

Section I

Independent Auditors' Reports (continued)

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Mr. Martin Benison, Comptroller

The Commonwealth of Massachusetts

Compliance

We have audited the compliance of the Commonwealth of Massachusetts, for only those matters relating to compliance of the funds, account groups, higher education entities and discretely presented component units of the Commonwealth of Massachusetts included within the scope of our audit as described in our separately issued report on the general purpose financial statements dated December 16, 1999, and as further described in Note 2 to the Schedule of Expenditures of Federal Awards, with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major programs for the year ended June 30, 1999. The Commonwealth of Massachusetts' major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the management of the Commonwealth of Massachusetts. Our responsibility is to express an opinion on the Commonwealth of Massachusetts' compliance based on our audit. We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Commonwealth of Massachusetts' compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Commonwealth of Massachusetts' compliance with those requirements. In our opinion, the portion of the Commonwealth of Massachusetts included within the scope of our audit, complied, in all material respects, with the requirements referred to above that are applicable to each of its major programs for the year ended June 30, 1999. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in Part III of the accompanying Schedule of Findings and Questioned Costs which is listed as Section II in the table of contents and Section V in the table of contents.

Internal Control over Compliance

The management of the Commonwealth of Massachusetts is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants

applicable to federal programs. In planning and performing our audit, we considered the Commonwealth of Massachusetts' internal control over compliance with requirements that could have a direct and material effect on a major federal program, applicable only to the internal control over compliance relating to the funds, account groups, higher education entities and discretely presented component units included within the scope of our audit as described in our separately issued report on the general purpose financial statements dated December 16, 1999, in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133. We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Commonwealth of Massachusetts' ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in Part III of the accompanying Schedule of Findings and Questioned Costs which is listed as Section II in the table of contents and Section V as listed in the table of contents. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. However, based on our procedures and the report of other auditors, we noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the general purpose financial statements of the Commonwealth of Massachusetts as of and for the year ended June 30, 1999, and have issued our report thereon dated December 16, 1999. Our audit was performed for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the general purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated, in relation to the general purpose financial statements taken as a whole. This report is intended for the information of management and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche, LLP

December 16, 1999

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