



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

Making government work better

Issued September 24, 2012

Results of Audit Recommendations Post-Audit Review Surveys

FY 2012 Third Quarter Report
January 1, 2012 – March 31, 2012



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INTRODUCTION

This is the second report to detail auditees' implementation of audit recommendations through the use of post-audit review surveys. To ensure that audit reports help effect positive change and make government work better, State Auditor Suzanne Bump launched an initiative in October 2011 to follow up with audited agencies on their actions regarding audit recommendations and the resulting outcome.

From the initiative's launch through the close of the third quarter on March 31, 2012, a 100% response rate has been achieved with all 50 post-audit reviews having been completed and returned. Auditor Bump extends her appreciation and commends these agencies for their cooperation, their professionalism, and their commitment to making government work better.

Ninety percent of the 193 recommendations in the associated audits have been acted on, auditees reported; just under half have been fully implemented. With several cost recovery actions still ongoing, the fiscal benefit of these audit recommendations could be up to \$50.2 million.

Post-audit review surveys are issued six months after the release of an audit with findings. These surveys initiate a new level of contact between the Auditor and the auditee. This new interim communication lets auditees know that an audit will not be allowed to just sit on a shelf until the next engagement, but that there is a public interest in utilizing audit recommendations to strengthen government operations through better efficiency, effectiveness, accountability, and transparency.

Post-audit reviews also allow auditees the opportunity to communicate operational issues or difficulties in implementing recommendations. This may lead to collaboration between the Auditor and auditee to make legislative, regulatory, or other changes. Through this process, the Office of the State Auditor (OSA) serves as both a partner and a resource for making government work better.

By the numbers

Aggregate totals from Oct. 2011-March 2012

- 50** Number of post-audit reviews conducted
- 100** Percentage of post-audit reviews completed and returned by auditees since the program's launch in October, 2011
- 193** Number of audit recommendations followed up on
- 90** Percentage of recommendations on which auditees reported taking action
- 50.2** The potential fiscal benefit of these recommendations in millions of dollars

This new initiative also helps to improve the work of the OSA in a number of ways. Post-audit reviews maximize the resources and staff hours invested in an audit by adding value and increasing the return on investment by quantifying outcomes. Audit planning also will benefit, as the urgency for a full follow-up audit may increase or decrease based on a post-audit review response. In addition, the audit team will have auditee-supplied information to use at the commencement of the eventual next audit of the agency, which will save time and assist in the development of the audit program.

HIGHLIGHTS OF AGENCIES' POST-AUDIT ACTIONS

In the third quarter of fiscal year 2012, the OSA conducted post-audit reviews of 18 audits out of a total of 33 issued from June 1, 2011 to September 30, 2011. Six audits had recommendations directed toward additional agencies beside the auditee. Accordingly, post-audit reviews were sent to those agencies, resulting in a total of 29 from the 18 audits.

It is important to note that responses to post-audit reviews are self-reported information that is unaudited. The OSA makes no claims as to the accuracy of the information. Being subject to future audits and public disclosure, it is in an auditee's best interest to provide the OSA with forthright responses.

All 29 post-audit reviews issued during the time period have been received and, according to the responses, revealed that OSA audit work and recommendations produced the following actions and results for the third quarter.

RESULTS OF POST-AUDIT REVIEWS JANUARY - MARCH 2012							
Number of Completed Reviews	Number of Recommendations	Fully Implemented	Percentage Fully Implemented	In Progress	Percentage of Recommendations Acted on	Planned Action	Fiscal Benefit
29	97	31	32%	52	86%	8	Up to \$37.4 million

Agencies disputed three findings; three recommendations had no action.

- Up to \$37.4 million in fiscal benefits, largely from the ongoing pursuit of cost recoveries and from one-time recoupments already secured. Other potential cost savings could not be quantified at this time, such as savings from proper pension classification or years of service, better monitoring of procurement practices, increased internal oversight, or improved investment operations.
- Year-over-year savings totaling more than \$2.7 million through June 2013.
- Eighty-six percent of OSA recommendations were acted on. Of the 14 recommendations not acted on, eight were planned, three were disputed, and three others were classified as no action in deference to federal and state prosecutors' activities.
- A number of agencies, led by the U.S. Attorney and the Massachusetts Attorney General, with cooperation from the Department of Elementary and Secondary Education and the Operational

Services Division, are pursuing up to \$31.1 million in recommended recoveries from the Merrimack Special Education Collaborative resulting from \$21.2 million in improper related-party transactions, a questionable \$5.5 million settlement agreement with its related non-profit, and \$4.3 million from questionable program and credit card expenses and improper fiscal conduit payments.

- The Merrimack Special Education Collaborative separated itself from its related-party non-profit by ceasing payments on two agreements, disclosing related-party transactions, and transferring over administrative services. This process led to renegotiation of facility leases and maintenance, saving over \$1.3 million.
- The State Retirement Board (SRB) suspended a retiree's benefits, and several others were under review or flagged for any future actions by SRB or the Teachers' Retirement System as a result of questionable membership in, and contributions to, the pension system.
- READS Collaborative reduced its \$3.4 million surplus and dissolved its related non-profit. The Teachers' Retirement System is pursuing recovery of up to \$97,000 in excessive pension payments from the Executive Director.
- Southeastern Massachusetts Educational Collaborative reached an agreement with the Department of Developmental Disabilities to provide over \$50,000 in free services to needy clients as restitution for improper contract billing.
- The Department of Children and Families and the Operational Services Division may pursue up to \$2.1 million from the Northeast Center for Youth and Families stemming from unallowable bonus and severance payments, and charges made to state contracts for out-of-state programs.
- The North Shore Community Action Programs, Inc., transferred the operation of a shelter to another provider and could realize up to \$66,000 in accounts receivable as a condition of the transfer.
- Audit work that uncovered duplicate billings at Community Counseling of Bristol County, Inc. led to a MassHealth investigation of the same problem for prior years that uncovered more duplicates.
- The Massachusetts Clean Energy Center has taken steps to come into compliance with its reporting requirements, strengthened its monitoring of investments, and developed more reliable job creation numbers.

- The Treasurer’s Office now ensures that payments from the Unpaid Check Fund occur only after the associated funds have been transferred from the originating agency.

In addition, a response from the Chelmsford Housing Authority highlighted a systemic problem. The Authority stated that it has \$5 million in deferred maintenance and only an expected \$500,000 available over the next three years for capital projects.

POST-AUDIT REVIEWS							
TWO QUARTER TOTALS							
Number of Completed Reviews	Number of Recommendations	Fully Implemented	Percentage Fully Implemented	In Progress	Percentage of Recommendations Acted on	Planned Action	Fiscal Benefit
50	193	92	48%	82	90%	8	Up to \$50.2 million

Three disputed findings; eight recommendations had no action.

Over the two quarters of following up on audit recommendations, 90% of audit recommendations have been reported to be acted on with a collective fiscal benefit of up to \$50.2 million.

In this quarter, fewer recommendations were reported to be fully implemented. One reason for that is that some of the reports followed up on in the initial quarterly report were a year to several years old, so agencies had more time to act. Also, many of the recoveries are ongoing and involve multiple agencies which increased the number of reports of “in progress” or “planned.”

POST-AUDIT REVIEW RESULTS

Merrimack Special Education Collaborative				
Audit No. 2010-4539-3C			Issued August 31, 2011	
Number of Recommendations	Fully Implemented	In Progress	Fiscal Benefit	Selected Actions and Results
7	2	4	\$1,624,758	<ul style="list-style-type: none"> • Renegotiated leases to save over \$1.3 million. • Ceased payments to related-party non-profit under a 2009 administrative services agreement. • Created internal oversight position. • Revised purchasing policies to be compliant with law. • Improved reporting of related-party transactions. • Eliminated credit card use. • Increased accounts payable oversight. • Terminated fiscal conduit expenditures for member school districts. • Ensured staffing and service levels are in line with contract requirements and that service time is properly allocated. • Reviewed staff licensing and bolstered educator mentoring and professional development to be DESE compliant. • One finding is in dispute.
	In Dispute			
	1			
Merrimack Collaborative – Department of Elementary and Secondary Education Inquiry				
5	0	5	Up to \$31,113,265	<ul style="list-style-type: none"> • DESE is in the process of working with the collaborative, the Attorney General, and other entities in recovering \$26.7 million in questionable settlement agreement and administrative service agreement payments to the related party. • DESE and the Merrimack board entered into a Memorandum Of Understanding in August 2011, which called for the appointment of new leadership and the disengagement of the financial and business functions of the collaborative from the MEC corporate structure.

Merrimack Collaborative – Public Employee Retirement Administration Commission					
1	0	1	Unknown at this time	<ul style="list-style-type: none"> • PERAC responded that the State Retirement Board suspended the benefits of one individual and that other suspensions were under consideration. • No withdrawals or retirement benefits will be issued to identified individuals without a full review. 	
Merrimack Collaborative – Massachusetts Teachers' Retirement System Inquiry					
1	0	1	Unknown at this time	<ul style="list-style-type: none"> • MTRS identified three individuals with questionable credited public service time and has flagged the accounts in its member system. 	
Merrimack Collaborative – Operational Services Division Inquiry					
3	0	0	Up to \$31,113,265	<ul style="list-style-type: none"> • OSD reported “no action” as it has deferred to state and federal prosecutors. 	
Merrimack Special Education Collaborative Totals					
Number of Recommendations	Fully Implemented	In Progress	Fiscal Benefit	No Action	Findings in Dispute
17	2	11	Up to \$32,738,023	3	1

Findings from the audit of the Merrimack Special Education Collaborative (MSEC), a provider of educational and special educational services located in Chelmsford, revealed several serious deficiencies. Auditors discovered that during fiscal years 2008 through 2010, MSEC had made \$21,293,083 in inadequately documented, questionable, and potentially legally invalid transactions with its related-party non-profit organization, Merrimack Education Center (MEC). The related-party MEC had provided various administrative services, facilities, and maintenance services to MSEC. The collaborative lacked evidence that these services were competitively bid or that the expenses were reasonable. Also, these transactions were not properly disclosed in MSEC’s financial statements.

The audit also found that MSEC could not provide documentation to substantiate the reasonableness of \$5.5 million paid to MEC under a Settlement Agreement for various services and the use of facilities provided by MEC during fiscal years 2001 through 2006.

Auditors also identified that MSEC incurred \$3,028,002 in undocumented and questionable administrative, program, and credit card expenses. Contrary to state finance law, the collaborative had acted

as a fiscal conduit for three member school districts, processing and paying \$1,292,180 in bills on the districts' behalf, contrary to state finance law. The audit also determined that MSEC did not maintain records on salary expenses for certain employees, who were paid a total of \$6,055,816, resulting in the crediting of questionable public service time for pension purposes to some collaborative administrators.

Other issues included: educator licensing, procurement practices, contract administration, governance, and financial reporting.

MSEC and DESE reported that the two agencies entered into a Memorandum of Understanding that, among other things, put new leadership in place at MSEC, began the full separation of MSEC from the related-party non-profit, and committed MSEC to stronger oversight practices and to pursuing recoveries.

As part of the separation, the collaborative ceased payments to the related party under both a 2006 Settlement Agreement (saving \$250,000) and also a 2009 Administrative Services Agreement. The collaborative was actively transferring over from the related party all administrative, payroll, financial, accounting, and human resource services. The collaborative board, the interim advisory team and the DESE oversight team worked to renegotiate leases from the related party for facility space and maintenance, saving \$1,374,758 annually and over \$2.7 million through lease end in 2013.

The collaborative reported hiring a new Executive Director, director of finance and operations, payroll clerk, and bookkeeper. The board also authorized the creation of a systems director to oversee internal administrative reporting responsibilities and systems. MSEC reviewed and revised its purchasing policies in compliance with Chapter 30B of the Massachusetts General Laws. The director of finance and operations undertook Inspector General training in that area.

The collaborative included all material related-party transactions in its financial statements. It has taken steps to improve its record management to comply with public records laws and to substantiate the reasonableness of its expenses. It moved to eliminate credit card use and switched to a written purchase order system with staff review of expenses before payment.

What are education collaboratives?

Authorized by M.G.L. Chapter 40, Section 4E, education collaboratives are groups of two or more school districts sanctioned by the Department of Elementary and Secondary Education with the objective of providing cost-effective education services. The state's 30 collaboratives consist of 331 school districts, according to the Massachusetts Organization of Educational Collaboratives.

MSEC terminated fiscal conduit payments and closed three school district accounts – one of which was cited in the audit – that did not flow through town treasuries as required by law.

It also reviewed existing state contracts to determine that its staff is providing the necessary and appropriate level of services as required. Related to this, the collaborative reviewed and confirmed that the proper percentage of employee service time is allocated to the appropriate program budget.

The collaborative has appointed a program manager to lead its efforts in required educator mentoring and has instituted a professional development plan for all professional staff. However, MSEC considers the full finding regarding educator licensing to be “in dispute.” MSEC, referring to its original response in the audit report, stated that due to a 1985 language change in the statute governing collaboratives, it had not been clear whether collaboratives were subject to various state education laws and regulations governing school districts and committees. Reform legislation, Chapter 43 of the Acts of 2012, spearheaded by Auditor Bump in conjunction with DESE, the Legislature, and stakeholders, removed this ambiguity. The law now states that all collaborative educators are bound to the same licensing requirements as other public school teachers. A review conducted by the interim Executive Director found only three staff members were in need of a waiver, whereas the remainder were either licensed or had received a waiver.

In addition to the inquiry made to MSEC, post-audit reviews were issued to involved oversight agencies: DESE, the Massachusetts Teachers’ Retirement System (MTRS), OSD, and the Public Employee Retirement Administration Commission (PERAC).

DESE reported that all recommendations that it was involved with are “in process.” In regard to three recovery actions – \$21.2 million in related-party transactions, \$5.5 million from the settlement agreement, and \$4.3 million in credit card and administrative expenses – DESE stated it is working with the Attorney General, OSD, and the collaborative. On those three recovery actions, OSD stated no action had been taken as the matters had been referred to federal and state prosecutors.

DESE also said that it will follow up with MSEC (and all collaboratives statewide) to ensure compliance regarding educator licensure and regulatory guidance passed as part of the reform legislation.

PERAC stated in its response that it has communicated with both the MTRS and the State Retirement Board (SRB) concerning the creditable service given to the 10 members cited in the audit. Upon meeting with both boards, it was agreed that that each board would make a determination to address any

improper retirement benefits. PERAC communicated jointly with SRB that one individual's benefits were suspended and that others were under review. SRB stated that no retirement benefits or withdrawals of accumulated deductions of the active or inactive employees cited will take place until its reviews are completed.

MTRS responded that one person had withdrawn her contributions, whereas two others are inactive members of the system. MTRS has flagged these accounts. Should the inactive members attempt to purchase benefits or use their employment at the collaborative to qualify for a retirement benefit, MTRS stated that the action will be noted in their member record.

Areas to monitor: Pursuit of cost recovery, MSEC implementation of administrative services previously provided by related party, accounts payable, procurement, internal oversight, educator professional development and licensing, fulfillment of contract-required levels of staffing and service, future cost allocation, and future pension-related creditable service time.

READS Collaborative				
Audit No. 2010-4543-3C			Issued August 31, 2011	
Number of Recommendations	Fully Implemented	In Progress	Fiscal Benefit	Selected Actions and Results
3	3	0	\$2,275,000	<ul style="list-style-type: none"> • Dissolved the READS Corporation, which the collaborative believes should preclude the sharing of expenses and resolve the questions of pension contributions between the corporation and the collaborative. • Transferred assets of two buildings formerly belonging to the READS Corporation back to the collaborative. • Drafted an interim revenue retention policy.
READS Collaborative – Massachusetts Teachers' Retirement System Inquiry				
1	0	1	Up to \$97,284.94	<ul style="list-style-type: none"> • MTRS reported that it is in the process of recovering the excess pension benefits paid to the collaborative's Executive Director.

Audit findings of Middleboro-based READS Collaborative included an improper loan of \$944,000 to its related-party non-profit corporation READS, Inc., for the purchase of an academic building. The collaborative assessed non-member service-receiving districts \$488,400 in unnecessary

fees to aid in paying down the loan. The audit found that the collaborative used an unacceptable methodology to allocate over \$1.2 million in administrative costs between itself and READS, Inc., leading to inaccurate financial reporting and questionable pension contributions. The collaborative paid its Executive Director \$118,072 in excess compensation in violation of pension laws. The audit also reported that the collaborative had accrued a \$3.4 million surplus, contrary to guidance issued by the Department of Revenue's Division of Local Services and the Office of the Attorney General, which states that fees charged should be sufficient to cover the cost of services provided.

These audit findings had a variety of causes including: a lack of oversight by the Department of Elementary and Secondary Education, the READS collaborative board, and local government as well as ambiguities or lack of clarity in laws and regulations. The reform legislation addressed these issues by strengthening board composition, training, and governance; improving financial reporting; and mandating requirements in the agreement between collaboratives and member districts.

The collaborative responded that the related-party non-profit was dissolved, streamlining administrative operations, and that the ownership of two academic buildings was transferred back to the member districts of the collaborative, as recommended.

The collaborative reported that it has adjusted the policy on the assessment of its fees to be consistent with the collaborative agreement.

READS Collaborative stated that to address the \$3.4 million in excessive surpluses, it has developed an interim revenue retention policy in which it will retain only 120 days' worth of operating expenses. The collaborative added that it consulted with DESE and the Massachusetts Organization of Educational Collaboratives for guidance on policy development.

In addition to the inquiry made to the collaborative, a post-audit review was issued to the Massachusetts Teachers' Retirement System (MTRS) regarding excess compensation provided to the collaborative's Executive Director. MTRS responded that it has reviewed the compensation provided and determined that excess earnings in the amount of \$125,855.79 was received, of which \$97,284.94 is currently being sought for repayment.

Areas to monitor: Progress of repayment of excessive earnings, reporting of expenses and pension contributions, and implementation of surplus revenue policy.

Southeastern Massachusetts Educational Collaborative				
Audit No. 2011-4550-3C			Issued August 31, 2011	
Number of Recommendations	Fully Implemented	In Progress	Fiscal Benefit	Selected Actions and Results
2	1	1	N/A	<ul style="list-style-type: none"> • SMEC reported that it is using Generally Accepted Accounting Principles in the establishment of its fiscal year 2013 budget and tuition-setting process. • Filed UFRs for fiscal years 2010 and 2011.
SMEC – Department of Developmental Services Inquiry				
1	0	1	\$53,063	<ul style="list-style-type: none"> • DDS reported that it has negotiated an agreement with the collaborative to recover the \$53,063 in unnecessary and inappropriate contract billings via the delivery of free services to DDS individuals in need, which will be documented accordingly.

More than 50 percent of the revenue at Southeastern Massachusetts Educational Collaborative (SMEC), located in New Bedford, was derived from providing services to individuals over the age of 21, the audit stated, which was in conflict with education laws and regulations. Human and educational services for adults fall under the auspices of the Department of Developmental Disabilities.

Auditor Bump said at the time of the audit’s release, in testimony before the Legislature’s Joint Committee on Education and in numerous other arenas that she did not disagree with the reasoning that collaboratives are a proper, and sometimes preferred, method to deliver adult services. However, laws and regulations as constituted needed to be addressed; this recommendation became part of the reform legislation with the establishment of a study commission to examine providing services to adults.

SMEC stated that it is now maintaining its accounting records in accordance with Generally Accepted Accounting Principles (GAAP) and using the GAAP-developed records to establish its fiscal year 2013 budget and tuition rates. Additionally, SMEC reported that it has filed its Uniform Financial Statements for fiscal years 2010 and 2011 in accordance with state regulations.

In addition to the inquiry made to SMEC, an additional post-audit review survey was issued to the Department of Developmental Services (DDS) to address the recovery of \$53,063 in unnecessary and inappropriate contract billings. DDS replied that is in the process of recovering the full amount of the funding via an agreement reached between the two entities in which SMEC will provide free services to DDS

individuals in need. DDS stated that it will fully document the services rendered with regard to days of attendance and units of service delivered.

Areas to monitor: Results of study commission for adult services, and recoupment of \$53,063 through free services.

Northeast Center for Youth and Families, Inc.					
Audit No. 2010-4538-3C			Issued August 25, 2011		
Number of Recommendations	Fully Implemented	In Progress	Fiscal Benefit	Selected Actions and Results	
7	1	4	Up to \$20,293	<ul style="list-style-type: none"> • NCYF drafted a severance policy and revised policies for employee bonuses, which will be submitted to DCF for approval. • NCYF will contract with its current auditor to amend FY 2007-2008 UFRs regarding improperly accounted employee retirement plan contributions. 	
	In Dispute				
	2				
NCYF – Department of Children and Families Inquiry					
5	0	5	Up to \$1,266,702	<ul style="list-style-type: none"> • DCF reported that, as the principal purchasing agency, it is coordinating the audit resolution and is in the process of finalizing a corrective action plan for NCYF. 	
NCYF – Department of Youth Services Inquiry					
5	0	5	Same as above	<ul style="list-style-type: none"> • DYS noted that DCF is the lead agency on this matter and will be coordinating the audit resolution. 	
NCYF – Operational Services Division Inquiry					
7	0	0	Up to \$898,129	<ul style="list-style-type: none"> • OSD indicated that, as the oversight agency, it will review the final corrective action plan from DCF when it is received. OSD listed the implementation of all recommendations as “planned.” 	
Northeast Center for Youth and Families Totals					
Number of Recommendations	Fully Implemented	In Progress	Fiscal Benefit	Planned Implementation	Findings in Dispute
24	1	14	Up to \$2,185,124	7	2

The audit of Northeast Center for Youth and Families, Inc. (NCYF), a provider of therapeutic and educational services to children and teenagers, found the Easthampton agency misused over \$1 million in public funds and cited over another \$1 million in questionable or unallowable expenses.

NCYF did not submit the correct documentation of the cost to run two Department of Youth Services contracted foster care programs to justify a rate increase, resulting in \$651,221 in unallowable reimbursements. Auditors also discovered that the agency utilized \$406,360 in revenues received under Massachusetts contracts to fund its programs operating in the state of Connecticut.

The audit also found that NCYF improperly administered \$918,422 in employee bonuses. The audit further disclosed that NCYF did not properly report \$148,098 in unallowable severance payments, allocated \$53,950 in nonreimbursable consultant payments to state contracts, improperly accounted for \$260,000 in employee retirement plan contributions, and let its Workers' Compensation policy lapse, resulting in a payment to an injured worker of over \$50,000, including \$7,000 in public funds.

In addition to the inquiry made to NCYF, additional post-audit review surveys were issued to three state agencies that were affected by the findings and recommendations made in the audit. Agencies affected included DYS, the Department of Children and Families (DCF), and the Operational Services Division (OSD).

NCYF stated that it has fully implemented the recommendation regarding Workers' Compensation by monitoring its policy premiums to ensure coverage.

Recommendations NCYF reported as "in progress" included: developing a policy consistent with OSD guidelines for awarding employee bonuses, requiring a board vote to authorize such bonuses, instituting a policy consistent with state and federal regulations on making severance payments, and amending its Uniform Financial Statements and Independent Auditor's Reports (UFRs) to properly account for contributions to employee retirement plans. NCYF disputed the need to amend its UFRs in regard to nonreimbursable severance payments.

NCYF stated that it disputes the need to amend its UFRs to properly account for the \$148,098 in unallowable severance payments. Additionally, NCYF is in the process of developing a severance policy and a revised policy for the provision of bonus payments, and will contract with its auditor to amend its UFRs for fiscal years 2007-08 to properly account for the \$260,000 in contributions made to its employee retirement plan.

NCYF responded that it disputes two findings concerning the repayment of \$20,293 in improper bonus payments and its procurement and monitoring of consultant contracts.

The OSA made six recommendations for recovery of funds totaling over \$2.1 million related to NCYF’s inaccurate reporting to DYS, improperly administered bonuses, out-of-state program expenses, severance payments, consultant payments, and the medical payment necessitated by the lapse in its Workers’ Compensation policy. These recoveries would be made by DCF and OSD.

In its response, DCF stated that, as the principal purchasing agency, it is coordinating audit resolution. DCF said it was finalizing a corrective action plan to submit to the NCYF board for its approval. As such, DCF replied that all recommendations for recovery are “in progress.”

OSD stated that, as the oversight agency, it will review the final corrective action plan DCF will submit to NCYF and that DCF will be charged with its implementation.

DYS replied that all of the recommendations are “in progress.” However, DYS responded that DCF is the lead state agency in coordinating the audit resolution, and deferred largely to DCF to address the audit findings.

Areas to monitor: Progress of implementation of corrective action plan and pursuit of cost recovery.

North Shore Community Action Programs, Inc.				
Audit No. 2009-4525-3C			Issued August 5, 2011	
Number of Recommendations	Fully Implemented	In Progress	Fiscal Benefit	Selected Actions and Results
7	6	1	Up to \$71,287	<ul style="list-style-type: none"> • Updated procurement policies and incorporated internal controls to monitor purchasing policy compliance. • Implemented internal controls to ensure employee salary expenses are properly reported by the agency. • Took action to ensure that unallowable fringe benefits are not charged to state contracts and reimbursed \$5,200 to the Commonwealth in nonreimbursable costs.

The audit found that North Shore Community Action Programs, Inc. (NSCAP), a Peabody-based non-profit human services agency, improperly used thousands of dollars in state funds to provide management services for a related non-profit, which NSCAP partnered with to manage and operate

an emergency shelter for homeless men. The management fee charged to the River House shelter did not fully cover the cost of services NSCAP provided. Instead, NSCAP made up for the difference with its own staff funded from other state contracts, which violates state regulations.

In response, NSCAP reported this recommendation was “in progress” as it was in the process of transitioning the operating agreement it has with the River House to a new operator. The transition was contingent on the new operator making payments on all outstanding accounts receivable, which totaled \$66,087; the first payment had already been made.

NSCAP stated that it has fully implemented all of the other audit recommendations. Two actions were cited in the audit report. Procurement policies and procedures were drafted and awaiting approval and internal controls were implemented in the accounts payable process to monitor purchasing compliance. Also, NSCAP reimbursed the Commonwealth \$5,200 in nonreimbursable costs tied to unallowable fringe benefits and took measures to prevent a reoccurrence.

The agency has also created timesheets specific to each employee to ensure that proper time and expenses are charged to the appropriate contract. NSCAP also reported that it added internal controls to its invoicing procedures to ensure that employee salary expenses are correctly classified, recorded and reported.

NSCAP reported that the composition and activities of its Board of Directors is now compliant with its corporate by-laws, state contracts and regulations, and Attorney General guidelines.

NSCAP said it is using an acceptable cost allocation method and increasing its review and update of policies, procedures and controls.

Area to monitor: Progress in collecting all amounts due from River House, making proper time and expense charges.

Community Counseling of Bristol County, Inc. – MassHealth Inquiry				
Audit No. 2011-4551-3C			Issued September 30, 2011	
Number of Recommendations	Fully Implemented	In Progress	Fiscal Benefit	Selected Actions and Results
1	1	0	Up to \$28,635.58	<ul style="list-style-type: none"> Examination of claims similar to CCBC's uncovered 322 potential duplicate payments totaling \$20,718. MassHealth recovered the full \$7,918 in overpayments made to CCBC.

While the audit was conducted of Taunton-based behavioral health service provider Community Counseling of Bristol County, Inc. (CCBC), the finding and recommendation were directed toward MassHealth, which received and responded to the post-audit review.

As a result of the audit, which revealed that duplicate payments were made to CCBC, MassHealth said that it investigated further into all similar providers for the same issue, which was caused by a period of transition in the IT environment. MassHealth, through the Benefit Coordination and Recovery Unit at UMass Medical School (UMMS), identified \$20,718 in potential duplicate payments. The UMMS Provider Compliance Unit was determining final overpayments, sending out provider notices and initiating recovery.

MassHealth also reported that it recovered the full \$7,918 in overpayments made to CCBC. The state retained half, and the other half was returned to the federal Centers for Medicare and Medicaid Services. MassHealth also said that this problem will not reoccur, as the legacy system that processed these claims has been updated and strengthened.

Area to monitor: Amount of recovery of additionally identified duplicate payments.

Massachusetts Clean Energy Center				
Audit No. 2011-1469-3A		Issued September 14, 2011		
Number of Recommendations	Fully Implemented	In Progress	Fiscal Benefit	Selected Actions and Results
6	3	3	N/A	<ul style="list-style-type: none"> Documented comprehensive risk-based internal control plan, unwritten investment policy, and stop-loss investment policy. MCEC reported it is now in full compliance with statutory annual reporting requirements.

The Massachusetts Clean Energy Center (MCEC) has taken steps to protect its assets by formally documenting an unwritten policy on tracking its investments as well as stop-loss investment procedures and formalizing a periodic portfolio review with its Board of Directors. MCEC also came into full compliance with its statutory annual reporting requirements through the inclusion of management’s financial statements and comments on the ability of the Renewable Energy Trust Fund and Alternative and Clean Energy Trust Fund to meet their statutory requirements as well as recommendations for improvement. All of these actions were part of MCEC’s efforts to strengthen its internal control plan.

Of the areas considered “in progress,” MCEC has plans to conduct an annual risk assessment starting in December. MCEC has hired a consultant to assist in the compilation of data and the structure of a uniform and comprehensive method to report job creation. Lastly, MCEC reported that it is working with the Ethics Commission regarding the appointment of the independent advisory committee required by MGL Chapter 10, Section 35FF(d). MCEC stated that appointments are a concern because ethics laws prohibit committee members from receiving future MCEC support or doing future business with the state. MCEC is working with the Ethics Commission on a resolution.

Areas to monitor: Effectiveness of comprehensive internal control plan and investment policies, and progress towards appointment of MCEC independent advisory committee.

State Election Campaign Fund – Office of Campaign and Political Finance				
Audit No. 2011-0969-3S			Issued September 14, 2011	
Number of Recommendations	Fully Implemented	In Progress	Fiscal Benefit	Selected Actions and Results
2	1	1	Not stated	<ul style="list-style-type: none"> Improved communication between OCPF and State Treasurer to enhance investment returns and ensure an accurate fund balance.
State Election Campaign Fund – State Treasurer Inquiry				
1	1	0	Not stated	<ul style="list-style-type: none"> Improved communication between OCPF and State Treasurer regarding the processing of SECF transactions and the fund's investment strategy.

The audit of the State Election Campaign Fund (SECF), a fund administered by the Office of Campaign and Political Finance (OCPF), contained two findings and two recommendations. One of the recommendations included the Office of the State Treasurer; accordingly, the Treasurer received and responded to a post-audit survey.

The recommendation that included both agencies dealt with improving communication procedures to ensure accurate reporting, timely transfers, and effective investment. Both agencies reported that this has been fully implemented. OCPF now monitors the amount collected each month by reviewing the Department of Revenue's Blue Book figures. OCPF then communicates with the Treasurer to request a transfer of that amount from the General Fund to the SECF. OCPF noted to the Treasurer that the funds are not needed until July 2014 and requested that the funds be invested accordingly, which the Treasurer has done. These steps will lead to accurate reporting and the maximization of revenue to the fund through improved investment.

The other recommendation OCPF reported was "in progress." Some candidate campaign expenditure reports were not on file, and the recommendation was to develop procedures to properly secure documents filed with the agency and to track their receipt. OCPF said an internal protocol was being written to address the safekeeping and routing of documents within the office. OCPF also responded that following the retirement of the person who had overseen this, the Director will regularly monitor this activity.

Areas to monitor: SECF return on investment, fund accuracy, and campaign expenditure report tracking and retention.

Number of Recommendations	Fully Implemented	In Progress	Fiscal Benefit	Selected Actions and Results
4	2	1	Could not estimate value	<ul style="list-style-type: none"> • Implemented procedures to ensure payments from Unpaid Check Fund are made only with appropriate transfer of funds from originating agency. • Planning to hire a full-time internal auditor, whose focus will be to ensure policies and procedures for all agency operations are documented, current, and dated.

The Office of the State Treasurer and Receiver-General stated that it has implemented a new procedure that allows “stale and dated” checks to be uploaded to the Unpaid Check Fund database only after the associated funds have been received from the originating agency and properly reconciled. Related to this process, the Treasurer’s Office noted that it is currently reconciling previous accounts and transfers to the fund prior to the implementation of the new policy. The Treasurer’s Office reported that a second recommendation was fully implemented by securing a supplemental budget appropriation for \$205,000 needed for expenses related to the Veterans’ Welcome Home Bonus.

Additionally, the Treasurer’s Office reported that transferring the reporting responsibility for the Victim and Witness Assistance Board to the Attorney General was “in progress.” The Attorney General is the agency responsible for administering the fund.

The Treasurer’s Office also indicated that action was planned on hiring a full-time internal auditor whose primary focus will be to ensure that policies and procedures are documented.

Areas to monitor: Unpaid Check Fund internal controls, **and** transfer of Victim and Witness Assistance Board reporting.

Office of the State Treasurer and Receiver-General – IT Controls				
Audit No. 2010-0085-4T			Issued July 14, 2011	
Number of Recommendations	Fully Implemented	In Progress	Fiscal Benefit	Selected Actions and Results
1	0	1	N/A	<ul style="list-style-type: none"> Documentation of critical business functions by department/agency and a business continuity plan for each of those functions are in progress.

The Treasurer’s Office responded that it has documented an Emergency Response Plan for its Ashburton Place location. The office said that it is in the process of documenting its critical business functions by department/agency and its business continuity plan for each of those functions.

Areas to monitor: Progress towards documenting critical business functions/business continuity plans.

The Lemuel Shattuck Hospital				
Audit No. 2011-0300-4T			Issued September 14, 2011	
Number of Recommendations	Fully Implemented	In Progress	Fiscal Benefit	Selected Actions and Results
2	2	0	N/A	<ul style="list-style-type: none"> Strengthened management of physical keys by creating a consolidated database to manage key distribution to all staff. Improved inventory controls over computer equipment.

Lemuel Shattuck Hospital responded that both recommendations made in the audit have been fully implemented. Action has been taken to address the management of physical keys, which included creating a database to manage key distribution to all staff. The hospital also redesigned a reporting system that improves real-time key surrender from departing staff, allowing the key management database to be routinely reconciled.

The hospital also said that it has completed an inventory of its computer equipment.

Areas to monitor: Management of physical keys, and inventory controls over computer equipment.

MassDOT Office of Information Technology				
Audit No. 2011-0511-4T			Issued July 20, 2011	
Number of Recommendations	Fully Implemented	In Progress	Fiscal Benefit	Selected Actions and Results
1	0	1	N/A	<ul style="list-style-type: none"> MassDOT reports that it has addressed the situation regarding the 152 user and 12 generic accounts that required further investigation, taking action where appropriate.

The audit reported that the Massachusetts Department of Transportation’s (MassDOT) Office of Information Technology needed to improve security controls to ensure that only authorized users could access MassDOT networks, applications, and data. This finding placed critical and personally identifiable information at risk.

MassDOT responded that it reviewed and addressed 164 user accounts identified as needing further investigation. In addition, protocols around user accounts for terminated employees are being reviewed.

Areas to monitor: Progress towards the establishment of enterprise-wide policies and procedures for all IT security initiatives.

North Shore Community College				
Audit No. 2011-0202-7T			Issued July 20, 2011	
Number of Recommendations	Fully Implemented	In Progress	Fiscal Benefit	Selected Actions and Results
1	0	1	N/A	<ul style="list-style-type: none"> Strengthened inventory control process and is in process of completing physical inventory.

Responding to the survey, North Shore Community College (NSCC) stated that it has reinforced its inventory control process. NSCC indicated that it has strengthened controls in the areas of receiving, recording, and monitoring computer equipment. NSCC also indicated that the physical annual inventory was completed for three out of the four campuses. The remaining Lynn campus was “in progress.”

Area to monitor: Progress towards completion of physical inventory.

Plymouth Probate and Family Court				
Audit No. 2011-1234-4T		Issued September 22, 2011		
Number of Recommendations	Fully Implemented	In Progress	Fiscal Benefit	Selected Actions and Results
3	0	3	N/A	<ul style="list-style-type: none"> The court has submitted for review to the AOTC a completed inventory of relevant IT equipment and business continuity plan, and requested assistance in implementing a password management program for its MassCourt system.
Plymouth Probate and Family Court – Administrative Office of the Trial Court Inquiry				
2	0	2	N/A	<ul style="list-style-type: none"> AOTC also replied that it is in the process of updating its disaster recovery plan, targeting January 2013 for the plan's completion. AOTC stated that it is in the process of implementing enhanced password management initiatives throughout the Trial Court system.

Plymouth Probate and Family Court reported that it has completed an updated inventory of its IT-related assets and has developed a business continuity plan, both of which have been submitted to the Administrative Office of the Trial Court (AOTC) for review. The court also stated that it has requested the collaboration of AOTC in implementing a password management program to address deficiencies found in its password administration over the MassCourt application.

AOTC was also issued a post-audit review, as it was mentioned as part of the recommendations. Concerning password administration and the development of a business continuity plan, AOTC reported that these issues were systemic in nature, and that its response would reflect action taken by AOTC as a whole.

AOTC replied that it is in the process of completing a comprehensive update to its disaster recovery plan with annual testing for preparedness to follow. AOTC has employed software which ensures that critical data stored in Worcester is replicated and backed-up in Boston. AOTC is conducting a survey to measure mission-critical functions.

Areas to monitor: Progress towards development and implementation of a password management program and disaster recovery plan.

University of Massachusetts Medical School				
Audit No. 2010-0216-4T		Issued September 30, 2011		
Number of Recommendations	Fully Implemented	In Progress	Fiscal Benefit	Selected Actions and Results
11	4	7	Not defined	<ul style="list-style-type: none"> Implemented disaster recovery template and trained staff in responsibilities in the event of disaster or emergency. UMMS reports that new IT strategic planning process will begin in fourth quarter of FY 2012.

Findings from the audit of University of Massachusetts Medical School’s (UMMS) Data Center Relocation revealed that the school needed to strengthen and document its strategies for recovering IT capabilities in the event of a disaster or emergency. The lack of a comprehensive IT-specific strategic plan increases the risk that IT initiatives would not be optimally maximized, resulting in possible time and budget overruns.

UMMS reported that it has implemented four recommendations from the audit. UMMS now employs data replication technology to store email and other network files at an off-site location, increasing the integrity and availability of its data. UMMS has also developed a disaster recovery template, which documents recovery strategies, and maintains plans for specific areas of its Information Services Department (IS). UMMS has also identified its data center manager to coordinate and facilitate activities for its business continuity and disaster recovery planning, and conducts ongoing reviews of recovery plans with its staff.

Other recommendations UMMS reported are “in progress.” UMMS stated that it is in the process of: completing a business impact analysis to measure the potential loss of its IS systems, strengthening the collaborative process between IS and business process owners, establishing an alternate operations site for its IS systems, distributing copies of its business continuity plans to the appropriate staff members, documenting and distributing continuity of operations plans, and ensuring that such plans are annually updated. Additionally, UMMS replied that its IS department was launching a strategic planning initiative in the fourth quarter of fiscal year 2012.

Areas to monitor: Progress towards implementation and effectiveness of improvements to disaster recovery and business continuity plan, and information technology strategic planning.

Chelmsford Housing Authority				
Audit No. 2011-0630-3A		Issued August 17, 2011		
Number of Recommendations	Fully Implemented	In Progress	Fiscal Benefit	Selected Actions and Results
4	3	1	\$800	<ul style="list-style-type: none"> Corrected and updated inventory listing and obtained refund for incorrectly withheld Medicare taxes.

Of the three recommendations fully implemented, the Authority worked on two before the report was issued. The Authority updated its inventory list. It also contacted the Internal Revenue Service about the improper withholding of Medicare taxes from an employee. The issue was ultimately resolved with both the employee and the Authority being reimbursed the overpayment amounts. On the third fully implemented recommendation, a correction was made to resolve an erroneous depreciation calculation.

With regard to the audit recommendation “in progress,” the Authority stated that it sold the six condominiums, which had become too costly to maintain, and is using the proceeds to build 13 new housing units for veterans. The Authority stated that the DHCD Formula Funding stream is very limited and needs to go toward the most serious repairs. Rather than renovating kitchens, the Authority is working on disabled access to tubs and shower stalls in elderly housing units. The Authority stated that it has \$5.1 million in deferred maintenance and less than \$500,000 in funding for the next three years.

Areas to monitor: Attempts to address funding shortfalls for capital repairs.

Grafton Housing Authority				
Audit No. 2011-0666-3A		Issued June 8, 2011		
Number of Recommendations	Fully Implemented	In Progress	Fiscal Benefit	Selected Actions and Results
2	0	2	N/A	<ul style="list-style-type: none"> Authority waiting list for vacancies has been automated. Enhanced internal controls over administrative functions, including inventory control, and tenant transfers.

The Authority reported that it is working to improve an automated waiting list it created to add transparency for prospective tenants. The Authority also stated that it has taken steps to improve internal controls by creating a petty cash journal, establishing a pet deposit ledger and ensuring that

tenant transfers are now properly documented and follow Department of Housing and Community Development (DHCD) guidelines.

The Authority cited a lack of maintenance staff and funding as the reasons for delays in not meeting DHCD regulations for turning around vacant units within 21 days.

Areas to monitor: Securing funding for capital improvements.

Department of the State Police				
Audit No. 2011-1338-3R			Issued September 30, 2011	
Number of Recommendations	Fully Implemented	In Progress	Fiscal Benefit	Selected Actions and Results
1	1	0	N/A	<ul style="list-style-type: none"> • Updated internal control plan to include risk assessments associated with ARRA grants.

The audit had found that the State Police, while updating its internal control plan to address management of American Recovery and Reinvestment Act (ARRA) funding, did not develop a risk assessment associated with the funding. The State Police had indicated that including additional internal controls for ARRA funding satisfied State Comptroller guidelines and was unaware that additional risk assessments were required.

The State Police stated that it has fully implemented the recommendation to include risk assessments for federal and ARRA grants.

Area to monitor: Risk assessment use.