of mission-critical information.
 - The Soldiers' Home in Chelsea and the Soldiers' Home in Holyoke relied on the Massachusetts Information Technology Center (MITC) in Chelsea for recovery and continued access to the Massachusetts Management Accounting and Reporting System and other application systems. This may not be entirely satisfactory, since the Commonwealth must rely on contracted services for its alternate processing site because an alternate state-owned processing and backup facility is not available at this time. At the end of fiscal year 2010, the state's Information Technology Division was continuing its efforts to establish a data center in western Massachusetts to be used as an alternate processing and backup site for the important systems operated at MITC.
- The OSA recommended that all agencies with significant recovery weaknesses, including courts and educational institutions, conduct criticality evaluations and risk assessments. Each agency should then develop, test, and implement a detailed, formal disaster recovery and business continuity plan that addresses various disaster scenarios and identifies activities necessary to assist in timely restoration of mission-critical and essential business operations should automated capabilities be disrupted or lost. Once implemented, plans should be periodically reviewed, updated, and retested for changing conditions.

Inventory Controls: IT-Related Assets

All state entities are required to maintain complete inventories of fixed assets, including IT resources such as computer equipment and software, to ensure that they are properly accounted for, safeguarded, and used only for authorized and intended purposes. Maintaining an adequate inventory system of record is also necessary to support configuration management of the IT infrastructure. In addition, with respect to software, inventory records and periodic tests should be used to help prevent unnecessary software expenditures, software copyright infringement, and loss or theft of software products. The following are examples of current audit findings in this area.

- The Bureau of State Office Buildings had not performed an annual physical inventory of fixed assets or maintained an inventory system of record prior to June 2008. As a result, IT-related resources were exposed to increased risk of loss, theft, and misuse and the valuation of IT-related resources could not be readily determined or accurately reported on financial statements. However, while the audit was in progress, the Bureau conducted its first physical inventory of computer equipment and, with guidance from the OSA, created an inventory listing of IT fixed assets. When the OSA first reviewed this listing, it lacked certain important information, such as cost amounts and dates of acquisition but contained 96% of the Bureau's IT assets. Before the close of the audit period, the Bureau enhanced its inventory record, completing data fields and identifying leased IT items. The OSA recommended that the Bureau develop a comprehensive inventory of all of its fixed assets. The OSA also stressed that this inventory record, of which IT equipment would be a part, needed to be maintained on a perpetual basis and periodically verified through reconciliation with physical counts and with acquisition and disposal records.
- The Department of Developmental Services (DDS) Southeast Region was cited in a previous audit for deficiencies in inventory controls. The current audit found that the agency still had not performed a physical inventory and reconciliation, and could not provide a comprehensive listing of its IT-related assets. The Executive Office of Health and Human Services (EOHHS) did provide an inventory listing that included IT-related equipment located at all of the DDS offices. An OSA test of this inventory record found that 69 randomly selected items for the Southeast Region could be located. However, the audit also noted that many equipment items were not properly tagged with state identification numbers and that 15 of 32 items selected from physical locations were not recorded on the EOHHS system of record. Furthermore, none of the 104 most recently purchased IT items had been recorded. The absence of a comprehensive reliable inventory record continued to hinder the DDS Southeastern Region's ability to safeguard and properly account for its resources.
- Although Framingham State College had conducted a physical inventory of IT resources and established a centralized inventory system of record, certain problems persisted. Inventory records were incomplete in that they did not include important cost information, and an appropriate level of reconciliation had not been performed. In addition, the College was lax in requiring the prompt return of notebook computers from faculty leaving College employment. Finally, the College did not report to the OSA lost or stolen computer equipment, claiming to be unaware of statutory reporting requirements in spite of previous similar findings.
- The Essex Sheriff's Department was not adequately reconciling its inventory records with a physical count of IT property and equipment. As a result, certain items of computer equipment, including 37 desktop computers, had not been recorded on the inventory system as of October 20, 2009. The audit also found that the inventory record was missing information relative to asset costs and acquisition dates. As a result of these weaknesses, the Sheriff's Department lacked assurance that its inventory system of record could be relied upon to account for and monitor its computer equipment. The Sheriff's Department, while the audit was in progress, updated its inventory listing to include the previously unrecorded desktop computers and other newly purchased items.

Physical Security and Environmental Protection Controls

Proper physical security and environmental protection for data centers and on-site or off-site media storage rooms serve to minimize significant risks regarding staff safety and damage to, or destruction of, the physical plant, equipment, data, and software. In addition, adequate physical security helps to enhance staff safety and prevent damage to automated systems by minimizing the risk of unauthorized persons breaching security and gaining entry to areas housing computer-related equipment and information.

- The Plymouth County Superior Court needed to strengthen physical security and environmental protection controls at the Brockton Courthouse. Although the Courthouse was properly staffed with security personnel and equipped with metal detection and X-ray machinery, it did not have window intrusion alarms; windows in certain areas of the building could not be secured; and an emergency exit door did not have an alarm sensor. As a result, there was increased risk of unauthorized entry, which could go undetected. The audit also found serious deficiencies in controls for environmental protection. Most concerning, the building did not have smoke detectors or heat sensors. In addition, its emergency backup generator was inoperable. The Clerk of Courts agreed with these findings and stated that the Court, in conjunction with the Administrative Office of the Trial Court, was actively seeking funding to improve physical security and environmental protection at the Brockton Courthouse.
- The University of Massachusetts at Lowell did not maintain a central record of the distribution and return of door keys, could not readily determine the number of keys outstanding, and did not properly monitor the return of keys from individuals who had left University employment. As a result, the University could not ensure that only authorized individuals had keys to areas where computer equipment was installed, and University assets, including computer equipment and data, were placed at risk of potential loss. Although environmental protection controls were generally in place and effective, file servers in the Olsen Data Center were vulnerable to water damage. These servers had been placed directly below water sprinklers, with no protection should the sprinklers be activated. University officials responded that they have initiated major automated system changes which, when fully implemented, will maintain all information, including the room, building, and person assigned a key, for the approximately 3,000 locks throughout their building inventory. Officials also stated that they had taken immediate corrective action regarding the Olsen Server room by replacing the sprinkler system with a “clean agent” dry fire suppression system, which is specially formulated so as not to cause damage to server room equipment.

System Access Security

Industry guidelines and baseline controls advocate that appropriate access security controls be in place for mission-critical or high-risk systems to ensure that only authorized personnel obtain system access. Access to automated systems should be granted on a need to know, perform, and protect basis. Written policies and procedures for access security administration should be in place to provide operational rules and guidelines for the security of information assets and to ensure that appropriate and prompt actions are taken to review unauthorized access attempts. Without system access restrictions, such as the periodic changing or deactivating of passwords and user IDs for individuals no longer requiring or authorized to have access, unauthorized access could be gained, resulting in the risk of system data and programs being disclosed, damaged, deleted, or modified.

- Bristol Probate and Family Court needed to work with the Administrative Office of the Trial Court to ensure an appropriate frequency of password changes for users of the MassCourt application system. The audit found that a mandatory time frame had not been established for changing passwords and, consequently, passwords for system users had not been changed on a regular basis. In some cases, Court employees had not changed their password since implementation of the MassCourt System in 2008. Furthermore, requirements for password composition and length needed to be strengthened.
- Framingham State College's Human Resources Department was not consistently notifying IT personnel when user privileges needed to be changed or deactivated. As a result, there were active user IDs and passwords for individuals who were no longer employed by the College, with one account going back to 2006. In addition, passwords were not changed on a regular basis. Improved password administration would reduce the risk of unauthorized users accessing, altering, or deleting critical information.
- The Registry of Vital Records and Statistics had substantial weaknesses in user account management and password administration. Neither the Registry nor the Department of Public Health, its primary oversight agency, had developed policies and procedures for the monitoring and deactivation of user access. OSA tests of system access security for the Registry's Division Application system found that 89 of 141 user accounts had not been deactivated for individuals who were no longer Registry employees. In addition, the Registry was unable to provide information regarding user identity, date of termination of employment, and the date of last account activity, and was not reconciling its user account list to authorized employees on a periodic basis. Until these issues are addressed, the Registry's mission-critical automated system is at increased risk of unauthorized access to important and sensitive data and programs.

INITIATIVES

The following is an update of ongoing initiatives in the area of information technology.

Data Integrity

The Office of the State Auditor is continuing an initiative relative to reviewing and evaluating data integrity for mission-critical application systems at selected state agencies. A major objective is to assess the extent to which data stored in application systems is sufficiently complete, accurate, and valid. This audit initiative, which will result in a series of reports and management letters, also involves analyzing state agencies' data on a proactive basis to help identify differences between information in these systems and supporting source documentation, as well as unusual trends and potential problems for maintaining the systems.

Personally Identifiable Information

The OSA is integrating into the scope of its IT audits a review of personally identifiable information maintained by state entities. Personally identifiable information refers to data, such as names, addresses, Social Security numbers, medical records, bank deposit and investment information, and credit card numbers, which can potentially be used to uniquely identify an individual. This initiative has already helped to raise awareness regarding the IT controls necessary to secure and protect personal data, with most agencies reviewed in fiscal year 2010 developing and implementing policies and procedures to protect personal information. In addition to continuing to assess the adequacy of agency controls over personally identifiable information, the IT audits will make recommendations for preventing unauthorized disclosure of confidential data, which could lead to identity theft.

Business Continuity Planning

The OSA is continuing an audit of two major areas of business continuity planning: state agencies' required Continuity of Operations (COOP) plans and alternate processing sites. This initiative, which was part of the scope of 24 audits issued in 2010, evaluated the extent to which COOP plans have been developed by state entities and assessed whether the development of COOP plans has helped agencies develop more comprehensive recovery and business continuity plans. These audits also assessed the availability of alternate processing sites across the Commonwealth to support disaster recovery and business continuity strategies.

BUREAU OF SPECIAL INVESTIGATIONS

The OSA's Bureau of Special Investigations (BSI) is charged with investigating potentially fraudulent claims for or wrongful receipt of payment or services under public assistance programs. The division receives complaints and allegations of fraud from various state agencies, as well as from the State Police, the general public, and recipients. These referrals principally involve suspected fraud in Medicaid and in the Department of Transitional Assistance cash assistance and Food Stamp programs. The costs of these programs are enormous, and the services provided under them are essential to the Commonwealth's most vulnerable citizens. Therefore, BSI's role in combating fraud and recovering funds contributes significantly to the ongoing OSA mission and efforts to safeguard the state's financial assets, ensure that state expenditures are legal and used for the purposes intended, and maximize funds available for important state services.

To accomplish its mission, BSI works closely with other agencies at the federal, state, and local levels. BSI staff participate in joint investigations and serve on task forces focused on preventing and combating illegal activities. Agencies with which BSI interacts include the Federal Bureau of Investigation, the Food and Drug Administration, the federal Health and Human Services' Office of the Inspector General, the U.S. Attorney's Office, the state Attorney General's Office, the State Police, District Attorneys' Offices, local police, and administering agencies.

BSI's case tracking application and database continues to be a valuable investigative management tool for fraud examiners and other staff. Using this application, which electronically collects investigative data, performs analytical tasks, and helps to prioritize casework, examiners have been able to expedite fraud investigations, accelerate referrals for recoveries, and gather information to enhance prevention activities. Specifically, in the past year, the case tracking application and database has assisted examiners in the disposition of cases involving outstanding warrants and in developing a specialized investigative plan for cases involving non-custodial parents. The OSA also continues to work closely with a variety of state agencies to maximize the application's benefit to other public entities.

Highlights of BSI Activities and Accomplishments

- During fiscal year 2010, BSI identified over \$4 million in public assistance fraud, including \$2.9 million in Medicaid fraud, \$613,000 in financial assistance fraud, and \$521,000 in Food Stamp fraud.
- BSI completed 1,462 cases during fiscal year 2010. Of these, 243 investigations resulted in identified fraud and were referred to the appropriate agency for civil recovery or prosecution.
 - Civil Recoupments: BSI sent 157 cases, with a total fraud calculation of \$791,000, back to the Department of Transitional Assistance (DTA) for collection. As of June 30, 2010, \$9,789 had been repaid to the Commonwealth, with an additional \$648,140 scheduled for collection. BSI also continued its recoupment activities with MassHealth, sending the agency 24 cases in this fiscal year. MassHealth has, in turn, collected \$309,520 in recoupments. These cases include voluntary repayment agreements with individuals who committed Medicaid fraud by not fully disclosing assets at the time of application for nursing home benefits.
 - Court Actions: BSI brought nine completed cases involving nearly a million dollars in fraud to the criminal justice system for prosecution. Fully adjudicated cases resulted in court orders for \$354,741 of this amount to be repaid to the Commonwealth. The nine cases had been identified by BSI's Prosecution Team as appropriate for court action, then subjected to review and preparation in order to present high quality, well-documented cases to District Attorneys' offices or to the Office of the Attorney General.
- Over the past year, BSI continued to work on outstanding so-called "warrant" cases, many of which involve older completed cases, where fraud had been identified and a judicial warrant issued. Letters are sent to subjects identified in each case explaining the meaning and risk of an outstanding warrant, as well as the means, including repayment of the identified fraud, by which the warrant can be resolved. Seventy-two of these cases were adjudicated in fiscal year 2010, resulting in court-ordered restitution of \$103,524. Over three years, the warrant initiative has resulted in repayments of \$270,419.
- BSI, during this period, completed its largest number of investigations into allegations of financial assistance fraud. In one of these cases, a Taunton couple was sentenced to 1,000 hours of community service for fraudulently receiving DTA benefits over a three-year period. BSI examiners had determined that the woman, who had claimed in seeking benefits that her husband was absent from the home, had falsified her application. In fact, the husband had been residing with her and fully employed at the MBTA during the entire period of fraud. In some cases, investigations into allegations of financial assistance fraud also uncover simultaneously occurring healthcare, Food Stamp, and other fraud. For example, BSI examiners found that an employed former Chelsea resident had used another woman's identity and also falsified income and asset information when obtaining DTA benefits, Food Stamps, MassHealth, childcare, and

federal housing assistance. She was convicted, sentenced to two years of incarceration, and ordered to repay \$196,711 to state and federal authorities.

- BSI is continuing its investigations of drug diversion cases, which involve the use of Medicaid benefits for drug-related criminal activities. Most of these investigations disclose MassHealth recipients or providers who fraudulently obtain certain prescription drugs, which are then either abused or sold on the street at a substantial profit. In some of these cases, recipients conspire with physicians and pharmacists to obtain these drugs, requiring investigation and criminal prosecution of both recipients and providers. In one case, working with the Massachusetts State Police, BSI identified an individual who had used a false identity to obtain MassHealth benefits and then used those benefits to move from one doctor to another illegally obtaining prescription drugs. In response to recommendations by, and with assistance from BSI and other fraud prevention agency divisions, the Commonwealth's Pharmacy Unit within the Department of Public Health has developed and implemented a computer program that tracks MassHealth members whose use of prescription drugs appears excessive. As patterns of abuse are established, BSI initiates investigations of suspected abusers, including recipients, pharmacists, physicians, and healthcare facility personnel.
- The majority of BSI Food Stamp fraud referrals involve eligibility issues, such as unreported assets and income, and false identities. In addition, BSI investigates allegations of Food Stamp trafficking. Typically, this involves a conspiracy between a recipient and a retailer to convert Food Stamps into cash. This year, BSI also identified several cases in which attempts were being made to sell Food Stamps via the internet. Working with law enforcement, BSI was able to thwart most of these attempts. These kinds of criminal activity not only defraud the Food Stamp program, but also deprive needy children of food and increase their vulnerability to malnutrition and illness. Several Food Stamp trafficking cases are currently under investigation.
- BSI is continuing to investigate Personal Care Attendant (PCA) fraud referrals, cases in which falsified records enabled certain caregivers to receive payment for services that were not provided. In certain cases, neglect and abuse of disabled individuals have also been uncovered and addressed. The PCA Task Force, which includes BSI, the Attorney General's Office, and the federal Health and Human Services' Office of the Inspector General, continued to investigate major PCA fraud cases. Among the Task Force Unit cases completed in the report period and pending indictment are seven cases involving \$483,421 in identified fraud. In one completed and adjudicated case, a Brookline couple was sentenced to probation and ordered to pay \$25,000 each in restitution for fraudulently receiving payments for PCA services. Apart from Task Force investigations, BSI pursued additional allegations of PCA program abuse. Moreover, in addition to focusing on investigations and prosecutions, BSI, both within and outside the Task Force, works to identify systemic programmatic weaknesses and to protect disabled persons.

DIVISION OF LOCAL MANDATES

To ease some of the impact of property tax limits, Proposition 2½ included provisions establishing the Local Mandate Law and the Division of Local Mandates (DLM) within the State Auditor's Office. With limited financial resources, cities and towns would find it increasingly difficult to support unfunded state mandates. Accordingly, the Local Mandate Law sets the general standard that post-1980 state laws and regulations that impose new costs on cities, towns, regional school districts, or educational collaboratives must either be fully funded by the Commonwealth, or subject to voluntary local acceptance. (See Chapter 29, Section 27C, of the General Laws.) DLM is responsible for determining the local financial impact of proposed or existing state mandates. Any community aggrieved by a law or regulation that is contrary to the standards of the Local Mandate Law may request an exemption from compliance in Superior Court, and submit DLM's fiscal impact determination as prima facie evidence of the amount of state funding necessary to sustain the mandate.

DLM maintains a Legislative Review Program to analyze pending legislation on mandate-related issues. To ensure that the General Court considers the local cost impact of legislation, DLM reviews significant bills, prepares preliminary cost studies where applicable, and contacts members of the Legislature to make them aware of the Auditor's concerns. In addition, DLM responds to requests for opinions and cost impact determinations from individual legislators, legislative committees, municipalities, state agencies, and governmental associations.

Chapter 126 of the Acts of 1984 expanded the Division's mission by authorizing DLM to examine any state law or regulation that has a significant local cost impact, regardless of whether it satisfies the more technical standards for a mandate determination. This statute is codified as Section 6B of Chapter 11 of the General Laws. Chapter 126 reports include estimates of the local financial effect of the law or regulation under review, and recommendations to the General Court.

Through these functions, DLM contributes to the development of state policy that is more sensitive to local revenue limits, so that cities and towns can maintain more autonomy in setting municipal budget priorities.

Highlights of DLM Activities and Accomplishments

Special Election Mandate Determination: \$7,869,581 in Costs

In the fall of 2009, the Massachusetts Town Clerks' Association and the towns of Barre, Buckland, Oxford, Rockport, and Wakefield requested a determination of financial responsibility for the special state primary and final elections to fill the U.S. Senate seat previously held by the late Senator Edward M. Kennedy. The special election was called pursuant to Chapter 236 of the Acts of 2004. This Act repealed prior law that would have avoided the cost of special elections by utilizing the traditional election schedule. In contrast, Chapter 236 requires the Governor to call an election within 145 to 160 days from the date a vacancy occurs in either of the two Massachusetts seats in the U.S. Senate. As a result of this change in law, municipalities expected to incur significant additional special election costs for a primary on December 8, 2009 and a final election on January 19, 2010. Following a review of the pertinent statutes and case law, DLM determined that Chapter 236 is a state mandate subject to the state funding provisions of the Local Mandate Law. DLM initially estimated statewide local costs for wages for primary and election day personnel at approximately \$7.2 million, and when the election was completed, proceeded to certify the full actual costs incurred by each community.

In past years, certification forms for mandates were mailed to all 351 cities and towns, making data collection, entry, and analysis a time-consuming, manual process. This certification, however, was time sensitive, because the Legislature was considering a supplemental budget, which could provide funding for the mandate. Accordingly, the certification team developed a new tool to electronically collect, input, track, and analyze election cost data. Eighty-five percent of the municipal clerks readily adjusted to the electronic format and immediately emailed their data back to DLM. A few towns experienced significant technical difficulties and ultimately responded on paper forms.

The staff tracked, analyzed, and audited each return, and contacted local officials when adjustments were in order; the auditing process identified over \$700,000 in reported expenses that DLM disallowed. DLM's final cost certification for this special election amounted to \$7,869,581. The Legislature provided sufficient funds to reimburse municipalities for this expense in two appropriations acts: \$1,572,648 in Chapter 120 of the Acts of 2009 and \$6,340,941 in Chapter 86 of the Acts of 2010. Final certified amounts ranged from \$911,150 for the City of Boston to \$653 for the small Town of Chilmark. Most final distributions to communities were made by wire transfer in May and June 2010.

Uniform Statewide Polling Hours Law: \$1,653,993 in Certified Costs

Unrelated to the Chapter 236 Special Election mandate, DLM also certified a total of \$1,653,993 for distribution to the Commonwealth's cities and towns to cover the costs of expanded polling hours for the 2010 September primary and November general elections. A state mandate, Chapter 503 of the Acts of 1983 requires municipalities to keep polling places open from 7 a.m. to 8 p.m. for all state and federal elections, resulting in an additional three hours of polling place operation expenses for each election. Chapter 503 directs DLM to determine the local financial impact of this mandate on each city and town. Communities must document costs specifically

attributable to the three hours and submit them to DLM for audit and certification. The Massachusetts Secretary of State then distributes the certified amounts to each municipality, customarily a short time prior to the September primary.

The DLM-certified Chapter 503 amounts for the fall 2010 state elections range from \$163,129 for the City of Boston to \$66 for the small Town of Ashfield in the western part of the state. Since 1983, DLM has certified approximately \$19.7 million in state funding to assume the cost of this mandate.

Ethics Reform

At the request of the Towns of Ashland, East Longmeadow, Lexington, Needham, Paxton, West Springfield, and Westborough, DLM reviewed Section 84 of Chapter 28 of the Acts of 2009, known as the Ethics Reform Act. Primary among the concerns expressed by the petitioners, the Ethics Reform Act requires that all public employees complete an online training program every two years and file a certificate of completion with their employer. Additionally, public employers must distribute summaries of the Ethics Law annually to all employees and keep on file certain acknowledgments and certifications for a six-year period. Finally, each city and town must appoint a senior level employee to serve as a liaison to the State Ethics Commission. DLM held meetings to hear further facts and viewpoints from representatives of municipalities and from staff of the State Ethics Commission. Applying court precedent to the facts of the case, DLM reached the opinion that the Local Mandate Law does not apply to the Ethics Reform Act for several reasons.

First, relative to the employee training requirement, DLM noted that the Local Mandate Law applies to post 1980 laws that impose cost obligations *upon any cities or towns*. The Ethics Reform Act, however, states that “Every...employee shall...complete the online training program.” This language directly places the training obligation upon the employee; the law requires the employer to do no more than maintain records.

Second, relative to the administrative requirements, DLM noted that the Local Mandate Law does not shield cities and towns from every type of state requirement that may result in additional local spending. Relevant to this matter, the law explicitly provides that the Commonwealth need not assume the cost of “incidental administration expenses.” None of the petitioners raised the necessity of hiring additional personnel to implement the record-keeping, distribution, and liaison requirements of the statute. For the most part, it was expected that these periodic tasks would fit into regular routines of existing staff. Although actual new expenditures were anticipated for administrative supplies and storage equipment, DLM concluded that these were relatively minor cost obligations that did not invoke the Local Mandate Law due to the exception for incidental administration expenses.

Nonetheless, this review did reveal a measure of legitimate confusion and concern with implementation requirements at the local level. The OSA formally contacted the State Ethics Commission to convey these issues and concerns and to request consideration of specific means to ease and thereby enhance municipal compliance.

Office of Campaign and Political Finance: Internet Postings

The Director of the Office of Campaign and Political Finance requested an opinion regarding Section 55 of Chapter 28 of the Acts of 2009. Section 55 requires municipal clerks to post certain campaign finance reports on the city's or town's website, if, in fact, the community has a website. It is expected that this requirement will impose some additional costs upon those communities that need to purchase electronic scanning equipment. However, after conducting an informal survey of the cost of purchasing such equipment, DLM concluded that the Local Mandate Law does not apply to these administrative obligations, because the requirements do not impose significant new costs on cities and towns. Rather, the costs imposed are in the nature of "incidental administration expenses," which are explicitly exempted from the standards of the Local Mandate Law.

Civil Service Procedures

At the request of the towns of Hanover and Holbrook, DLM examined the delegation of responsibility for certain civil service appointment and promotion procedures from the state Human Resources Division (HRD) to cities and towns. During a meeting with town administrators, public safety chiefs, and others, these officials expressed concern that this delegation requires significant new expenditures for postage and for purchasing pre-printed cards and labels, as well as for personnel time for preparation of notices to eligible candidates and handling telephone inquiries. After review, DLM concluded that the Local Mandate Law does not apply to this delegation of duties, primarily because participation in the civil service system is a matter of local option, whereby communities vote to participate and to abide by provisions of civil service law and the rules of the Civil Service Commission administered by HRD.

This conclusion is derived from court precedent, in which the Supreme Judicial Court has ruled that the Local Mandate Law applies only to mandatory obligations on cities and towns. State law does not require communities to participate in the civil service system. Rather, municipalities choose civil service by vote of the local appropriating authority. Additionally, cities and towns are free to rescind acceptance of the Civil Service Law. For these reasons, DLM concluded that costs that may result from the HRD delegation of certain civil service procedures are not imposed upon municipalities within the meaning of the Local Mandate Law. DLM also noted that according to HRD, the extent and thereby cost of the delegation of these duties to cities and towns may not be as great as originally anticipated. DLM conveyed HRD's willingness to provide clarification and guidance to the petitioners.

Extended Unemployment Benefits

The Town of Northbridge requested an opinion relative to Section 45 of Chapter 30 of the Acts of 2009, which extends the time period for unemployment compensation for individuals who were laid off from public and private sector positions. The petitioner noted that the federal government reimburses the Commonwealth for extended benefits paid to persons who lost private sector jobs, but provides no reimbursement for such benefits paid to persons who lost public sector jobs. Accordingly, the state Division of Unemployment Assistance had billed the Town of Northbridge to recoup extended benefits paid to eligible former employees.

DLM concluded that the municipal obligation for extended unemployment compensation benefits is not an unfunded state mandate within the meaning of the Local Mandate Law. The standards of the Mandate Law apply to statutes governing most areas of local government activity, but not to laws that increase the cost of wages and other benefits for local employees. This field of legislative activity is governed by Article 115 of the Amendments to the Massachusetts Constitution, a limited anti-mandate provision, which addresses laws that increase the cost of benefits provided to municipal employees.

Accessible Voting Equipment

At the request of the Massachusetts Town Clerks' Association, DLM reviewed regulations of the Secretary of State requiring the use of accessible voting equipment at all elections. Although the Secretary of State has provided funding for appropriate machinery and programming for state and federal elections, the petitioner questioned whether the Local Mandate Law applies to the aspect of this regulation that remains unfunded. That is, the cost of programming the accessible equipment for local elections in which no candidate for federal or state office appears on the ballot.

DLM consulted the Massachusetts Office on Disability on this matter, in light of its authority as the coordinating agency for the federal Americans with Disabilities Act for the Commonwealth. The Office on Disability explained that Automark voting machines (or similar direct recording voting technology) are required under federal law at all elections, including strictly local elections. As such, it is the Office's judgment that the regulations at issue only specify in state regulation requirements that already exist under federal accessibility standards. The scope of the Local Mandate Law is limited to mandates imposed by state law, rule, or regulation and would not be applied to exempt cities and towns from complying with actions required by federal law. Accordingly, DLM concluded that the Local Mandate Law does not apply in this case.

INITIATIVES

The following is an update of an ongoing initiative in the area of Division of Local Mandates.

Dam Safety in Massachusetts

DLM is nearing completion of a study of dam safety law, which was initiated under its Chapter 11, Section 6B, authority to review any law that has a significant impact on local spending, regardless of whether it meets the more technical standards of the Local Mandate Law. This report focuses on local financial impacts of current dam safety laws, as well as on public safety issues associated with the substantial potential harm that municipal dam failures could cause. It details the percentage of dams and of high hazard dams owned by cities and towns, recurring municipal expenses, and repair costs. In addition to quantifying local compliance costs, the report concludes with recommendations to enhance dam safety and to ease the local financial impact of the dam safety law. When issued, this report will be available online or from DLM at 617-727-0980.

PRIVATE OCCUPATIONAL SCHOOLS

Chapters 75C, 75D, and 93 of the Massachusetts General Laws require the Office of the State Auditor and the Department of Elementary and Secondary Education to respectively evaluate the financial and academic qualifications of all private, post-secondary, non-degree-granting occupational schools licensed or registered to offer career training programs within the Commonwealth. Schools conducted by employers to train their own employees, or schools or colleges chartered or otherwise regulated by the Commonwealth, are exempt from the mandate of these statutes. These consumer protection statutes were enacted to ensure that private occupational schools are both financially and academically qualified to operate in Massachusetts.

Programs of study offered by licensed private occupational schools in Massachusetts include automotive and appliance repair, aviation technology, bartending, broadcasting, car audio/security system installation, computer technology, culinary arts, dental assisting, dog grooming, electrical code and theory, fashion design, floral design, holistic health care, home health care/nurse aide training, HVAC/industrial technology, massage therapy, modeling, phlebotomy, photography, plumbing, and tractor trailer driving.

Prior to licensure by the Department of Elementary and Secondary Education, all such non-degree granting business, trade, and correspondence schools are required to submit financial statements to the OSA. This information is evaluated annually to determine the solvency of each applicant. Those schools determined to be financially qualified for licensure must then secure tuition protection in the amount recommended by the OSA.

The Office of the State Auditor is further required to annually determine each school's appropriate tuition protection level, which may take the form of a surety bond, an irrevocable letter of credit, or a term deposit account payable to the Commonwealth. This requirement was established to address the issue of refunds due to students as a result of fraud, deceptive recruitment practices, or a breach of contract by a licensed private occupational school.

As of June 30, 2010, there were 206 private occupational schools on the OSA Proprietary School Active File, consisting of 143 private business schools, 59 private trade schools, and four private correspondence schools. During the twelve-month period ended June 30, 2010, the OSA processed a total of 200 private career school financial applications, and the licensure/financial certification process was ongoing at either the OSA or the Department for six schools at fiscal year end. The 200 OSA approvals during fiscal year 2010 represented a total of 177 renewal applications and 23 original applications.

Appendix

AUDIT REPORTS ISSUED



EDUCATION AUDITS

	<i>Audit</i>	<i>Audit Number</i>	<i>Issue Date</i>
1.	Berkshire Community College – Student Financial Assistance Programs	2010-0190-16S	5/21/10
2.	Bristol Community College – Student Financial Assistance Programs	2010-0191-7S	5/27/10
3.	Bunker Hill Community College	2009-0192-4T	1/4/10
4.	Department of Elementary and Secondary Education - Fiscal Year 2009 Year End Closing Instructions for Encumbrances and Advance Fund Management	2009-0157-16S	8/20/09
5.	Framingham State College	2009-0179-7T	3/3/10
6.	Holyoke Community College - Fiscal Year 2009 Year End Closing Instructions for Cash and Revenue Management	2009-0195-16S	9/14/09
7.	Massachusetts Bay Community College - Fiscal Year 2009 Year End Closing Instructions for Encumbrances and Advance Fund Management	2009-0196-16S	10/30/09
8.	Massachusetts Bay Community College - Student Financial Assistance Programs	2010-0196-16S	5/27/10
9.	Massachusetts Maritime Academy – Student Financial Assistance Programs	2010-0182-16S	5/13/10
10.	Massasoit Community College – Student Financial Assistance Programs	2010-0197-16S	5/21/10
11.	Mount Wachusett Community College - Fiscal Year 2008 Year End Closing Instructions for Cash and Revenue Management	2008-0200-16S	8/21/09
12.	Mount Wachusett Community College - Fiscal Year 2009 Year End Closing Instructions for Cash and Revenue Management	2009-0200-16S2	10/30/09
13.	Mount Wachusett Community College - Student Financial Assistance Programs	2010-0200-7S	5/27/10
14.	Roxbury Community College - Fiscal Year 2009 Year End Closing Instructions for Encumbrances and Advance Fund Management	2009-0204-16S	1/11/10
15.	The Education Cooperative	2009-4515-3C	4/13/10
16.	University of Massachusetts at Amherst	2010-0213-12S	6/29/10
17.	University of Massachusetts at Lowell	2008-0206-4T	9/22/09
18.	University of Massachusetts at Lowell - Fiscal Year 2008 Year End Closing Instructions for Cash and Revenue Management	2008-0206-16S	10/8/09

EDUCATION AUDITS

	<i>Audit</i>	<i>Audit Number</i>	<i>Issue Date</i>
19.	University of Massachusetts at Lowell - Fiscal Year 2009 Year End Closing Instructions for Cash and Revenue Management	2009-0206-16S1	10/30/09
20.	University of Massachusetts at Lowell - Fiscal Year 2009 Year End Closing Instructions for Encumbrances and Advance Fund Management	2009-0206-16S2	8/20/09
21.	Westfield State College – Federal Stimulus Funds	2010-0185-3R	6/21/10
22.	Westfield State College - Student Financial Assistance Programs	2010-0185-7S	5/24/10

HEALTH AND HUMAN SERVICES AUDITS

<i>Audit</i>	<i>Audit Number</i>	<i>Issue Date</i>
1. Atlantic Home Medical Supply, Inc.	2010-4527-16C	10/30/09
2. Chelsea Soldiers' Home - Business Continuity Planning	2010-0065-4T	10/30/09
3. Department of Children and Families – Single Audit of the Commonwealth	2010-1058-16S	5/27/10
4. Department of Developmental Services - Fiscal Year 2009 Year End Closing Instructions for Encumbrances and Advance Fund Management	2009-0234-16S	8/20/09
5. Department of Developmental Services - Southeast Region	2010-1405-7T	3/11/10
6. Department of Early Education and Care - Fiscal Year 2009 Year End Closing Instructions for Encumbrances and Advance Fund Management	2009-0837-16S2	10/22/09
7. Department of Early Education and Care - Single Audit of the Commonwealth	2010-0837-16S	5/27/10
8. Department of Mental Health - Oversight of Client Funds	2009-0236-3S	1/12/10
9. Department of Public Health - Registry of Vital Records and Statistics	2009-0290-7T	2/3/10
10. Dr. John C. Corrigan Mental Health Center	2009-0251-7T	11/17/09
11. Erich Lindemann Mental Health Center	2008-0253-4T	7/28/09
12. GROW Associates, Inc.	2009-4478-3C	4/26/10
13. Holyoke Soldier's Home	2010-0064-4T	2/22/10
14. Irving Glavin Center	2009-0863-4T	2/22/10
15. Massachusetts Rehabilitation Commission – Single Audit of the Commonwealth	2010-0054-16S	6/10/10
16. Office of Medicaid (MassHealth) - Personal Care Services	2008-1374-3S2a	10/14/09
17. Taunton State Hospital	2009-0266-7T	7/10/09
18. Templeton Developmental Center	2009-1454-3O	9/28/09
19. Wrentham Developmental Center	2010-0270-7T	4/14/10

HOUSING AUTHORITY AUDITS

<i>Audit</i>	<i>Audit Number</i>	<i>Issue Date</i>
1. Abington Housing Authority	2010-0591-3A	6/14/10
2. Acushnet Housing Authority	2009-0592-3A	8/20/09
3. Ashland Housing Authority	2010-0601-3A	1/28/10
4. Bedford Housing Authority	2010-0608-3A	2/22/10
5. Bellingham Housing Authority	2009-0610-3A	2/22/10
6. Belmont Housing Authority	2010-0611-3A	1/28/10
7. Blackstone Housing Authority	2009-0615-3A	12/8/09
8. Cambridge Housing Authority	2009-0626-3A	10/22/09
9. Canton Housing Authority	2009-0628-3A	9/9/09
10. Department of Housing Authority & Community Development - Single Audit of the Commonwealth	2010-0001-16S	6/28/10
11. Dracut Housing Authority	2009-0843-3A	6/21/10
12. Everett Housing Authority	2009-0650-3A	7/9/09
13. Fall River Housing Authority	2009-0652-3A	3/29/10
14. Fitchburg Housing Authority	2008-0655-3A	9/28/09
15. Franklin Housing Authority	2009-0660-3A	10/8/09
16. Georgetown Housing Authority	2010-0664-3A	11/17/09
17. Halifax Housing Authority	2010-1287-3A	11/17/09
18. Haverhill Housing Authority	2009-0673-3A	8/31/09
19. Holbrook Housing Authority	2010-0675-3A	6/21/10
20. Holden Housing Authority	2010-0676-3A	3/29/10
21. Holliston Housing Authority	2009-0677-3A	7/23/09
22. Hopkinton Housing Authority	2010-0618-3A	3/2/10
23. Lancaster Housing Authority	2009-0687-3A	7/23/09
24. Lawrence Housing Authority	2010-0688-3A	1/28/10
25. Leominster Housing Authority	2010-0693-3A	3/29/10
26. Lenox Housing Authority	2009-0692-3A	2/5/10
27. Lowell Housing Authority	2009-0696-3A	7/23/09
28. Ludlow Housing Authority	2008-0697-3A	7/23/09
29. Lunenburg Housing Authority	2010-0698-3A	1/13/10
30. Lynnfield Housing Authority	2010-0860-3A	11/17/09
31. Malden Housing Authority	2010-0701-3A	3/29/10
32. Manchester Housing Authority	2009-0703-3A	9/23/09

HOUSING AUTHORITY AUDITS

<i>Audit</i>	<i>Audit Number</i>	<i>Issue Date</i>
33. Mansfield Housing Authority	2010-0704-3A	3/29/10
34. Marblehead Housing Authority	2010-0705-3A	12/7/09
35. Medfield Housing Authority	2010-0711-3A	1/13/10
36. Methuen Housing Authority	2009-0718-3A	9/28/09
37. Milton Housing Authority	2010-1044-3A	4/9/10
38. Monson Housing Authority	2009-0726-3A	1/14/10
39. Montague Housing Authority	2009-0727-3A	8/21/09
40. Nahant Housing Authority	2010-0728-3A	6/14/10
41. Natick Housing Authority	2010-0729-3A	3/2/10
42. Needham Housing Authority	2010-0731-3A	1/28/10
43. Northbridge Housing Authority	2009-0745-3A	8/20/09
44. North Attleborough Housing Authority	2009-0743-3A	8/20/09
45. North Reading Housing Authority	2010-0746-3A	4/9/10
46. Norwell Housing Authority	2010-0854-3A	11/24/09
47. Pembroke Housing Authority	2010-0756-3A	1/13/10
48. Plainville Housing Authority	2010-0759-3A	4/7/10
49. Plymouth Housing Authority – Federal Stimulus Funds	2010-0760-3R	5/27/10
50. Provincetown Housing Authority	2010-1049-3A	3/29/10
51. Raynham Housing Authority	2010-0903-3A	6/28/10
52. Reading Housing Authority	2010-0746-3A	5/13/10
53. Rockland Housing Authority	2009-0766-3A	9/9/09
54. Rockport Housing Authority	2010-0767-3A	5/13/10
55. Scituate Housing Authority	2010-0773-3A	4/9/10
56. Somerville Housing Authority	2010-0778-3A	12/21/09
57. Southborough Housing Authority	2009-0875-3A	9/23/09
58. South Hadley Housing Authority	2010-0782-3A	3/15/10
59. Statewide Review of the Condition of Public Housing Units for Special Needs Individuals (Chapter 689 Program)	2008-5133-3A	2/23/10
60. Sterling Housing Authority	2010-0787-3A	1/13/10
61. Tewksbury Housing Authority	2010-0796-3A	5/13/10
62. Tyngsboro Housing Authority	2010-1072-3A	3/29/10
63. Uxbridge Housing Authority	2010-0798-3A	3/29/10

HOUSING AUTHORITY AUDITS

	<i>Audit</i>	<i>Audit Number</i>	<i>Issue Date</i>
64.	Walpole Housing Authority	2010-0800-3A	1/28/10
65.	Waltham Housing Authority	2010-0801-3A	3/2/10
66.	Watertown Housing Authority	2009-0804-3A	12/16/09
67.	Weymouth Housing Authority	2009-0815-3A	12/22/09
68.	Whitman Housing Authority	2010-0817-3A	11/24/09
69.	Winchester Housing Authority	2010-0821-3A	5/13/10
70.	Winthrop Housing Authority	2010-0822-3A	10/8/09
71.	Wrentham Housing Authority	2010-0827-3A	5/27/10

INDEPENDENT AUTHORITY AUDITS

	<i>Audit</i>	<i>Audit Number</i>	<i>Issue Date</i>
1.	Cape Cod Regional Transit Authority	2010-1008-3A	6/21/10
2.	Fall River Line Pier, Inc.	2009-0504-3A	7/9/09
3.	Massachusetts Bay Transportation Authority - The RIDE Program	2006-0583-3A1	12/3/09
4.	Massachusetts Educational Financing Authority	2009-1301-3A	8/21/09
5.	Massachusetts Legal Assistance Corporation	2010-1300-3A	3/29/10
6.	Massachusetts Turnpike Authority - Fast Lane Program	2009-0509-3A4	8/5/09
7.	Massachusetts Water Resource Authority - North Dorchester CSO Project	2009-1323-3C	2/4/10
8.	MetroWest Regional Transit Authority	2010-1269-3A	6/28/10

JUDICIARY/LAW ENFORCEMENT AUDITS

<i>Audit</i>	<i>Audit Number</i>	<i>Issue Date</i>
1. Appeals Court	2009-1101-3O	4/7/10
2. Ayer District Court	2009-1149-3O	2/5/10
3. Barnstable County Probate & Family Court	2009-1230-3O	12/17/09
4. Barnstable Law Library	2008-1125-3O1	11/30/09
5. Barnstable Sheriff's Office	2010-1443-3S	4/30/10
6. Berkshire County Probate and Family Court - Fiscal Year 2009 Year End Closing Instructions for Cash and Revenue Management	2009-1227-16S	9/28/09
7. Berkshire Law Library	2008-1125-3O2	11/30/09
8. Berkshire Sheriff's Department - Fiscal Year 2009 Year End Closing Instructions for Encumbrances and Advance Fund Management	2009-1437-16S	10/19/09
9. Board of Bar Examiners	2010-1103-7T	5/10/10
10. Bristol County District Attorney's Office - Fiscal Year 2009 Year End Closing Instructions for Encumbrances and Advance Fund Management	2009-1264-16S	8/20/09
11. Bristol Law Library	2008-1125-3O5	11/30/09
12. Bristol Probate and Family Court	2010-1231-4T	6/14/10
13. Bristol Sheriff's Office	2010-1471-3S	4/30/10
14. Brockton District Court - Fiscal Year 2009 Year End Closing Instructions for Cash and Revenue Management	2009-1198-16S	8/28/09
15. Brookline District Court - Fiscal Year 2009 Year End Closing Instructions for Cash and Revenue Management	2009-1164-16S	8/28/09
16. Brockton Law Library	2008-1125-3O15	11/30/09
17. Clinton District Court	2009-1185-3O	3/2/10
18. Concord District Court	2009-1150-3O	3/2/10
19. Criminal History System Board - Fiscal Year 2009 Year End Closing Instructions for Encumbrances and Advance Fund Management	2009-0857-16S	8/20/09
20. Department of Correction	2010-0145-3S	4/14/10
21. Department of State Police - Fiscal Year 2009 Year End Closing Instructions for Encumbrances and Advance Fund Management	2009-1338-16S	8/20/09
22. Division of Administrative Law Appeals	2009-0345-3O	2/4/10
23. Dorchester Municipal Court	2008-1134-3O	8/6/09
24. Dorchester Municipal Court - Fiscal Year 2009 Year End Closing Instructions for Cash and Revenue Management	2009-1134-16S	8/28/09

JUDICIARY/LAW ENFORCEMENT AUDITS

<i>Audit</i>	<i>Audit Number</i>	<i>Issue Date</i>
25. Dudley District Court	2009-1186-3O	3/2/10
26. Dukes Sheriff's Office	2010-1438-3S	4/30/10
27. Eastern District Attorney's Office	2009-1257-4T	12/28/09
28. East Brookfield District Court	2009-1188-3O	3/2/10
29. Essex Law Library	2008-1125-3O7	11/30/09
30. Essex Sheriff's Department	2010-1433-4T	5/12/10
31. Fall River Law Library	2008-1125-3O3	11/30/09
32. Fitchburg District Court	2009-1179-3O	2/3/10
33. Fitchburg Law Library	2008-1125-3O16	11/30/09
34. Framingham District Court	2009-1140-3O	3/2/10
35. Franklin Law Library	2008-1125-3O8	11/30/09
36. Gardner District Court	2009-1183-3O	3/2/10
37. Gloucester District Court - Fiscal Year 2009 Year End Closing Instructions for Cash and Revenue Management	2009-1155-16S	8/28/09
38. Hampden County District Attorney's Office	2009-1259-3S	8/7/09
39. Hampden Law Library	2008-1125-3O9	11/30/09
40. Hampshire Law Library	2008-1125-3O10	11/30/09
41. Hampshire County Sheriff's Office	2009-1436-3S	3/11/10
42. Land Court Department	2009-1124-7T	12/21/09
43. Lawrence Law Library	2008-1125-3O6	11/30/09
44. Leominster District Court	2009-1181-3O	3/2/10
45. Lowell Law Library	2008-1125-3O11	11/30/09
46. Marlborough District Court	2009-1144-3O	5/21/10
47. Middlesex District Attorney's Office	2009-1256-3S	9/28/09
48. Middlesex Law Library	2008-1125-3O12	11/30/09
49. Middlesex Sheriff's Department - Fiscal Year 2009 Year End Closing Instructions for Cash and Revenue Management	2009-1431-16S	8/21/09
50. Milford District Court	2009-1180-3O	6/14/10
51. Military Division (Massachusetts National Guard)	2009-0057-3O	10/22/09
52. Nantucket County Sheriff's Office	2010-1445-3S	4/30/10
53. New Bedford Law Library	2008-1125-3O4	11/30/09
54. Norfolk Law Library	2008-1125-3O13	11/30/09
55. Norfolk Sheriff's Office	2010-1440-3S	4/30/10

JUDICIARY/LAW ENFORCEMENT AUDITS

<i>Audit</i>	<i>Audit Number</i>	<i>Issue Date</i>
56. Office of the Chief Administrative Justice - Fiscal Year 2009 Year End Closing Instructions for Encumbrances and Advance Fund Management	2009-1106-16S	8/28/09
57. Palmer District Court	2009-1169-3O	4/7/10
58. Plymouth County District Attorney's Office	2009-1265-3S	7/9/09
59. Plymouth County Sheriff's Office	2010-1448-3S	4/30/10
60. Plymouth Law Library	2008-1125-3O14	11/30/09
61. Plymouth Superior Court	2009-1122-7T	4/9/10
62. Somerville District Court	2009-1142-3O	11/24/09
63. Stoughton District Court	2009-1163-3O	4/7/10
64. Suffolk County Probate and Family Court - Fiscal Year 2009 Year End Closing Instructions for Cash and Revenue Management	2009-1221-16S	8/28/09
65. Suffolk Sheriff's Office	2010-1449-3S	4/30/10
66. Technical Assistance to the Worcester County District Attorney's Office - Town of Hubbardston	2009-6041-9O	12/21/09
67. Transfer of County Sheriff's Offices to the Commonwealth in Accordance with Chapter 61 of the Acts of 2009	2010-8024-14S	4/30/10
68. Trial Court Law Library System	2008-1125-3O	11/30/09
69. Uxbridge District Court	2009-1187-3O	5/10/10
70. Westborough District Court	2009-1184-3O	5/4/10
71. Winchendon District Court	2010-1182-3O	3/2/10
72. Worcester District Court	2009-1178-3O	4/26/10
73. Worcester Law Library	2008-1125-3O17	11/30/09
74. Worcester Sheriff's Department	2009-1432-3S	3/2/10
75. Wrentham District Court	2010-1162-3O	4/7/10

OTHER AUDITS

<i>Audit</i>	<i>Audit Number</i>	<i>Issue Date</i>
1. Appellate Tax Board	2010-0143-4T	3/10/10
2. Bureau of State Office Buildings	2008-0026-4T	6/30/10
3. Bureau of State Office Buildings	2008-0026-4T1	6/30/10
4. Central Artery/Tunnel Project Repair and Maintenance Trust Fund	2009-0509-3A1	12/9/09
5. Chapter 555 - Review of Tax Revenues	2010-5555-16S	9/15/09
6. Department of Conservation & Recreation - Trust Fund Review	2008-0276-3S	3/15/10
7. Department of Environmental Protection - Fiscal Year 2009 Year End Closing Instructions for Cash and Revenue Management	2009-0456-16S	9/16/09
8. Department of Fish and Game	2009-0432-7T	12/18/09
9. Department of Fish and Game - Fiscal Year 2009 Year End Closing Instructions for Encumbrances and Advance Fund Management	2009-0432-16S	8/28/09
10. Department of Public Safety	2009-0306-3S	5/13/10
11. Department of Revenue - Fiscal Year 2009 Year End Closing Instructions for Cash and Revenue Management	2009-0142-16S	8/28/09
12. Division of Capital Asset Management and Maintenance's Relocation of Certain State Agencies from South Station	2009-5136-17O	7/15/09
13. Division of Fisheries and Wildlife	2009-0279-1F	12/7/09
14. Division of Marine Fisheries – Massachusetts Groundfish Relief Grant	2010-0282-17F	6/30/10
15. Division of Occupational Safety	2006-0218-7S	7/28/09
16. Division of Unemployment Assistance	2007-0221-3S	5/11/10
17. Executive Office of Labor and Workforce Development (Brockton Area Workforce Investment Board) - Federal Stimulus Funds Used for Youth Summer Job Creation	2010-0003-3R3	6/16/10
18. Executive Office of Labor and Workforce Development (Career Center of Lowell) – Federal Stimulus Funds Used for Youth Summer Job Creation	2010-0003-3R1	6/16/10
19. Executive Office of Labor and Workforce Development (South Coastal Career Center) – Federal Stimulus Funds Used for Youth Summer Job Creation	2010-0003-3R2	6/16/10
20. Hurricane Katrina Reserve Account	2006-5121-3S	7/29/09
21. Massachusetts Commission Against Discrimination	2010-0045-7T	6/30/10
22. Massachusetts Office for Victim Assistance	2009-0074-4T	1/4/10

OTHER AUDITS

	<i>Audit</i>	<i>Audit Number</i>	<i>Issue Date</i>
23.	Massachusetts State Lottery Commission - Fiscal Year 2009 Year End Closing Instructions for Encumbrances and Advance Fund Management	2009-0089-16S	8/20/09
24.	Office of Consumer Affairs and Business Regulation	2009-0002-3S	8/10/09
25.	Registry of Motor Vehicles - Fiscal Year 2009 Year End Closing Instructions for Cash and Revenue Management	2009-0511-16S1	8/28/09
26.	Registry of Motor Vehicles - Fiscal Year 2009 Year End Closing Instructions for Encumbrances and Advance Fund Management	2009-0511-16S2	8/20/09
27.	Secretary of the Commonwealth - Fiscal Year 2009 Year End Closing Instructions for Encumbrances and Advance Fund Management	2009-0076-16S	8/20/09
28.	State Ethics Commission	2008-1053-3S	10/30/09
29.	State Reclamation Board and Mosquito Control Board	2009-0099-4T	4/14/10
30.	Statewide Review on the Use of Contract Employees by State Agencies	2008-5134-3C	2/12/10