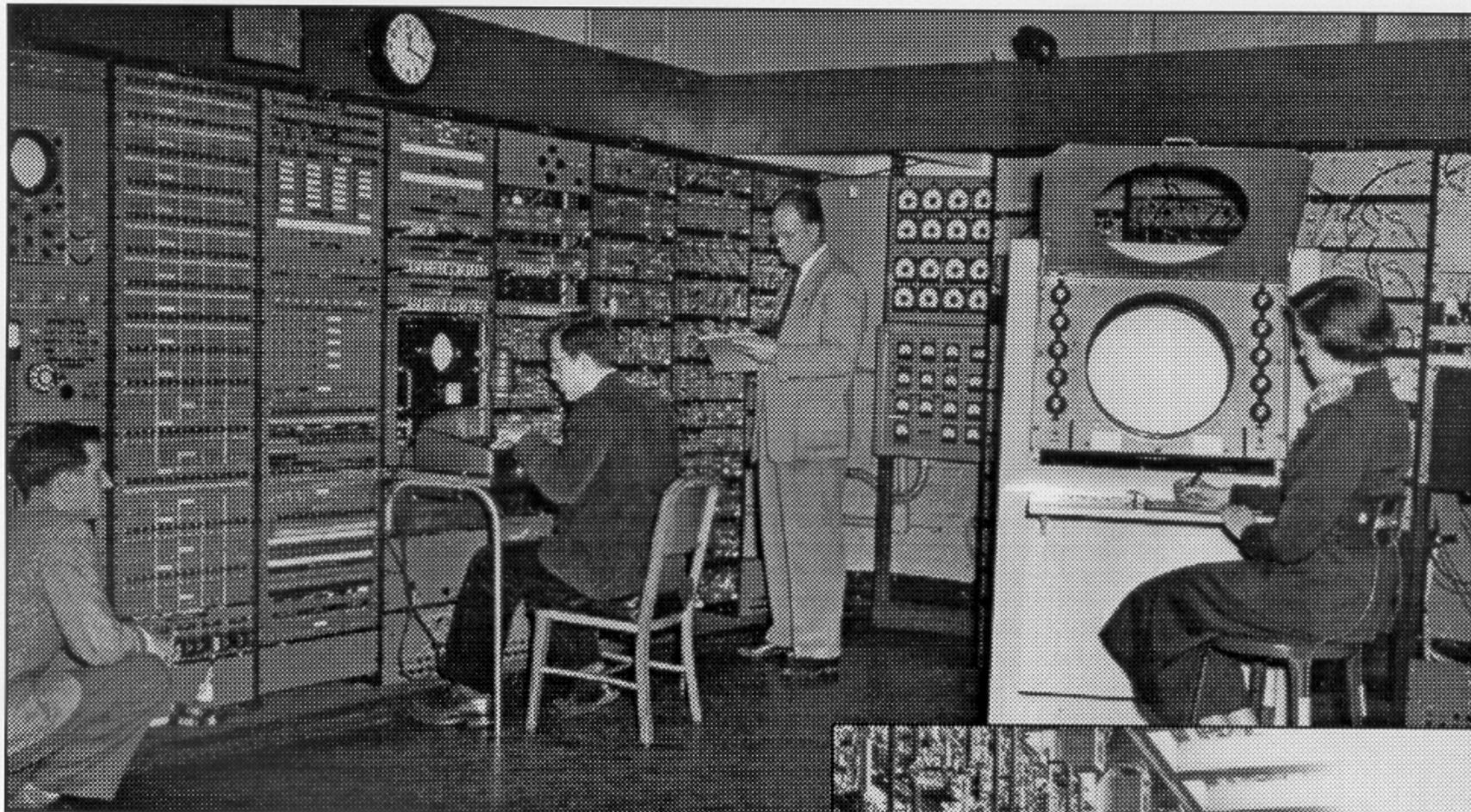
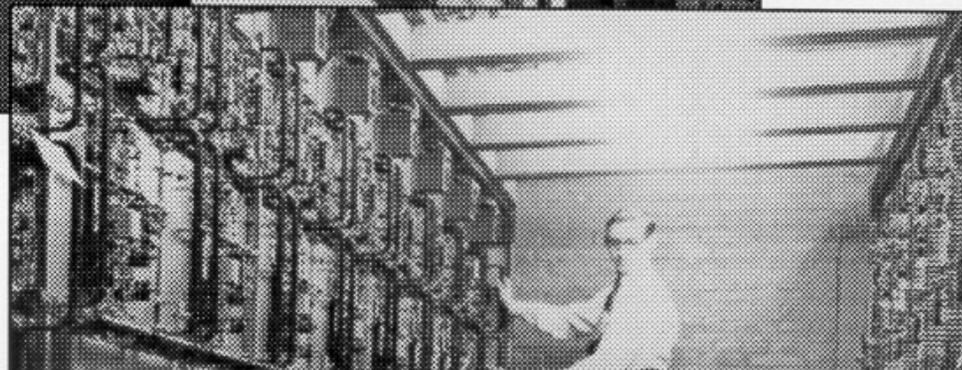


Section V

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



Whirlwind began at M.I.T. in the mid 1940's as an attempt to construct an aircraft stability control analyzer for the Navy. Project personnel soon realized a large, complicated computing device would be needed if the project was to produce a machine that simulated a multi-engine aircraft. Whirlwind actually started as an analog computer, but soon the decision was made to go digital. Eventually, work on the control



tion was made to go digital. Eventually work on the control analyzer was halted and the staff devoted its full concentration to the computer itself.

By 1950 Whirlwind was in operation at M.I.T.'s Barta Building in Cambridge, using electrostatic storage tubes for memory. Later, magnetic core memory was developed and Whirlwind became the first computer to use the memory device that would become the primary memory for most computers until the mid 1970's.

Although a number of projects used Whirlwind, it became best known for its use with the early stages of the SAGE Air Defense System. The task of developing a computer-controlled intercept system was immense, and Whirlwind was the only existing "brain" large enough at the time to handle the job.

MIT facility and labs, some later spun off as independent non-profit corporations, continued to engage in defense research through the post World War II era. The many scientists, engineers, and technicians who passed through their doors formed a pool of talent that supported the growth of a host of companies in electronics, computers, and other technically sophisticated industries.

Text and photography courtesy of the Massachusetts Institute of Technology Museum.



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

Departments with Major Audit Presence

Department of Education Background

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

During fiscal year 2000, the Department administered approximately \$3.6 billion of state funds and \$519 million of federal funds.

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

<u>CFDA #</u>	<u>Federal Program Description</u>
84.010	Title I Grants to Local Education Agencies
84.027	Special Education – State Grants
84.173	Special Education – Preschool Grants
84.048	Vocational Education – Basic Grants to States
84.340	Class Size Reduction Program
10.550	Food Distribution
10.558	Child and Adult Food Care Program
10.553	School Breakfast Program
10.555	National School Lunch Program
10.556	Special Milk Program for Children
10.559	Summer Food Service Programs for Children

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Department of Education Findings on Compliance with Rules and Regulations

Finding Number 12: Lack of Documented System for Salary Charges to Federal Programs and Failure to Make Needed Salary Adjustment

The Department of Education (Department) did not adjust the cost charged to federal programs to reflect the actual cost of salaries as documented by the percentages provided by employees who work on multiple programs. OMB Circular A-87, Attachment B (h) (6) (e) states that "budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to federal awards but may be used for interim accounting purposes, provided that: (i) the governmental unit's system for establishing the estimates produces reasonable approximations of the activity actually performed; (ii) at least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and (iii) the budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances."

The Department did not perform the required quarterly comparison of budget to actual for the third and fourth quarters, did not revise the amounts charged to federal programs and did not revise the future quarterly budget estimates. Department officials explained that the adjustments were not made because they find the Commonwealth's centralized accounting (MMARS) and payroll/labor distribution (PCRS) systems make such adjustments a very time consuming and cumbersome process.

The procedures used to calculate the estimated salaries charged to a grant and to calculate the actual salary costs represented by the actual time charged to a program have not been documented despite a corrective action plan that stated procedures would be documented by June 30, 2000. The Department developed and implemented, in consultation with the U.S. Department of Education Office of Special Education Programs, a process to determine that salaries charged to federal programs reflect the percentage of time each employee spent monthly on each program. The worksheets were designed and are maintained by the Budget Director. The process lacks control activities to prevent and/or detect errors. During the audit, errors were found in the spreadsheets that, although immaterial, went undetected by the Department. The lack of adequate controls makes the process of developing the salary costs charged to federal programs and the quantification of the quarterly and annual adjustments unreliable.

The Department's comparison for the first two quarters showed overcharges of \$8,911 for Title I. These costs are included as questioned costs. Information is

not available to determine the actual salary costs for the last two quarters of the year, thus questioned costs associated with these quarters are estimated. The Budget Director believes that the last two quarters would be similar to the first two quarters, therefore the overcharges and associated questioned costs for the year are estimated to be \$17,822 for Title I. Overcharges also existed for the Special Education Program, but the appropriate adjustments have been made.

The U.S. Department of Agriculture Food and Nutrition Service issued a draft Financial Management Review report dated June 30, 2000 on the Massachusetts Child Nutrition Programs. Among the findings in this draft report were that the Department (1) did not have appropriate time distribution procedures to support the salaries, fringe benefits and indirect costs charged to the Child and Adult Care Food Program and (2) did not support the maintenance of effort charges for administration of the Child Nutrition Programs. (*Department of Education - Title I Grants to Local Education Agencies 84.010; United States Department of Education, Office of Special Education and Rehabilitative Services, Monitoring Review Report Dated May 2, 1995 Finding 4; Fiscal Year 1995; 1999 Single Audit Finding 40*)

Recommendation

The Department should implement and document formal policies and procedures to meet the requirements of OMB Circular A-87 and its agreement with the U. S. Department of Education. Controls need to be established to ensure the accuracy and timeliness of the development of actual salary charges to the federal grants. The Department should review the entire salary allocation system in light of the Commonwealth's new payroll system.

Department Correction Plan

The department is finishing policies to address the issues that the auditors have raised. These policies will address the documentation and review steps needed in order to comply with OMB A-87.

Quarterly reviews of the payroll activity will be done and adjusted when and where appropriate.

Responsible Person: Anthony DeLorenzo

Implementation Date: March 31, 2001

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Department of Education Findings on Compliance with Rules and Regulations

Finding Number 13: Lack of Control System for Class Size Reduction Program

The Department of Education (Department) did not establish a system of internal controls over its new federal program: Class Size Reduction (CSR). The Department submitted its application for this program on March 31, 1999 and ultimately received a Grant Award Letter notifying it that \$22,447,648 had been awarded under PL 105-277, the fiscal year 1999 Appropriations Act.

There are no written policies and procedures in place to administer this program and ensure compliance with federal regulations, other than the instructions provided to the Local Education Agencies (LEA) for use in their applications for funding. Department personnel explained that because this new grant resembled the other U.S. Department of Education grants, it was decided that the existing grants management system, policies and procedures could be used to administer the new program.

The Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments (Common Rule) Subpart C Section .20, Standards for financial management systems, requires that effective internal control and accountability must be maintained for all grants and subgrants to reasonably ensure compliance with federal laws, regulations, and program compliance requirements. Internal controls pertaining to the compliance requirements for federal programs are found in §105 of OMB Circular A-133. The Commonwealth of Massachusetts enacted Chapter 647 of the Acts of 1989 – An Act

Relative to Improving the Internal Controls within State Agencies and the companion Internal Control Guide for Managers was issued by the Office of the Comptroller of the Commonwealth of Massachusetts. The Department has not demonstrated that these requirements have been met for this program.

The Department has a long history of managing federal programs and over time has developed a system, much of which relies on institutional memory and the of experience of its managers. This system may meet the requirements of existing federal programs but new programs should be implemented and administered giving consideration to the current internal control guidelines and the specific requirements of the new program. Examples of how using the Department's existing system to administer the CSR Program can result in control weaknesses was highlighted during our testing of support for the CSR eligibility allocations to the LEAs and procedures for adequately monitoring the maintenance of effort requirements.

The eligibility allocations were prepared; however, no support for how the allocations were derived could be provided because the individual who prepared the allocations was no longer at the Department. Department personnel attempted to explain the formula to arrive at the amount to be allocated to each LEA. We recalculated the formula for five LEAs and in four of the instances we arrived at a different amount. No explanation for the difference could be provided.

Through discussions with the Administrator of School Business Services and the Professional Development Planner (the person responsible for the CSR Program), it appears that the maintenance of effort requirements of the grant had not been fully considered. These discussions revealed that the monitoring would be based on the End-of-Year School Reports due from the LEAs on September 28, 2000. However, School Business Services did not consider if the instructions for the reports, the training sessions held in July of 2000 to assist LEAs to prepare the report, or the report itself needed to be updated to include the new program requirements. It was believed that the system used to monitor the Title I maintenance of effort requirement could be used for the CSR Program. However, the CSR requirement is not the same as the Title I requirement. The CSR requirement is based on fiscal efforts within the State and is tested at the State level only (Title VI, Section 6401(a) of ESEA (20 USC 7371(a)). Title I requires that each LEA maintain the level of effort, thus it must be calculated for each LEA (Section 14501 of ESEA (20 USC 8891)). Department staff seemed unaware that these two requirements were different. Program claims processed through August 3, 2000 were \$18,435,767. (*Department of Education – Class Size Reduction Program 84.340*)

Recommendation

The Department should develop and document an internal control system to assure that it administers the CSR Program in compliance with all federal requirements. The system should be reviewed and incorporated into the Department's Internal Control Plan to address, in a formal way, the elements of good internal control needed for each new program. Over time this document will expand to include all new programs and to the extent that the new programs parallel other programs, the controls will be documented for existing programs.

Department Corrective Action Plan

The Department is developing and documenting an internal control system to assure that it administers the CSR program in compliance with all federal requirements. In the past the Department has established individual control systems for new processes prior to their implementation when they were distinct and unique, such as the Master Teacher's Program and the New Teacher's Bonus Program. However, since the CSR program was similar in structure to some existing programs this wasn't done.

In hindsight, we realize that this should be considered for planning in all cases. The new documentation we produce will highlight eligibility allocations, maintenance of effort requirements and the methodology used for calculating awards.

Responsible Person: Meg Mayo Brown
Implementation Date: March 31, 2001

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**Department of Education
Findings on Compliance with Rules and Regulations**

Finding Number 14: Lack of a System to Implement Corrective Action Plans and Clear Findings

The Department of Education (Department) does not have a system in place to implement corrective action plans and clear audit findings in a timely fashion.

OMB Circular A-133 Section 300 (f) requires auditees to follow up and take corrective action on audit findings, including the preparation of a summary schedule of prior audit findings and a corrective action plan. Section 315 (c) requires that the corrective action plan include the anticipated completion date that the corrective action is to be implemented. In addition, the Commonwealth of Massachusetts enacted Chapter 647 of the *Acts of 1989, An Act Relative to Improving the Internal Controls within State Agencies*, which requires the Internal Control Officer to establish a system to ensure that the results of audits and recommendations to improve departmental internal controls are promptly evaluated by agency management and that timely and appropriate corrective actions are effected by the agency management in response to an audit.

In the last four years, the Department has received more findings than any other Commonwealth department with major federal programs – 7 in 1999, 11 in 1998, 9 in 1997 and 17 in 1996. In each of these years, the number of findings resolved was 1, 1, 9 and 5, respectively. The Department has indicated in its Status of Implementation of Corrective Action Plans, as part of the fiscal year 2000 Single Audit, that all of the prior year corrective action plans had been partially implemented. The Department's implementation date for all the 1999 findings was June 30, 2000. While there have been some areas where progress has been made in resolving the findings, other areas were identified where the Department has not corrected the findings. Of the 7 findings reported in 1999, one was originally reported in 1992, 2 in 1994, one in 1995, 2 in 1997 and 2 in 1998.

The U. S. Department of Education (ED) has included the Department in the Cooperative Audit Resolution and Oversight Initiative (CAROI). While inclusion in the CAROI program was a mutual decision on the parts of both ED and the Department, we believe ED sought the Department's inclusion because of the level of recurring findings at the Department. The CAROI process to resolve the Single Audit findings is still in process and, to date, no formal decisions have been issued.

In addition to Single Audits, the United States Department of Education, Office of Special Education and Rehabilitative Services (OSEP) issued a Monitoring Review Report dated June 21, 2000 that cited deficiencies that continued from 1991 and 1995. In the transmittal letter to the Massachusetts Commissioner of Education, the Director of the U. S. Office of Special Education Programs stated "Although MASSDE has made progress in some previously identified areas of noncompliance, OSEP is seriously concerned about continuing noncompliance that has not been corrected. These areas include: 1) MASSDE's IEP development process that results in delays in services and in children with disabilities not receiving services; 2) Children with disabilities, especially those placed in separate educational environments, not being educated with nondisabled children to the maximum extent appropriate; and 3) MASSDE's failure to exercise its general supervisory authority in such a manner to insure that it has effective methods for identifying and correcting deficiencies in local school districts. These deficiencies have been allowed to exist for a number of years, impacting on services to children with disabilities. OSEP has documented these continued deficiencies in its prior monitoring reports to MASSDE from 1991 and 1995."

Department officials believe that resource constraints are a major factor in the lack of progress to resolve findings. They cite statistics that show that in the last ten (10) years Department staff levels have gone from 608 in fiscal year 1989 to 395 in fiscal year 2000 to support all of the Department's state and federal programs. They also cited an August 29, 2000 report from the Massachusetts Education Reform Review Commission which stated that the Commission has repeatedly observed that the Department is woefully understaffed to meet challenges posed by the Education Reform Act of 1993 and that the Department clearly needs an increase in staff. (*Department of Education – Title I Grants to Local Agencies 84.010; Special Education – State Grants 84.027; Special Education - Preschool Grants 84.173; Vocational Education 84.048; and Class Size Reduction, 84.340; United States Department of Education, Office of Special Education and Rehabilitative Services Monitoring Review Report dated June 21, 2000; Department of Agriculture – Food Distribution 10.550; Child and Adult Food Care Program 10.558; School Breakfast Program 10.553; National School Lunch Program 10.555; Special Milk Program 10.556 and Summer Food Service Programs for Children 10.559*)

Recommendation

The Department needs to implement a system that prioritizes and monitors the resolution of audit findings. The resolution of audit findings can strengthen internal controls and ensure compliance with state and federal rules and regulations.

Top level management within the Department needs to reemphasize the need to resolve all audit findings as quickly as possible and take ownership of the issues resulting from all audits. The appointment of a supervisor of audit and compliance is a step in the right direction, but more attention from top level management

will assist the supervisor in helping to resolve recurring issues. If resource constraints are an impediment to resolving findings and improving internal controls, commonwealth and department management need to investigate this issue.

Department Corrective Action Plan

The Department acknowledges that findings have not always been resolved as timely as we would like. We did eliminate 25% of the FY 1999 findings and 27% of the FY 1998 findings in each of the last two respective years. However, this is not enough.

The Department of Education receives more direct federal grants than any department in the Commonwealth. This has occurred while the Department's staffing has decreased by a third, thus hampering our efforts to be as proactive in this matter as we would prefer.

Senior management concurs that the elimination and reduction of audit findings is a major department priority for the upcoming year. We anticipate the hiring of two new staff members in the Audit and Compliance Unit that will assist other staff in the steps involved to resolve these recurring issues. The Department will continue to take advantage of our partnership with the U. S. Department of Education and their CAROI process to resolve these issues. This partnership has already been productive in the resolution of prior audit findings. We also anticipate working with the auditors through the upcoming year and taking advantage of their experience and guidance on selected issues.

Responsible Person: All Department Staff
Implementation Date: June 30, 2001

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Department of Education Findings on Compliance with Rules and Regulations

Finding Number 15: Better Follow-up on Subrecipient Audit Findings is Needed

The Department of Education (Department) did not adequately carry out the responsibilities of a pass through entity in the issuance of management decisions for findings in subrecipient Single Audit Reports. With the exception of the Nutrition Cluster, there is no indication that any follow-up or communication to subrecipients concerning audit findings was performed.

OMB Circular A-133 *Audits of States, Institutions of Higher Education, and Non-Profit Organizations*, §.400 Pass-through entity responsibilities (5) states that the entity must issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action.

Current year testing indicated that, except for the Nutrition Cluster, there was no documentation that the Department ensured that the subrecipient took appropriate and timely corrective action. The procedure at the Department is for the Audit and Compliance Unit (Unit) to review all of the subrecipient audit reports and forward those with findings to the appropriate Cluster within the Department responsible for the program with findings. There is no follow-up by the Unit to assure that the Clusters follow-up on the findings and issue management decisions. The Unit's desk review guide does indicate that there is a federal requirement to issue a management decision, however it does not indicate how the decision is to be issued or who is to issue it. The guide also does not require the Unit to follow-up with the Cluster to determine if compliance with federal regulations occurred.

Since the follow-up time frame had not elapsed for the fiscal year 1999 audit reports, we reviewed five fiscal year 1998 subrecipient audit reports which had findings. Two had findings related to the Title I Program only, one had findings related to Nutrition Programs only, one had findings related to the Title I and Nutrition Programs and one had findings related to the Vocational Education Program only. A formal management decision had not been issued in any of these five cases. Four reports had been forwarded to the appropriate Cluster. Only the Nutrition Cluster had documentation of any follow-up with the subrecipient. The fifth report, which had a finding related to Title I, was determined by the Unit to be immaterial and not forwarded to a Cluster. The procedure to determine a finding immaterial is not included in the desk review guide.

As a result, the Department lacks assurance that a subrecipient organization has adequate internal controls in place to comply with all applicable laws and regulations. The United States Department of Education, Office of Special Education and Rehabilitative Services issued a Monitoring Review Report that cited deficiencies in the monitoring of Special Education Programs. (*Department of Education – Title I Grants to Local Agencies 84.010; Special Education – State Grants 84.027; Special Education - Preschool Grants 84.173; Vocational Education 84.048; and Class Size Reduction 84.340, United States Department of Education, Office of Special Education and Rehabilitative Services Monitoring Review Report dated June 21, 2000; Department of Agriculture – Food Distribution 10.550; Child and Adult Food Care Program 10.558; School Breakfast Program 10.553; National School Lunch Program 10.555; Special Milk Program 10.556 and Summer Food Service Programs for Children 10.559, Fiscal Year 1994; 1999 Single Audit Finding 38*)

Recommendation

The Department needs to continue the progress it has made in receiving and reviewing subrecipient audit reports to include the issuance of management decisions for findings included in the report within six months of the receipt of the report. The Audit and Compliance Unit needs to establish and document policies and procedures in its internal controls requiring the timely follow-up of subrecipient audit findings and issuance of management decisions.

Department Corrective Action Plan

We're grateful that the auditors acknowledged the progress that we have made over the past two years regarding this issue. To resolve this issue we plan to accomplish the following:

- Revisit our "Desk Review Procedures for Audits" manual and update, where appropriate, our procedures regarding follow up communications with our subrecipients;
- Meet individually with all Clusters that issue grants and discuss their responsibilities, timelines and guidelines for communications with subrecipients and their audit findings;
- Request copies of communications that the Clusters have sent and received regarding audit findings with the subrecipients to maintain in centrally located files in the Finance Cluster.

Responsible Person: David LeBlanc
Implementation Date: March 31, 2001

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Department of Education Findings on Compliance with Rules and Regulations

Finding Number 16: Local Education Agencies' Compliance with Supplement not Supplant Requirement is not Monitored Annually

The Department of Education (Department) did not adequately review or monitor the supplement not supplant requirements (SNS) in fiscal year 2000 for the Title I (34 CFR 200.63) and the Vocational Education Program (34 CFR 403.196).

According to OMB guidance, the State Education Agency (SEA) must ascertain if the entity used federal funds to provide services, which were provided with non-federal funds in the prior year. In order to do this, OMB suggests the SEA, at a minimum, perform the following procedures: 1) identify the federally-funded services, 2) perform procedures to determine whether the federal program funded services that were previously provided with non-federal funds, and 3) perform procedures to ascertain if the total level of services applicable to the requirement increased in proportion to the level of federal contribution. Step two above is to be performed at the application approval stage of the process, whereas step three is to be performed at the end of the fiscal year. Step one must be performed in order to perform steps two and three.

At the end of each fiscal year, the Local Education Agencies (LEA) prepare an End-of-Year Report that details expenses for federal and state programs. This report is monitored and reviewed by the Administrator of School Business Services. The Administrator reviews the past year's expenditures to ensure the total state and local expenditures have increased at a greater level than the federal contribution as required in procedure three above. However, there is no evidence that the Title I Administrator performs a review to determine whether the federal program funded services that were previously provided with non-federal funds at the application approval stage. Conversely, the Vocational Education Administrator performs an SNS review at the application approval stage in which they determine whether the federal program funded services that were previously provided with non-federal funds in prior years as required by step two above. However, there is no evidence that procedures are performed to determine if the total level of services applicable to the requirement increased in proportion to the level of federal contribution. (*Department of Education - Title I Grants to Local Educational Agencies 84.010 and Vocational Education, Basic Grants to States 84.048; Fiscal Year 1992; 1999 Single Audit Finding 39*)

Recommendation

The Department's fiscal personnel should coordinate with programmatic personnel to implement and document formal policies and procedures to address all of the requirements of the SNS regulations for each program.

Some procedures that may be used to monitor SNS requirements are readily available for both of the programs noted above. The Title I Administrator could consider similar procedures to those performed by the Vocational Education Administrator with respect to reviewing the federal budgets of the subrecipients at the initial approval stage. The end-of-year report might need a slight change, according to department officials, to allow Vocational Education Administrator to perform the procedures similar to those of the Title I Administrator. A determination should be made if such a change is needed so that the SNS requirement can be adequately monitored.

Department Corrective Action Plan

The Administrators of the Title I program and the Vocational Education programs will meet with finance representatives to discuss the review features that the other programs have in place.

Title I programs will be reviewed at the application stage, similar to the reviews done at the Vocational Education level and this step will be incorporated into existing review documentation. The Vocational Education programs will monitor the annual level of services based on information available from the End-of-Year Reports and take appropriate steps if these requirements were not met. These steps will be incorporated into existing review documentation at both cluster levels.

Responsible Persons: Barbara Solomon, Francis Kane
Implementation Date: May 31, 2001

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Department of Education Findings on Compliance with Rules and Regulations

Finding Number 17: Inadequate Monitoring

For the federal fiscal year ended September 30, 1999, the Department of Education (Department) failed to monitor the required number of Child and Adult Care Sponsors, Summer Food Service and Special Milk Programs at schools where the School Lunch and Breakfast Programs were reviewed.

The Department is required, by federal regulation, 7 CFR 226.6 (1), to perform a monitoring review of at least 1/3 of all of the Child and Adult Care Sponsors receiving federal awards annually. The "Operational Plan Report", which provides a detail of the Child and Adult Care sponsors that were reviewed, was obtained for fiscal year 1999. The report detailed 107 sponsor site visits which is less than the 127 that required monitoring in fiscal year 1999.

In prior years there was no system in place for the Department to measure the adherence to this requirement. In fiscal year 2000, the Department utilized a computer system that identifies those Sponsors requiring monitoring reviews. This system has been put in place for all of the Nutrition Services programs administered in the current year.

Federal regulation, 7 CFR 225.7(d)(2), requires the State Education Agency to review 70% of Summer Food Service Program sponsors with ten or more sites and 70% of 10% of sponsors with less than ten sites. Based on the requirement the Department should have completed 84 reviews. In fiscal year 2000 the Department completed only 66 reviews.

Federal regulation, 7 CFR 215.11(b)(2), requires the State Education Agency to review the Special Milk Program when reviewing a Local Education Agency's (LEA) School Lunch and Breakfast Programs. In fiscal year 2000, the Special Milk Program was not reviewed for two of the five LEAs selected for testing. It appears that the Special Milk Program was overlooked in the review because it is so small in relation to the other two programs. (*Department of Agriculture - Child and Adult Care Food Program 10.558 and Special Milk Program for Children 10.556; Fiscal Year 1999 Single Audit Finding 43*)

Recommendation

The Department should ensure that the goal of monitoring 1/3 of the sponsors is achieved to comply with the federal regulations. The Department should also ensure that the reviewers include the Special Milk Program when reviewing the School Lunch and Breakfast Programs.

Department Corrective Action Plan

Monthly reports from program reviewers will be obtained. These reports will identify the status of the reviews. The review supervisor will review these reports and compare to actual reviews received by staff. Monthly the review supervisor will review with the Nutrition Programs and Services Administrator, the status of reviews and corrective action plans. Notifications to staff on discrepancies and/or deficiencies will be issued.

Additional staff to conduct the reviews has been requested. Position postings are expected by October 30, 2000. Hiring of staff and training should be completed by February 15, 2001.

Responsible Persons: William Cahill and Kathleen Millett

Implementation Date: February 15, 2001

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**Department of Education
Findings on Compliance with Rules and Regulations**

Finding Number 18: Failure to Reduce Title I Allocations or Obtain a Waiver for Maintenance of Effort Failure

The Department of Education (Department) did not reduce the Title I allocation for the Local Education Agencies (LEA) that did not meet the maintenance of effort requirements.

The data to determine if an LEA met the maintenance of effort requirements comes from the End-of-Year Report submitted by all LEAs. The LEAs fiscal year end on June 30 and the End-of-Year Reports are due by the following September 30th. Department officials indicated that many of the LEAs do not submit these reports until the end of the calendar year. The Department does not complete its calculation for maintenance of effort compliance until July or August of the following year. For example, for the fiscal year ended June 30, 1998 some of the LEAs submitted their End-of-Year Reports between September 30 and December 30, 1998. The Department compared this 1998 data with the 1997 data for maintenance of effort compliance in July or August of 1999. Because the fiscal year 2000 grants have already been made to the LEAs, any reduction in the Title I allocation for lack of compliance could not be made until the fiscal year 2001 grants. Department officials explain that, because of personnel issues, they have not completed comparing the 1999 to 1998 data and therefore, these results will not be available in time to affect the fiscal year 2001 awards.

An LEA may receive Title I funds for any fiscal year only if the combined fiscal effort per student, or the aggregate expenditures of the LEA and the State with respect to the provision of free public education by the LEA for the preceding year was not less than 90% of the combined fiscal effort or aggregate expenditures for the second preceding fiscal year. If the LEA fails to meet this level for both comparison criteria, the State must reduce the LEAs allocation by the exact percentage that the LEA failed to meet the requirement. The LEA may request a waiver from the requirement for uncontrollable circumstances or a precipitous decline in the financial resources of the LEA. The Department determined that one LEA had not met the maintenance of effort requirements in fiscal year 1999. However, there was no evidence that a reduction in the allocation or that a waiver was requested by or granted to the LEA.

The fiscal year 1999 Single Audit reported that four LEAs had not met this requirement in previous years. There is no evidence that the Department reduced their allocation for this failure. The Department should have reduced the fiscal year 2000 award to recapture the funds from the failure to meet the test in fiscal years 1999 and 1998. However, the fact that this did not occur indicates a lack of procedures to document and recapture award adjustments. (*Department of Education - Title I Grants to Local Educational Agencies 84.010; Fiscal Year 1999 Single Audit Finding 44*)

Recommendation

The Department should implement and document formal policies and procedures to monitor the LEAs adherence to the maintenance of effort requirements. Those policies and procedures should include the system to recover funds that need to be recaptured and to track funds that are to be recaptured and other grant adjustments that need to be made. The responsibility should be shared between the Program Manager and the Grants Management Unit. Each time a Program Manager requires a change in grant amount, the Grants Management Unit should be notified in writing. A tracking system should be established to document the amount of the required adjustments and the status of the recovery.

Department Corrective Action Plan

The FY 2000 End-of-Year Reports are due on September 30, 2000. We fully anticipate being able to analyze these reports for Title I maintenance of effort requirements prior to FY 2002 awards being issued. We will either reduce the Title I allocations or issue a one-time waiver to any LEA that fails to meet its maintenance of effort levels.

We will also use the information from the analysis of the FY 1999 End-of-Year Reports to accomplish the same goal, to be reflected on the 2002 grant awards. These same steps will be taken for the four LEAs that were mentioned in prior year audit reports. This will also be reflected in the 2002 grant awards.

We are reviewing our procedures to streamline our processes to prevent a reoccurrence of this issue. We will document this process and maintain all pertinent correspondence.

Responsible Person: Barbara Solomon

Implementation Date: May 1, 2001

Department of Education Findings on Compliance with Rules and Regulations

Finding Number 19: Federal Report Deficiency

The Department of Education (Department) prepares the administrative match section of the federal Vocational Education expenditure report based on the required amount to be matched not the actual expenditures from the books and records.

According to federal regulation, 34 CFR 403.181, the State is required to match from non-federal sources and on a dollar-for-dollar basis, the funds reserved for administration of the State Plan for the Vocational Education Program. The Department provides large amounts of state funds to regional vocational education schools. The regional vocational schools spend some of the money provided by the state on administration. These funds are considered the state match to meet the regulation's requirement but are not measured for use in preparing the federal report. Because of the level of state funding for the regional vocational education schools the Department is confident that the spending is actually more than the amount included in the federal report and that the requirement is satisfied.

To support the assumption that the match is met, the Budget Director prepares an analysis of state spending for administration at the Department and regional vocational education schools. The analysis starts with each Local Education Agency's (LEA) expenditures as reported to the Department annually on the End-of-Year Reports and uses only the amounts reported by those LEAs that are exclusively regional vocational education schools to be conservative. At current funding levels this spending would seem to easily meet the required match. However, the system has significant weaknesses. The Department accepts the amounts reported by the LEAs without review. The End-of-Year Report was not included in the items tested during the Coordinated Reviews. The Department has no assurance that the amounts used for the match are accurately reported by the LEA, nor used as a match for any other federal programs. Although flawed, the analysis shows that the match is more than met and at current funding levels it seems assured that the match is met. However, the system in place cannot be relied on to actually measure the match. In times of decreased funding, the analysis could easily depict a false level of state support.

Discussions with U.S. Department of Education personnel part of CAROI process, discussed in finding number 14, indicated that using the funds the LEAs use for administrative purposes can not be used to satisfy the matching requirement. However, funds provided to the state's community colleges could be used as part of the match.

In addition to the regional vocational education school spending, the Department includes state level administrative spending in the analysis. This adds \$202,752 of state administrative funds as part of the match. The individuals used to satisfy the match do not keep time records in accordance with OMB Circular A-87. Rent and utilities are included in the match, based on the number of employees used in the match as a percentage of the total Department employees. The rent and utilities are therefore, unsupported to the same extent as the salaries. The total questioned costs resulting from the state's failure to meet the matching requirement is approximately \$1.1 million. (*Department of Education - Vocational Education, Basic Grants to States 84.048; Fiscal Year 1997; 1999 Single Audit Finding 42*)

Recommendation

The Department should implement a system of reporting state spending for administration that can be used to meet the match requirement. If the accounting or grants management systems can not be used to capture the actual spending for administration at the state and community college levels, the Department must develop a system to capture that spending. The system should capture the required information in a manner that allows for easy verification and a clear audit trail. The system will also allow the Department to know that the amounts used are accurate, not double counted at the state level and meet the allocation requirement of OMB Circular A-87.

Department Corrective Action Plan

We have and will continue to meet with our counterparts at the U.S. Department of Education to determine the pool of proper and available state administrative expenditures that qualify as Vocational Education matching funds under the provision. We will document the procedures for compiling the information of state expenditures within the department.

We will also review available state administrative expenditures within the other departments in the Commonwealth they may qualify as matching funds under Perkins.

Responsible Persons: Anthony DeLorenzo, Francis Kane

Implementation Date: February 28, 2001

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Department of Education Findings on Compliance with Rules and Regulations

Finding Number 20: Total Quarterly Federal Expenditures as Shown on Federal Reports are not Reconciled to the Commonwealth's Accounting System

The Department of Education (Department) does not reconcile its total quarterly expenditures as reported on its federal reports to the Commonwealth's accounting system (MMARS).

The Department is required to prepare on a quarterly basis Financial Status Reports (SF269) for the U.S. Department of Agriculture (USDA) nutrition programs. The Department maintains a separate nutrition subsystem which is the primary source of information used to prepare the SF269 primarily because, according to Department officials, it is capable of tracking information for specific grants and federal fiscal year. The individual payments to the providers of the nutrition services are entered into the nutrition subsystem and MMARS, the Commonwealth's accounting system. Department officials explain that on a weekly basis the individual payments as shown on the MMARS 341A Report are traced to the nutrition subsystem. However, there is no quarterly reconciliation between the nutrition subsystem--the total federal expenditures as reported on the SF 269--and the MMARS system.

Uniform Administrative requirements for grants and cooperative agreements to state governments (Common Rule), Subpart C, Paragraph 20 requires accurate, complete and current disclosure of the financial results of each federal program. A lack of reconciliation of the total quarterly federal expenditures as reported on the SF 269 from the nutrition subsystem and MMARS could allow errors to go undetected. Federal reports must be reconciled to the official "books and records" if they are not prepared directly from that system. (*Department of Agriculture - School Breakfast Program 10.553, National School Lunch Program 10.555, Special Milk Program for Children 10.556, Summer Food Service Program for Children 10.559 and Child and Adult Care Food Program 10.558*)

Recommendation

The Department should reconcile the quarterly totals as taken from the nutrition subsystem and reported on the SF 269 to the MMARS system. The Commonwealth's accounting system is scheduled to be replaced in the near future. The Department should participate in the development of the specifications for the new Commonwealth accounting system to ensure that the system will have the flexibility to meet the Department's grants accounting needs. The Department's grants management and accounting needs are similar to many other state departments', however the Department believes it has special needs. The Department must take proactive action to ensure that the new system meets its needs.

Department Corrective Action Plan

The nutrition administrative section is in the process of developing a new subsystem report that will provide a reconciliation of the expenditure data reported to USDA on the required FNS-269 reports to the MMARS payment system. This report will allow the department to perform reconciliations by a range of payment dates. It will be generated by appropriation account number and by fiscal year, and will contain a summary of the following information:

- Journal Number
- Dates paid
- Document number Adjustments affecting payments to sponsors, and
- Commodity reduction

This will allow us to verify that the amounts reported in the FNS-269 reports are reported in MMARS.

Responsible Persons: Neal Gilbert and Ron Honesty

Implementation Date: January 31, 2001

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Department of Education Findings not Repeated from Prior Years

1. The Department of Education's (Department) Standards and Measures Reports for Vocational Education did not include a report on the students' academic skills or special population information. Discussions with U.S. Department of Education (DOE) personnel indicated that changes in the Perkins Law established a comprehensive set of core indicators and that the Department has submitted the necessary documentation to meet the full implementation deadline. DOE considers this finding resolved. (*Fiscal Year 1999 Single Audit Finding 41*)
2. The number of subrecipients receiving on-site monitoring visits by the Department for the Title I program was inadequate. The Commonwealth is required to adhere to its own monitoring policy for Title I, not the agreement established between the Department and the DOE Office of Special Education for Education of the Handicapped program. The DOE considers this finding resolved. (*Fiscal Year 1999 Single Audit Finding 45*)

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Department of Housing and Community Development Background

The Department of Housing and Community Development (Department) works with and through local governments and nonprofit organizations to house low-income people and promote sound municipal and neighborhood development. Through a combination of grants and technical assistance, the Department (1) houses low-income families, elderly and handicapped individuals in publicly-owned developments and in private housing supported by rent subsidies, (2) weatherizes the homes of low-income households and provides fuel assistance, and (3) invests state and federal funds in neighborhood housing and community development housing projects.

For fiscal year 2000, the Department administered approximately \$505 million. Total federal funding was approximately \$274 million.

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

<u>CFDA #</u>	<u>Federal Program Description</u>
	Section 8:
14.855	Rental Voucher Program
14.857	Rental Certificate Program
14.182	New Construction and Substantial Rehabilitation Program
14.856	Lower Income Housing Assistance-Moderate Rehabilitation Program
14.228	Community Development Block Grant/State's Program
93.569	Low-Income Home Energy Assistance Program

No findings resulted from the audit of these major programs.

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Department of Housing and Community Development Findings not Repeated from Prior Years

1. The Department of Housing and Community Development (Department) had been unsuccessful in obtaining the required audit reports from subrecipients in the required time frame. The Department has implemented policies and procedures that address subrecipient failure to adhere to filing deadlines, including suspension of spending authorization and administrative funds. *(Fiscal Year 1999 Single Audit Finding 17)*
2. The Department needed to implement a system to issue the required management decision within the time frames set by OMB Circular A-133. The Department's Division of Neighborhood Services has implemented policies and procedures to ensure compliance with OMB Circular A-133, including converting the usual action letter into the management decision and follow-up telephone calls as required. *(Fiscal Year 1999 Single Audit Finding 18)*

Division of Medical Assistance Background

The Division of Medical Assistance (Division) is the designated single state agency responsible for administering the program of medical assistance. During fiscal year 2000, the Division administered approximately \$5.5 billion in carrying out its program. Federal funds amounted to approximately \$2.8 billion.

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

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

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**Division of Medical Assistance
Findings on Compliance with Rules and Regulations****Finding Number 21: Missing Case File**

The Division of Medical Assistance (Division) could not locate one of the one hundred recipient case files selected for testing. As a result, there was no documentation to support the payment of Medicaid benefits to this recipient. OMB Circular A-87, "Cost Principles for State, Local, and Indian Tribal Governments", Attachment A, Section C-Basic Guidelines states "To be allowable under federal awards, the cost must be adequately documented."

The Division does maintain recipient folders at an off-site Central Filing Unit (Unit). The file in question, however, apparently was never sent to the Unit by one of the field offices. Investigation by the field office did not locate the file. In fact, the office's investigation revealed that it had never been there. The Division was unable to determine who had the file and it has still not been located. Without reviewing the file, the eligibility of the recipient and the allowability of the \$3,709.88 of services provided cannot be verified. (*Department of Health and Human Services - Medical Assistance Program 93.778*)

Recommendation

The Division needs to continue its search for this file and determine the reason that the file was missing so that it may take whatever steps are necessary to prevent a recurrence.

Department Corrective Action Plan

The Division will continue to look for the missing case file at the Medicaid Eligibility Centers (MEC's) and report our findings. It will also re-examine the Fox Pro database system used by the MECs to track cases to assure that all cases are recorded at the time of creation. The Division will also communicate to all MEC directors the importance of delegating this function to specific individuals who are accountable for data entering this information into their tracking system (s).

Responsible Person: Robert M. Falconero

Implementation Date: December, 2000

**Division of Medical Assistance
Findings on Compliance with Rules and Regulations**

Finding Number 22: Overpayments Must be Refunded in a More Timely Manner

The Division of Medical Assistance (Division) needs to refund to the federal government the recoupments of overpayments in a more timely manner. In seven of the 25 cases tested for recoupments of overpayments, the Division did not refund the federal portion in the time allowed. In addition, the Division needs to identify whether the recoupment is for the Medicaid or State Children's Insurance Program (CHIP).

Federal regulation, 42 CFR 433.312 (a) (1), states that "the Medicaid agency has 60 days from the date of discovery of an overpayment to a provider to recover or seek to recover the overpayment before the federal share must be refunded to HCFA." 42 CFR 433.312 (a) (2) states that "The agency must refund the Federal share of overpayments at the end of the 60-day period following discovery in accordance with requirements of this subpart, whether or not the State has recovered the overpayment from the provider."

As part of the Overpayment and Recovery process, audits are performed by both Division personnel and independent subcontractors. Once an audit is finalized, all claims that are not properly supported are communicated to the provider as a potential overpayment. As this point, the cases will ordinarily stay with the identifying unit for an indefinite period of time, during which a letter, entitled "Preliminary Overpayment Letter" is sent to the provider communicating that an overpayment exists as well as the reason for and the amount of the overpayment. If the provider does not respond within 30 days, a courtesy letter is sent informing the provider that an overpayment was made and a recoupment account established. In these cases, the Division must refund the overpayment within the 60 days required.

If the provider responds within 30 days to the "Preliminary Overpayment Letter" and wishes to contest the overpayment, the Division will usually grant additional time. Once an agreement or an impasse is reached, a "Final Notice of Overpayment" is sent, and a recoupment is set up to be offset against any future payments to the provider.

Due to the fact that there are a number of units within the Division which identify and track overpayments, there is no one unit or individual responsible to track the universe, status of collections of overpayments, and whether the overpayment pertains to the Medicaid or the CHIP program.

As indicated above, of the 25 recoupments selected for testing totaling \$331,583, seven totaling \$51,946 were not refunded to the federal government within the 60 days required. The refunds were made from 1 to 21 days late. Additionally, the Division does not differentiate between Medicaid and CHIP recoupments. Therefore, all refunds were made to the Medicaid program. Division personnel understand the federal regulation and believe that it is complying with the intent and spirit of the regulation. (*Department of Health and Human Services - Medical Assistance Program 93.778 and State Children's Insurance Program 93.767*)

Recommendation

The Division needs to reemphasize the importance of refunding recoupments recovered to the federal government within the time frames required by regulations. Centralizing the processing and tracking for both the amount of the recoupment and the program to which the recoupment recovered belongs might make the process more efficient and effective. Additionally, the Division needs to recognize that the CHIP program is separate from Medicaid and establish policies and procedures that process and track recoupments accordingly.

Department Corrective Action Plan

The Division understands the importance of recovering recoupments within the time frames required by regulations. The Utilization Review Unit will set up recoupment accounts on or after 30 days has expired from the date of the final notice. The Unit will make every effort to establish MMIS recoupment accounts in a timely manner. Subsequently, the Federal Revenue Unit will be notified systematically about recoupment collections due the federal government and can then take the necessary steps to return the monies within the appropriate timeframe.

Recoupments will continue to be reported to HCFA as collected and allocated to the CHIP program based upon a methodology designed by HCFA staff.

Responsible Person: Joan Senatore; Gerry Beaudreault
Implementation Date: November, 2000

Division of Medical Assistance Findings on Compliance with Rules and Regulations

Finding Number 23: Improvements Needed in the Identification of New Federal Programs

The Division of Medical Assistance (Division) did not recognize the State Children's Insurance Program (CHIP) as separate federal program revenue when it drew down the federal funds.

Fiscal year 2000 was the first year that the Division expended federal funds for the CHIP program. Expenditures for the year totaled approximately \$56 million. Office of the Comptroller and Division officials explained that a separate account was set up in MMARS in the fiscal year 2000 budget for the new CHIP program. However, the Division in recording the federal reimbursements combined them with Medicaid. The drawdown of federal funds were made as if the funds were expended for Medicaid. It appears that because the CHIP program is so small in relation to the approximately \$5 billion Medicaid program and because many of the recipients and providers are the same for both programs, the accounting for the CHIP program got combined with Medicaid. As a result of our audit, the Division has worked with the Office of the Comptroller to transfer the federal reimbursement revenue to the proper CHIP account.

OMB Circular A-133, Subpart C, § .300 (a) "The auditee shall identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Federal program award identification shall include, as applicable, the CFDA title and number, award number and year, name of the Federal agency, and name of the pass-through entity." (*Department of Health and Human Services - Medical Assistance Program 93.778 and State Children's Insurance Program 93.767*)

Recommendation

The Division needs to ensure that all parties involved in the administering, accounting, and reporting processes are aware of any new federal programs that the Division receives.

Department Corrective Action Plan

All CHIP funds are properly charged to the appropriate federal awards, as detailed in the instructions provided to the State Treasurer's Office. Additionally, the PMS 272, the accounting of grant award to the U. S. Treasury, also reflects the proper accounting of the grant award. Within MMARS, the state accounting system, all funds are properly accounted for after the reclassification of these funds from the "holding" account to the assigned revenue source. In the specific instance of CHIP funds, all funds were transferred to a separate revenue account and identified as such.

In the future, all federal programs will be separately identified.

Responsible Person: Gerry Beaudreault

Implementation Date: November, 2000

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Division of Medical Assistance Findings on Compliance with Rules and Regulations

Finding Number 24: Medical Necessity Review Results

Recipients in two of the twenty-five cases selected for testing received services which may have been in excess of what was medically necessary. Accordingly, the Division of Medical Assistance (Division) may have made payments of \$1,457 more than required.

Nurses used by the Division of Medical Assistance's Utilization and Pre-certification Unit reviewed the recipient cases selected by the auditors for testing to determine, in their judgement, if the services provided were reasonable and medically necessary. The nurses' review indicated that in two of the long-term care cases the recipients received a higher level of service than the nurses considered necessary based on the information contained in the patient's case file. If the lower level of service had been provided, the Division would have paid \$1,457 less than it did. The total benefits paid for the twenty-five cases selected for testing was approximately \$39,664.

The Office of Management and Budget Circular A-133 Compliance Supplement, states: "To be allowable, Medicaid costs for medical services must be: (1) covered by the State plan and waivers; (2) for an allowable service rendered (including supported by medical record or other evidence indicating that the service was actually provided and consistent with the medical diagnosis); (3) properly coded; and (4) paid at the rate allowed by the State Plan". (*Department of Health and Human Services - Medical Assistance Program 93.778*)

Recommendation

The Division should recoup the \$1,457 paid for the services not considered medically necessary.

Department Corrective Action Plan

The Division has a comprehensive auditing process in place for casemix scores for members of nursing facilities described in Division regulations found at 130 CMR 456.420 and 130 CMR 420.421. Over 500 Massachusetts nursing facilities are routinely audited to validate and verify submitted casemix scores. Nursing facilities submit casemix scores four times a year. Each facility is audited at least yearly, however, some nursing facilities are audited up to four times per year based on review of member records. At a minimum, over 70,000 member records are reviewed each year. More than \$8 million are identified in overpayments annually.

With regard to the two selections in question, it so happened that the facilities and the two members selected as a part of the single state audit were not identified for audit during the period reviewed by the Division as a part of its regular audit process described above. Since they have now been identified, the Division will proceed in accordance with its regulations with respect to these audit findings

. Responsible Person: Lisa McDowell
Implementation Date: November, 2000

**Division of Medical Assistance
Findings on Reportable Conditions**

Finding Number 25: Tracking and Recording of Receivables, Uncollectibles and Write-offs Needs Improvement

The Division of Medical Assistance (Division) records receivables from the following sources: Estate recoveries, Accident recoveries, Fraud recoveries and Health Insurance recoveries. The Division utilizes historical data in order to estimate the amount of the receivable that is uncollectible and to be written off.

Estate Recoveries – Estate recoveries represent claims made on the estates of former recipients of Medicaid benefits. Under certain circumstances as defined by State regulations, the Division may have a right to make claims on the estates of deceased recipients. A receivable is recognized when a claim is filed with the estate.

Accident Recoveries – represent rights of subrogation to recover from automobile and malpractice insurance carriers for benefits provided to the recipient by the Division.

Fraud Recoveries – represent monies collected by the Department of Transitional Assistance from recipients who have committed fraudulent use of financial and medical benefits provided by the Division.

Health Insurance Recoveries – represent third party billings for benefits provided to the recipient by the Division.

The recovery of these claims is handled by outside consultants who provide the Division with monthly information on claims submitted. In return, the consultant collects contingency fees on all recoveries collected. The actual amount recovered is frequently less than the claim due to settlements, lawyer fees and other expenses deducted from the proceeds and limitations on the coverage. The claims may or may not be collected, or may be collected in part, based on other claims against the assets, as well as the value of these assets. Currently, the Division is calculating the uncollectibles based on the percentage of the prior year total amount claimed to total amount collected. This percentage is then applied to the current year gross receivable balance to calculate the current year uncollectibles. The Division, however, uses the same estimated uncollectible amount as the amount to be written off in subsequent years. While using an estimate to determine the uncollectible amount is acceptable, using an estimate to determine the receivable amount to be written off is not acceptable. The amounts to be written off need to be supported by an aging report along with the individual claims to be written off.

The Division personnel have already held a meeting with Office of the Comptroller personnel to discuss this issue and to determine the most appropriate method to record this information. (*Department of Health and Human Services – Medical Assistance Program 93.778*)

Recommendation

We recommend that the Division work with its contractors in order to obtain aging reports and the individual claims that are to be written off on these recoveries. During the testing of the uncollectibles, the Division was unable to provide an aging analysis. These aging reports are necessary for the Division to propose proper write-offs of aged recoveries. In addition, without this information the Division is unable to substantiate the write-offs and provide the auditors with supporting documentation of which specific recoveries are being written off.

Department Corrective Action Plan

The Division was unable to provide an aging analysis during the testing of the uncollectibles because these accounts are not of the same nature as traditional receivables. Rather they are the result of recovery initiatives against estate or insurance companies.

The Division is working with the Office of the State Comptroller during SFY 2001 to determine the best way to report these accounts in the future. The Division will work with its contractors to obtain account aging reports.

Responsible Person: Gerry Beaudreault
Implementation Date: February 28, 2001

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Division of Medical Assistance Findings not Repeated from Prior Years

1. During the testing of the Department of Mental Retardation waiver program, one of 20 selections tested did not have have the Individual Support Plan (ISP) form signed by the individual or family member. No instances of this type were found as part of the fiscal year 2000 Single Audit. (*Fiscal Year 1999 Single Audit Finding 21*)
2. One instance of 25 tested did not have the necessary income documentation for determining eligibility. No instances of this type were found as part of the fiscal year 2000 Single Audit. (*Fiscal Year 1999 Single Audit Finding 22*)
3. The Division of Medical Assistance (Division) did not file all of its required HCFA-64 and PMS-272 reports on time. This finding was first reported as part of the fiscal year 1998 Single Audit and the Division has not been advised by the federal grantor agency of the need to submit its federal reports on time. Therefore, in accordance with § .315 (b)(4)(i) of OMB Circular A-133, this finding does not warrant any further action. (*Fiscal Year 1999 Single Audit Finding 23*)
4. The Division of Medical Assistance (Division) did not file all of its HCFA-372 reports for the Home and Community Based Services Waiver for the Mentally Retarded and the Home and Community Based Services Waiver for the Frail Elderly on time. This finding was first reported as part of the fiscal year 1993 Single Audit and the Division has not been advised by the federal grantor agency of the need to submit its federal reports on time. Therefore, in accordance with § .315 (b)(4)(i) of OMB Circular A-133, this finding does not warrant any further action. (*Fiscal Year 1999 Single Audit Finding 24*)
5. The Division of Medical Assistance (Division) did not redetermine the eligibility of all Medicaid recipients in a timely manner. The Division has made significant progress in performing timely redeterminations. In addition, this finding was first reported as part of the fiscal year 1993 Single Audit and the Division has not been advised by the federal grantor agency of the need to revise its redetermination process. Therefore, in accordance with § .315 (b)(4)(i) of OMB Circular A-133, this finding does not warrant any further action. (*Fiscal Year 1999 Single Audit Finding 25*)
6. The Division of Medical Assistance (Division) needed to effect system changes to adhere to certain requirements pertaining to prenatal care for pregnant women and preventative pediatric services when absent parents are involved. This finding was first reported as part of the fiscal year 1992 Single Audit and the Division has not been advised by the federal grantor agency of the need to revise its system to properly identify absent parent obligations. Therefore, in accordance with § .315 (b)(4)(i) of OMB Circular A-133, this finding does not warrant any further action. (*Fiscal Year 1999 Single Audit Finding 26*)

Department of Public Health Background

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

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

For fiscal year 2000, the Department administered approximately \$700 million. Of this amount, federal funds amounted to \$180 million.

The federal funding to this department is detailed in the accompanying Schedule of Expenditures of Federal Awards.

The Department's major programs were:

<u>CFDA #</u>	<u>Federal Program Description</u>
10.557	Special Supplemental Food Program for Women, Infants and Children
93.959	Block Grants for Prevention and Treatment of Substance Abuse
93.917	HIV Care Formula Grants
93.940	HIV Prevention Program

Department of Public Health Findings on Compliance with Rules and Regulations

Finding Number 26: Payroll Certifications not Performed

The Department of Public Health (Department) did not require employees who work solely on one federal program to file the required semi-annual federal certification.

OMB Circular A-87 Attachment B (11)(h)(3) requires, that where employees are expected to work solely on a single federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.

We noted that all ten (10) employees, who were charged 100% to a federal program, tested did not have signed payroll certifications. The Department indicated that due to turnover in this administrative area, the new personnel responsible for the certifications were not aware that this semi-annual certification was required by federal regulations. Additionally, there was no procedure in the internal control plan requiring the certifications. (*Department of Health and Human Services – Substance Abuse Prevention and Treatment Block Grant 93.959; HIV Prevention Activities - Health Department Based 93.940; HIV Care Formula*

Grants 93.917)

Recommendation

We recommend that the Department obtain signed payroll certifications from their employees on a semi-annual basis. The Department should include this requirement in its internal control plan and ensure that all appropriate department staff are aware of this federal requirement.

Department Corrective Action Plan

The Department has completed the payroll certifications as required by OMB Circular A-87 Attachment B (11)(h)(3) and will do so every six months [September and March] as required and ensure all appropriate department staff are aware of this federal requirement. In addition, the Department has included this requirement in its Internal Control Manual.

Responsible Person: Marianne Fleckner, Assistant Commissioner for Administration

Implementation Date: March 31, 2001

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Department of Public Health Findings not Repeated from Prior Years

1. The Department of Public Health (Department) needed to improve its monitoring policy for subrecipients. The Department hired an internal auditor to follow-up on the receipt and review of subrecipient audit reports and the issuance of management decisions. No issues were noted as part of the fiscal year 2000 Single Audit. (*Fiscal Year 1999 Single Audit Finding 27*)
2. The Department did not report actual expenditures in its 1998 third quarter progress report as part of its 1999 grant application for the HIV Care Formula Grant. The Department established written procedures requiring the reporting of actual expenditures and no similar instances were noted as part of the fiscal year 2000 Single Audit. (*Fiscal Year 1999 Single Audit Finding 28*)
3. The Department needed to develop written procedures to document the level of effort calculation that supported the expenditures for pregnant women and women with dependent children. The Department developed the appropriate procedures to support the level of effort calculation and no similar instances were noted as part of the fiscal year 2000 Single Audit. (*Fiscal Year 1999 Single Audit Finding 29*)

Department of Revenue/Child Support Enforcement Background

The Division of Child Support Enforcement (Division) is organizationally part of the Commonwealth's Department of Revenue. The Division's mission is to (1) identify and locate absent parents, (2) establish and enforce support obligations, and (3) collect and distribute support payments for children receiving public assistance payments under the Transitional Assistance to Families with Dependent Children (TAFDC) Program as well as a portion of the court ordered non-TAFDC payments.

During fiscal year 2000, the Division's total expenditures were approximately \$54 million.

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

<u>CFDA #</u>	<u>Federal Program Description</u>
93.563	Child Support Enforcement

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

Finding Number 27: Cases Not Closed in System

The Department of Revenue/Division of Child Support Enforcement (Division) case file system does not always detect cases that remain open in error. From a sample of 25 case files selected for testing, we noted two that should have been closed.

Federal regulation, 45 CFR 303.11, requires that the Division establish policies and procedures for timely case closure. Two cases were noted that should have been closed because (1) the non-custodial parent (NCP) and custodial parent (CP) re-established their relationship and (2) the NCP gained custody of the child. Under 45 CFR 303.11, these cases should have been coded as non-active and removed from the COMETS system. However, both cases remain active and carry an arrearage balance that, in all likelihood, is incorrect.

The Division's failure to close cases in a timely manner suggests a weakness in its case management control system or a failure in enforcing and monitoring compliance with policies and procedures and laws and regulations, and may render its case management database unreliable. As such, reports filed with the federal government may also be inaccurate. (*Department of Health and Human Services – Child Support Enforcement 93.563; Fiscal Year 1998; 1999 Single Audit Finding 35*)

Recommendation

Procedures should be implemented or policies enforced to ensure timely review of case files. Only active cases should be maintained in the system, and the collection and closing of accounts should be performed in a timely manner. Further, the Division should continue to utilize their Quality Assurance Unit to perform comprehensive reviews of active case files. The results from these reviews should be tracked closely. Any errors detected during the Quality Assurance Unit review should be corrected on a timely basis and the results documented.

Department Corrective Action Plan

Responsible Parties: Michele Monahan, Acting Director, CSE Strategic Planning & Analysis
Paul Cronin, Deputy Director, CSE Customer Service
Johanna Moran, CSE Policies & Procedures
Cheryl Traina, Director, CSE Customer Service

Corrective Action Plan: Since the beginning of the current fiscal year, CSE has closed 2,336 cases, many of the closings were due to the emancipation of the youngest dependent (in addition, 1,273 cases had the court order terminated for this same reason). This finding relates to CSE's inability to detect cases that remain open in error. CSE continues to follow a three-pronged approach to correct this problem:

1. Once a case has been identified as eligible for closure or order termination, CSE may close the case in a timely manner in accordance with federal regulations. To ensure that this will take place, policies and procedures have recently been issued for the majority of the case closure reasons, including closure due to reconciliation and termination of order. Policies and procedures have also been issued to handle cases in which the noncustodial parent obtains custody of the child who is the subject of the order. (This is not necessarily a case closure issue, but rather an issue that needs to be addressed in court.) Policies and procedures will be developed and issued for the remaining case closure reasons within the next several months.
2. CSE's automated system must support the agency's case closure procedures. The automated system must identify cases eligible for closure (or order termination) in a timely manner. To ensure that this will take place, CSE has submitted, and will continue to submit a series of change requests to its technical bureau. The change orders will be designed to close cases accurately and timely, and will also address any inventory problems associated with past weaknesses in our control system. This functionality will incorporate the identification of cases eligible for closure, a review process, generation of the appropriate forms and the closing of the case if appropriate. Change orders have already been submitted for the following case closure reasons:

Emancipation - This change ensures that the court order will be shut down when the youngest dependent is emancipated. This change has addressed the existing inventory of cases where the court order has not been shut down. By November 2000, all cases in which the youngest dependent has already been emancipated will be addressed either through order termination (with a remaining arrears only case) or case closure. By the spring of 2001, all emancipation functionality in CSE's automated system will be complete.

CP Opt Out/Noncooperation in Preobligation Cases – This change provides for a letter to the custodial parents in nonpublic assistance cases requesting information necessary to proceed with their case when CSE has insufficient information. This change will ensure that CSE will close cases where the custodial parent no longer wants our services or where the custodial parent does not provide enough information for CSE to proceed. This functionality is scheduled to be implemented by June 30, 2001.

Future change orders will address systemic identification of cases eligible for other case closure reasons: public assistance Arrears < \$500, inability to locate the noncustodial parent, etc.

3. CSE will be making a much more concerted effort to educate customers about what they need to provide CSE in order to keep their case up to date in accordance with 42 U.S.C. § 666(c) (2). This will include letters, information in the courts, a pilot customer orientation night and a more informative website.

In addition, CSE will ask the Department's Internal Audit unit to conduct a review of the case closing policies and procedures in the spring of 2001.

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

Finding Number 28: Ineffective Case Tracking and Management System

The Department of Revenue/Division of Child Support Enforcement (Division) does not appear to have an effective system in tracking and managing child support cases. Of the 25 case files selected for testing, nine cases were not administered in accordance with federal regulations.

- A. A violation of federal regulation, 45 CFR 303.3, location of absent parents, was noted in 5 of the 25 cases. In accordance with 45 CFR 303.3, the Division must repeat location attempts in cases where previous attempts to locate absent parents or sources of income and/or assets have failed, but adequate identifying and other information exists to meet requirements for submittal for location, either quarterly or immediately upon receipt of new information which may aid in location, whichever occurs sooner. In 4 of the 5 cases, location attempts were not made during fiscal year 2000 due to minimal information provided by the custodial parent (CP) about the non-custodial parent (NCP). Yet, in all 4 cases the Division had the full name of the NCP, the location and physical description. In the 5th case, it was noted that the application is dated October 1997, yet there were no attempts to locate the NCP until April 1998.
- B. A violation of 45 CFR 303.2 was noted in one case. In accordance with 45 CFR 303.2, upon complete referral or the submission of a complete application, the case must be assessed and additional necessary information obtained within 20 days. Per review of the Record of Support Action in one of the case files, it was noted that the first assessment was not made until 23 days after submission of the complete application.
- C. A violation of 45 CFR 303.4, establishment of support obligations has been noted in 3 of the 25 case files. In accordance with 45 CFR 303.4, within 90 calendar days of locating the alleged father or non-custodial parent, regardless of whether paternity has been established, an order for support must be established or the proceedings necessary to complete service of process to establish a support order and if necessary, paternity must commence. In one of the cases, the NCP was located in August 1997 and no action was taken to establish support obligations until June 1998, which does not meet the above cited 90-day criteria. In a second case, the case was referred to Worcester legal for support within the 90-day limit. However, a review of the court order showed that it was not issued until approximately 5 months after the referral. A review of the case file noted no documentation regarding the process between the time of referral and the issuance of the court order. In the third case, the mother became incarcerated and gave legal custody of the child to the grandmother, thereby making the mother the NCP and the grandmother the CP. The mother was released during March 1999. For the period March 1999 through June 30, 2000, the Division properly documented the attempts made to locate the mother, the successful location and employment of the mother. However, it was also noted that the Division made no attempts to establish a support obligation after the mother became employed. (*Department of Health and Human Services – Child Support Enforcement 93.563; Fiscal Year 1989; 1999 Single Audit Finding 34*)

Recommendation

We recommend the Division enforce its policies and procedures to comply with federal requirements governing cash file review and administration. The Division should periodically provide training to its caseworkers. Supervisors should also monitor and review work performed by caseworkers to ensure all of the case files are complete and accurate, the Division's policies and procedures are followed, and federal compliance requirements are met. The Division's Quality Assurance Unit should also review case files with all active files being reviewed at least once every three years. These reviews should be documented and any errors identified logged to include a description of the error, the follow-up procedures performed, and how these errors are ultimately resolved or corrected.

Department Corrective Action Plan

Responsible Parties: Rachel Madden, Director, CSE Field Operations
Michele Monahan, Acting Director, CSE Strategic Planning & Analysis

Corrective Action Plan: This finding addresses two specific areas – location of noncustodial parent and federal timeframes.

1. Systemic location efforts run continually on a regular schedule for address, employer and asset information for noncustodial parents with a Social Security number. Staff have been provided with database reports detailing cases in which automated locate efforts resulted in possible locate information. Staff must verify the information to proceed with the establishment of a child support order. Functionality for CSE's automated system is currently being developed to utilize federal sources of Social Security number verification and identification. CSE is currently evaluating the feasibility of automating

our current manual practice of cross checking noncustodial parent information against various state databases (ex. Registry of Motor Vehicles). This automation could expedite our verification process during establishment and other case processing and could potentially be used to continuously identify location information at regular intervals.

2. To ensure CSE is complying with federal timeframes in the assessment of a case and the establishment of a child support order, CSE has developed new methodologies to ensure that policies and procedures are being followed. Staff are required to track and manage the inventory of cases throughout the establishment process to ensure that problems associated with paper flow and organizational structure do not result in missed timeframes. Staff have been trained with respect to the timeframes associated with case establishment as well as the IV-D requirements under each timeframe so that they will be better able to manage cases. Enhanced workflow monitoring tools such as aging reports used by regional managers are being implemented on a regular basis to further ensure adherence to established timeframes. Regional offices have dedicated staff to specific duties pertaining to creating cases and managing them to the point at which a referral can be made to staff within litigation units. Supervisory review and continuous retraining is a critical part of this new process.

The Department's Internal Audit unit is currently conducting a review of the case create function as well as the annual Self Assessment Review. One of the primary focuses of the Self Assessment Review is federal timeframes.

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

Finding Number 29: Failure to Obtain Payroll Certifications

The Department of Revenue/Division of Child Support Enforcement (Division) does not require employees who work solely on one federal program to file the required semi-annual federal certification.

OMB Circular A-87 Attachment B (11)(h)(3) requires, that where employees are expected to work solely on a single federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.

We noted that all 15 employees tested did not have signed payroll certifications. The Division has experienced turnover in the administrative areas and the current Division personnel responsible for the certifications were not aware that this semi-annual certification was required by federal regulations. Additionally, there was nothing in the internal control plan requiring the certifications. (*Department of Health and Human Services – Child Support Enforcement 93.563*)

Recommendation

We recommend that the Division obtain signed payroll certifications from their employees on a semi-annual basis. The Division should include this requirement in its internal control plan. The Division should consider including the certification as part of the timesheet process to ensure compliance with the federal requirement. Alternatively, the certifications can be obtained during the employee's semi-annual evaluation.

Department Corrective Action Plan

Responsible Parties: Rachel Madden, Director, CSE Field Operations

Corrective Action Plan: The Child Support Enforcement Division has taken the necessary steps to implement corrective action, including revising previous

policy & procedures and appointing a designee responsible for overseeing this function semi-annually.

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

Finding Number 30: Follow-up on the Office of the State Auditor's Report on the Child Support Enforcement Program

The Massachusetts Office of the State Auditor issued a report entitled "Independent State Auditor's Report on Certain Activities of the Commonwealth of Massachusetts Child Support Enforcement Program" on May 31, 2000. The report listed a number of areas that the Division of Child Support Enforcement (Division) needed to improve. As part of our responsibility under the Single Audit to follow-up on prior audit findings, an inquiry was made as to the status of corrective action taken by the Department of Revenue/Division of Child Support Enforcement to address the Office of the State Auditor's issues. The inquiry disclosed that, in an October 2, 2000 letter to the Office of the State Auditor, the Commissioner of the Department of Revenue (Department) explained that it had implemented corrective action on five of the eight findings in the report and that corrective action was underway on the following three issues:

1. Internal controls over the Child Support disbursement account needed to be enhanced;
2. Interest income not reported to the U.S. Department of Health and Human Services; and
3. Inadequate controls over case assessment monitoring.

The Department and the Division are working with the Office of the State Treasurer to resolve the first two issues cited above. (*Department of Health and Human Services – Child Support Enforcement 93.563; Massachusetts Office of the State Auditor, 7/1/97 to 2/28/99, findings 1-8*)

Recommendation

The Department and the Division should continue its efforts to resolve these issues.

Department Corrective Action Plan

Corrective Action Plan: Item Numbers 1 and 2

Responsible Parties: Paul Naves, Chief Fiscal Officer, ASD-Financial Services Bureau (FSB)
Kurt T. Steinberg, Director, FSB-CSE Finance Unit

Item Number 1

The Child Support Enforcement Division has already implemented a number of changes to enhance internal controls and reconciliation procedures. Part of this enhancement was the development of a specific unit, CSE Finance, which controls all aspects of CSE's collections and disbursements. In the short term, CSE Finance has implemented changes to monitor, control, and expedite resolution of outstanding checks over 180 days. We are discussing the possibility with the Office of the State Treasurer (OST) to make available additional reports to reconcile the cash balance in the Primary Disbursement Account. Also, we are discussing with OST the other techniques for reconciling to the bank statements.

Item Number 2

The Child Support Enforcement Division will work with the OST to obtain accurate interest income information for interest earned on all child support funds maintained by the OST, and make the necessary adjustments for prior quarters not reported.

Corrective Action Plan: Item Number 3

Responsible Parties: Michele Monahan, Acting Director, CSE Strategic Planning & Analysis
Paul Cronin, Deputy Director, CSE Customer Service
Johanna Moran, CSE Policy & Procedures

Item Number 3

The Child Support Enforcement Division has designed and is completing programming of the emancipation and case closing function. The functionality will inform staff and customers of cases nearing closure as dependents reach the age of majority.

**Department of Revenue
Division of Child Support Enforcement
Finding not Repeated from Prior Years**

1. The COMETS system used by the Department of Revenue's Division of Child Support Enforcement (Division) does not appear to properly allocate payments received on accounts with accelerated payment arrangement. Under the accelerated payment arrangement, non-custodial parents (NCP) pay an additional 25% in excess of the weekly assessments where the excess payments are to be applied against balances in arrears after the current assessments are fully satisfied. We did not note similar findings during the fiscal year 2000 audit of cash receipts and disbursements. Improvements made to the COMETS system have resulted in the proper allocation of payments to the custodial parents. *(Fiscal Year 1999 Single Audit Finding 33)*
2. The Division did not maintain a system of control to ensure that payments collected from NCP are distributed to the CP in a timely manner. No similar errors were noted during the fiscal year 2000 audit leading us to believe that the one incident noted in the prior year was in fact isolated and will not be repeated in the future. *(Fiscal Year 1999 Single Audit Finding 36)*
3. The Department of Revenue's Division of Child Support Enforcement (Division) did not maintain a system of control to ensure that the COMETS System accurately recorded and tracked payments that are due from non-custodial parents. Improvements have been made in the recording and tracking of payments from non-custodial parents and Division officials believe adjustments not taken into consideration have caused the arrearage balance differences. *(Fiscal Year 1999 Single Audit Finding 37)*

**Department of Social Services
Background**

The Department of Social Services (Department) protects children from abuse and neglect and works to strengthen families. The Department provides services such as counseling, parent aid or day care to reduce risks to children and develop a safe environment so that they can remain at home whenever possible. When necessary, the Department places children with foster parents or in-group homes. Approximately 10,000 children are living in foster or group homes. When a child is removed from his or her home, the Department develops a plan to provide long-term, stable resolution as soon as possible. The Department also provides day care for children of low-income families to allow parents to work or attend school, respite care for families caring for a developmentally disabled child at home, shelter and other services for battered women and their children, and homes for the homeless.

For fiscal year 2000, the Department administered approximately \$500 million. Federal funds amounted to approximately \$200 million.

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

<u>CFDA #</u>	<u>Federal Program Description</u>
93.667	Social Services Block Grant
93.658	Foster Care – Title IVE

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Department of Social Services Findings on Reportable Conditions

Finding Number 31: Documentation to Support the Eligibility of Those Receiving Services with the Funds Transferred from the TANF Block Grant to the Social Services Block Grant Needs to be Improved

The Department of Social Services needs to better document the administrative controls used to support the fact that the \$47 million transferred from the Temporary Assistance for Needy Families (TANF) Block Grant funds to the Social Services Block Grant (SSBG) was spent in accordance with federal regulations. In the Commonwealth of Massachusetts the TANF Program is administered by the Department of Transitional Assistance (DTA) while SSBG is administered by the Department of Social Services (Department).

Federal regulations allow no more than 10% of the TANF funds to be transferred to SSBG. The regulations also stipulate that these transferred funds can only be used for programs or services to children or their families whose income is less than 200% of the poverty level.

The Commonwealth does transfer 10% of the TANF block grant to the SSBG. The spending from the SSBG and the TANF transfer to the SSBG are controlled by the state legislature through the Social Services Fund. In fiscal year 1999, the transfer was included in the General Appropriations Act legislation (GAA) and in fiscal year 1998 an Interagency Service Agreement (ISA) was instituted regarding the transfer. According to Department officials, in fiscal year 2000 neither of these mechanisms was put in place because it was seen as redundant of the federal authority of the transfer and the GAA allocation of the SSBG and the TANF transfer to the SSBG. Department personnel indicated that all of the parties involved were aware of the restrictions placed on the funds transferred from TANF and that numerous meetings were held between themselves, DTA personnel and Fiscal Affairs Division personnel on the transfer of these funds. However, they explained that written control procedures were not prepared at that time, to support how compliance with the restriction was to be achieved or to show that the expenditures would be monitored to assure that only those eligible to receive services would receive them, because summary analyses of the population served by the Department indicated that the majority of the population served was within the 200% federal poverty level. Such documentation was prepared after year-end for audit purposes to illustrate the assumptions that had been made. Whenever the Department requests the funds to be transferred, it does provide DTA with an expenditure report indicating the programs for which the TANF transferred funds are expended.

The documentation provided for audit purposes presented the legislatively required pooling of the SSBG federal funds, the TANF transfer funds and the Commonwealth's social services funds into a number of appropriations. Commonwealth funding for fiscal year 2000 amounted to about \$398 million while SSBG funds were about \$40 million and, as mentioned above, TANF transfers to SSBG amounted to about \$47 million. The Department's documentation indicates expenditure pooling of SSBG, TANF transferred funds and state funds, although it does not show specifically that the TANF transferred funds were expended for those programs or services to children or their families whose income is less than 200% of the poverty level. The documentation does purport to show that between \$280 and \$293 million of the total of \$485 million social service funds expended were spent on those in the required income levels. This methodology calculated a vast surplus over the \$47 million of TANF funds as being spent for families and children within the 200% limitation. However, further modification to the methodology should be reviewed by the Department, including the coordination of cut-off dates used between databases to individualize clients and the matching to the Medicaid database to ensure the integrity of the percentages in the documentation. (*Department of Health and Human Services - Social Services Block Grant 93.667*)

Recommendation

Although no unallowable costs were noted, the Department needs to better document its support that federal participation restrictions are complied with. It should review the methodology used to calculate the TANF eligible services to ensure consistency within the databases and develop and implement these written policies and procedures. Further, the methodology should be tested at the beginning of the fiscal year to show that the TANF transferred funds will be spent in accordance with federal requirements and then monitored during the year.

Department Corrective Action Plan

The Department of Social Services will develop an Interagency Service Agreement with the Department of Transitional Assistance indicating the responsibilities which DSS assumes as the recipient of the SSBG/TANF transfer funds by November 1, 2000.

DSS will match date associations within databases used to 'individualize' clients in the methodology used to demonstrate the allowability of expenditures matched to SSBG/TANF transfer funds. The ISA will include the methodology to be used. The 'match' will be completed following the allocation of funding from the federal government for the Social Services Block Grant and the TANF block grant.

Responsible Person: Paul Hilton
Implementation Date: November 1, 2000

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Department of Social Services Findings not Repeated from Prior Years

1. The Department of Social Services (Department) needed to identify the exact amount of federal funding provided to its subrecipients under the Social Services Block Grant and more effectively perform appropriate monitoring procedures. The Department established a procedure to notify subrecipients six months prior to the end of the fiscal year of the approximate percentage of federal funding received. A memorandum of understanding was also developed with the Operational Services Division regarding the process and procedures for timely notification of subrecipients. Additionally, the U.S. Department of Health and Human Services issued a management decision resolving this finding as it appeared in the fiscal year 1998 Single Audit as finding number 41. (*Fiscal Year 1999 Single Audit Finding 30*)

[More Department of Social Services...](#)

Department of Transitional Assistance Background

The Department of Transitional Assistance's (Department) mission is to provide accurate and timely benefits with respect and courtesy to those in need of the Department's services. In pursuing this goal, the Department provides assistance to about a quarter of a million people in the Commonwealth each month through such programs as Transitional Assistance to Needy Families (TANF), Temporary Aid to Families with Dependent Children (TAFDC), General Relief, Supplemental Security Income and Food Stamps. The Department also operates the employment services program which provides basic education, skills training, job referral, career counseling, day care, and transportation services to certain AFDC and Food Stamp clients. The TANF Block Grant, which became effective October 1, 1996, and the beginning of the federal fiscal year, substantially changed the federal funding for these programs and merged the AFDC and JOBS programs into TANF.

During fiscal year 2000, the Department administered about \$900 million in carrying out its programs. Federal funds amounted to approximately \$530 million.

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

<u>CFDA #</u>	<u>Federal Program Description</u>
93.558	Transitional Assistance to Needy Families
10.551	Food Stamps
10.561	State Administrative Matching for Food Stamp Program

Department of Transitional Assistance Findings on Compliance with Rules and Regulations

Finding Number 32: Food Stamps Status of Claims Against Household Report Filed with Inaccurate Data

For the quarter ended December 31, 1999, the Department of Transitional Assistance (Department) submitted the Food Stamps Status of Claims Against Household Report (FNS-209) to the U.S. Department of Agriculture, Food and Consumer Service (USDA/FCS) containing errors in the amount of outstanding claims reported. As required by 7 CFR 273.18, the FNS-209 is submitted on a quarterly basis and is used to support the amount of outstanding claims against food stamp recipients and the amount of cash collections and recoupments made during the quarter. The accuracy of these reports is important because the Department must submit to the federal government 65% of the amount collected due to Intentional Program Violations, 80% of the amount collected due to Inadvertent Household Errors and 100% of the amount collected due to State Agency Administrative Errors. Beginning in September 1998, the Department prepared the FNS-209 Report using the BEACON system as the sole data source. Prior to that time, the FNS-209 Report was prepared by the Department using three data sources: the Centralized Receivable System, the Food Stamps Overpayment System, and the manual detail of cash collections.

The Department has acknowledged that the BEACON system contains technical and programming problems which cause the underlying source data to be reported inconsistently on the FNS-209 Report. There has been no reconciliation of the BEACON system and the underlying data since BEACON was implemented. The Department is currently addressing the technical and programming issues related to BEACON and is planning to reconcile all FNS-209 Reports which were created using BEACON generated data when all of the relevant issues have been corrected. The Department is waiting for the completion of FNS-209 detail report for the final fixes to conduct full-scale reconciliation. (*Department of Agriculture – Food Stamp Program 10.551; Fiscal Year 1994;*

1999 Single Audit Finding 20)

Recommendation

The Department should rectify the technical problems with the BEACON system and perform quarterly reconciliations of all FNS-209 Reports that were created with BEACON generated data.

Department Corrective Action Plan

The Department agrees with the recommendation and has begun systems work to rectify the problem.

Responsible Person: Ellie Giannini-Brittain 617-348-5122

Implementation Date: Approximate date of resolution, February 2001

Department of Transitional Assistance Findings on Compliance with Rules and Regulations

Finding Number 33: An Interdepartmental Service Agreement is Needed between Department of Transitional Assistance and Department of Social Services to Document the funds Transferred from the TANF Block Grant to the Social Services Block Grant.

The Department of Transitional Assistance (Department) did not execute an Interdepartmental Service Agreement with the Department of Social Services (DSS) to formally document the \$47 million transferred from the Temporary Assistance for Needy Families (TANF) Block Grant to the Social Services Block Grant (SSBG). In the Commonwealth of Massachusetts the TANF Block Grant is administered by the Department, while the SSBG is administered by DSS.

Federal regulations, 42 USC 604(d)(3)(A), allow no more than 10% of the TANF funds to be transferred to SSBG. The regulations also stipulate that these transferred funds can only be used for programs or services to children or their families whose income is less than 200% of the poverty level.

As noted in Finding Number 31, DSS needs to improve the documentation of the administrative controls used to ensure that the transferred funds were spent in accordance with federal regulations. The Department, as the prime recipient of the TANF funds, needs to formally document the transfer to DSS. This documentation should include informing DSS in writing of the appropriate federal regulations, determining the controls DSS has to have in place to demonstrate that compliance will be achieved; including how DSS will monitor expenditures to assure that only eligible individuals receive the services and what reports will be required by the Department from DSS to document expenditures.

While it appears that Department and DSS held numerous meetings to discuss the transfer of the funds and its uses, no formal documentation was put in place. (*Department of Health and Human Services – TANF Block Grant 93.558*)

Recommendation

The Department should formally execute an Interdepartmental Service Agreement with the DSS detailing the federal regulations and the administrative controls that DSS should have in place to support allowability of expenditures and the eligibility of those receiving services with the transferred funds. The Department also transfers TANF funds to the Office of Child Care Services (OFC) to supplement the Child Care and Development Block Grant. While there are no similar restrictions on these transferred funds, an Interdepartmental Service Agreement documenting the federal regulations and the administrative controls that OFC has in place should also be executed.

Department Corrective Action Plan

The Department agrees with the recommendation and will take steps to execute an Interdepartmental Service Agreement with DSS during State Fiscal Year 2001.

Responsible Persons: William Bell and Robert Menicocci 617-348-8431 and 8494

Implementation Date: January 15, 2001

Department of Transitional Assistance Findings on Compliance with Rules and Regulations

Finding Number 34: Documentation of the TANF Program and the Methods Used to Fund the Various TANF Components Needs Improvement

The Department of Transitional Assistance (Department) needs to improve the existing documentation with regard to the funding options used to provide the various services and the methodology used to satisfy the Commonwealth's Maintenance of Effort (MOE) requirement under the Temporary Assistance for Needy Families (TANF) Block Grant programs.

Federal regulations provide different funding options under which states can expend TANF grant funds and state MOE funds. The options are: Federal Only, Commingled Federal/State, Segregated State and Separate State Program. The Department provides the following services using the above funding options:

1. TAFDC cash assistance
2. ESP Transportation for TAFDC recipients
3. EA Shelter – TAFDC recipients
4. Voucher and Informal childcare
5. ESP programs and services that do not meet the definition of assistance
6. Rent Arrearage For Families
7. Income Eligible Childcare
8. STAFDC
9. Skills Plus
10. EA – Teen Living Programs
11. State Food Stamps
12. Earned Income Tax Credit
13. EA Shelter – Non TAFDC recipients
14. Transfer to the Social Services Block Grant
15. Transfer to the Child Care and Development Block Grant

The recipients of most of these services are classified into three groups – Federal only, State only and AR 17 (recipients that qualify for both federal and state funding). The AR 17 group is split between the federal and state programs and the split percentage changes based on the funds required to meet the State's MOE requirements.

Because of the varied and numerous services that the Commonwealth elects to provide and the various options available to fund these services, the TANF Program operated by the Department is comprehensive and complicated. While the audit found that the Department was in compliance with the MOE requirements and there were no unallowable costs noted, this type of program places additional documentation requirements on the Department's management to ensure that all aspects of the program are identified, including its scope, funding options used and methodology used to satisfy the MOE requirements.

(Department of Health and Human Services – TANF Block Grant 93.558)

Recommendation

The Department should improve its existing policies and procedures manuals that address the various TANF services provided and their funding methods as well as the Commonwealth’s methodology and programs used to satisfy the MOE requirements.

Department Corrective Action Plan

The Department will assemble cohesive documentation of the programs that the Commonwealth operates under the TANF program. This documentation will include descriptions of the funding method used for each program and which programs are used to satisfy the MOE requirements.

Responsible Person: Robert Menicocci 617-348-8494

Implementation Date: March 15, 2001

**Massachusetts Highway Department
Background**

The Massachusetts Highway Department (Department), within the Executive Office of Transportation and Construction, plans, constructs and maintains the state highway system, which consists of approximately 12,600 lane miles of highway, 60,000 acres of roadside and 2,900 bridges. To accomplish this, the Department operates approximately 143 maintenance facilities located throughout the state, including administrative offices, garages, repair and storage buildings. Most of the facilities are small and serve maintenance needs.

During fiscal year 2000, the Department administered appropriated funds of approximately \$143 million. In addition, about \$460 million was provided by the federal government on a reimbursement basis.

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

<u>CFDA #</u>	<u>Federal Program Description</u>
20.205	Highway Planning and Construction

**Massachusetts Highway Department
Findings on Compliance with Rules and Regulations**

Finding Number 35: Prevailing Wages not Paid

One individual hired by a construction company, which is under contract with the Massachusetts Highway Department (Department), was not paid the prevailing wage rate in accordance with the Davis-Bacon Act and Massachusetts General Law.

The Department is responsible for ensuring that the higher of U.S. Department of Labor or Massachusetts prevailing wages rates are paid to all construction workers on federally-funded projects when the construction contract exceeds \$2,000. It was noted that the hourly rate of one of five workers tested on Project STP-165 (001) X was paid \$.16 less per hour for straight time and \$12.54 less per hour for over-time for a total underpayment of \$33.90. Company personnel stated that they were paying workers in accordance with union rates, which they did not realize were less than the prevailing wage rate stated in the contract.

According to the Department's Standard Operation Procedure #CSD-28-03-1-000, dated April 10, 1998, the resident engineer at a site is responsible for systematic spot checks, payroll checks and local investigations as required. Although a review of the certified payrolls was performed by the resident engineer, the small difference in the hourly rate was not noted. The construction company plans to pay the additional amount to the laborer.

In fiscal year 1999, it was noted that the hourly rates paid to three of five workers tested on Project STP-050 (003), were less than a dollar to \$8 per hour below the prevailing wage rates set for their job classifications. All of the individuals worked for subcontractors on that project. This has not been resolved.

According to Department officials, a letter was sent from the Chief Engineer to each District Highway Director reiterating the Department's Standard Operating Procedures relative to the Davis Bacon Act and Massachusetts General Law and stressing the importance of enforcing those provisions. (*Department of Transportation – Highway Planning and Construction 20.205; Fiscal Year 1999 Single Audit Finding 14*)

Recommendation

The Massachusetts Highway Department should continue its efforts to review certified payrolls and ensure the prevailing wages are paid as stated in the contract.

Department Corrective Action Plan

The Department views this as an isolated incident. The Department will continue to remain vigilant in its efforts to ensure that prevailing wages are paid as stated in the contract.

The Construction Section reviewed the allegations that one employee at the Monroe River Road Project was paid the wrong classification for two days in May 2000. This amounted to a difference of 16 cents per hour. It was determined that the Contractor more precisely classified the employee as Boom (log) Truck Operator in accordance with Federal Classification as listed in the Operator's Union Job groups. However, this classification does not appear in the State minimum wage rates as listed in the Contract. The employee was paid correctly according to the more precise Federal Classification. The Contractor will pay the difference in the next pay period and review other classifications to ensure that they are listed in the contract.

The Department does have a process in place to monitor the prevailing wage rate as per the Davis Bacon Act. The Standard Operating Procedure was updated and revised last year and presented to all District Highway Directors. The importance of this issue is repeatedly stressed by the Chief Engineer and the Deputy Chief of Construction to District Highway Directors and Resident Engineers at monthly meetings.

Additionally, the Deputy Chief of Construction will be instituting increased on site monitoring of construction projects by Home Office personnel to ensure compliance with the polices of the Prevailing Wage Act.

Responsible Person: David Anderson, Deputy Chief for Construction
Implementation Date: FY' 2001

Massachusetts Highway Department Findings on Compliance with Rules and Regulations

Finding Number 36: Subrecipient Contracts do not Contain Adequate Single Audit Information

The Massachusetts Highway Department (Department) subrecipient contracts do not include all of the information that is required by the Single Audit Act Amendments of 1996. Section 7502 (f)(2) of the Single Audit Act Amendments of 1996, states that each pass-through entity shall provide subrecipients with the program name and identifying number, which is obtained from the Catalog of Federal Domestic Assistance (CFDA). In addition, that section also requires that the Department specifically communicate to subrecipients that the Single Audit Act applies to the federal funds awarded.

Contracts executed by the Department for fiscal year 2000 with planning organizations and an agreement with another subrecipient, did not identify that the funds awarded were from the Highway Planning and Construction Program, or include any information concerning the CFDA number or the provisions of the Single Audit Act. The contracts with planning organizations did state that "audits shall fully satisfy OMB (Office of Management and Budget) requirements".

The Bureau of Transportation Planning and Development updated its contract language for awards executed for fiscal years beginning in 2001. Fiscal year 1999 Single Audits were obtained from planning organizations. The Department was not aware that the agreement with the subrecipient under federal-aid Project FBD-000S (005) to fund the building of a new ferry was a subaward. A Single Audit for the subrecipient would not be due until fiscal year 2001 (*Department of Transportation – Highway Planning and Construction 20.205; Fiscal Year 1999 Single Audit Finding 16*)

Recommendation

The Department should ensure that all of its contracts with subrecipients include specific mention of the federal program name, Catalog of Federal Domestic Assistance number and that an audit is required under the Single Audit Act as amended. In addition, the subrecipient under federal-aid project FBD-000S (005) should be notified that they have been receiving a federal award.

Department Corrective Action Plan

In order to be in compliance with the Single Audit Act Amendments of 1996, the Bureau of Transportation Planning and Development (BTP&D) has included the following information in all new subrecipient contracts:

- Under Attachment I, Article II, Section 2A, the BTP&D has included a statement that the Single Audit Act applies to the federal funds awarded.
- Under Attachment I, Article II, Section 2E, has been added by the BTP&D that includes specific mention of the program name and the identifying number which is obtained from the Catalog of Federal Domestic Assistance (CFDA#).

This Corrective Action Plan was implemented after the completion of the 1999 State Single Audit. This was a proactive adjustment included in all new subrecipient contracts. No new contracts were issued until January 1, 2000.

Responsible Person: Luisa Paiewonsky, Director of BTP&D
Implementation Date: November 1999

The Subrecipient agreement was a unique force account agreement prepared by the Utilities section. The Utilities section has informed the entity that they are the Subrecipient of a Federal Award. A memo will be sent out from the Commissioner's Office to all MHD personnel involved with the contracting process regarding the required information for Subrecipient Contracts.

Responsible Person: John Blundo, Deputy Chief Highway Engineering
Implementation Date: May 1, 2001

Massachusetts Highway Department Findings on Compliance with Rules and Regulations

Finding Number 37: Procedures Should be Established to Monitor Central Artery/Tunnel Project Transactions

The Massachusetts Highway Department (Department) should establish control procedures to ensure transactions concerning the Central Artery/Tunnel Project are monitored for compliance with all applicable federal and state requirements.

The Massachusetts Turnpike Authority (Authority) under a Memorandum of Understanding (MOU) with the Department assumed responsibility for managing the Central Artery/Tunnel Project (Project). Most of the Project staff previously employed by the Department became employees of the Authority. The Authority is paid for this service from state funds. As part of its administrative responsibility, the Authority reviews all consultant and construction invoices. It is the Department's responsibility to pay the bills reviewed by the Authority and submit allowable costs to the Federal Highway Administration (FHWA) for reimbursement. The Department does not perform an in-depth engineering or financial review prior to paying or certifying its submission to FHWA.

Although MOUs governing the transfer of project management responsibility mention the Authority's role to coordinate with federal agencies, they do not mention the specific laws or regulations, which relate to the Project nor the task of reviewing payments for allowability with all applicable federal and state requirements. Section 18.40 "Monitoring and Reporting Program Performance" of the Common Rule as stated at Title 49 of the *Code of Federal Regulations* for the U.S. Department of Transportation, indicates that it is a grantee's responsibility to monitor federally-supported activities. While invoices currently being submitted for payment relate to contracts executed by the Department, it is anticipated that the Department will advertise and execute all remaining contracts necessary to complete the Project. The Department has not established procedures to ensure invoices are being reviewed for compliance and any new contracts contain reference to all applicable federal and Commonwealth of Massachusetts' requirements.

In addition to determining whether invoices are allowable, there are several other unique requirements of the Highway Planning and Construction Program that should be identified and assessed for risk of noncompliance. Some of those specific areas relate to transactions concerning land, the use of rental income or airspace leases, audit disallowances and credits to be given FHWA. The Department has not identified a comprehensive list of all compliance requirements as they relate to the Central Artery/Tunnel Project and established procedures to ensure those areas are monitored.

The Department has been designated as FHWA's single point of state contact. As a result, it would be held responsible for any noncompliant activity not discovered by the Authority. Some individuals within the Department have begun to establish procedures for ensuring that the Project is compliant with federal requirements. (*Department of Transportation – Highway Planning and Construction 20.205*)

Recommendation

The Department should identify all applicable federal and Commonwealth of Massachusetts' requirements and amend current Project Memoranda of Understanding to incorporate them. A detailed checklist of those requirements should be prepared to determine whether the Department's bureaus have been retained by the Authority to monitor any aspects of compliance. Procedures should then be established to monitor all remaining compliance areas and for bureaus to notify the Department when their monitoring relationship changes.

Department Corrective Action Plan

The Department will strengthen its monitoring of the Massachusetts Turnpike Authority regarding Central Artery transactions by outlining all applicable

Federal rules and regulations which the Massachusetts Turnpike Authority must comply with. A representation letter attesting to compliance with those rules and regulations will be approved by MHD Chief Legal Counsel and presented to the Turnpike Authority for approval and signature.

Responsible Person: Michael Byrne, Chief Financial Officer

Implementation Date: FY'2001

Massachusetts Highway Department Findings on Compliance with Rules and Regulations

Finding Number 38: \$382,396 in Disallowed Consultant Costs was not Credited

The Massachusetts Highway Department (Department) did not credit \$382,396 in disallowed consultant contract costs to the Federal Highway Administration (FHWA). In addition, another credit up to \$7,776 may be due.

Audit Operations is responsible for performing audits of prime and subconsultants working on Department projects. Any reports citing disallowed costs are reviewed for concurrence by those administering the contract. Upon approval, a copy of the report is sent to the Federal-Aid Section within Fiscal Management. The Department's Standard Operating Procedures require that within thirty (30) days of receiving the report, the Federal-Aid Section credit FHWA for its share of the disallowance, as determined by the percentage of funding provided for a particular project. For one of five reports tested, a credit totaling \$382,396 (90% of \$60,554 for I-93-1 (163) plus 90% of \$364,330 for I-93-1 (288)) had not been provided to FHWA. Federal-Aid personnel stated that they did not receive the report. The Department reviewed a listing of all audits issued by Audit Operations in fiscal year 2000 and noted that this was the only instance where the credit had not been processed.

In another instance, a disallowance of \$77,756 on one consultant contract related to work, which was funded by two different federal Projects (I-90-1 (071) and STP-090-1-203). It could not be readily determined which project should be credited. The credit was applied to STP-090-1-203, the Project with the least federal participation, 80% instead of 90%, the federal participation ratio for I-90-1 (071). According to Department staff, the decision which project would receive the credit was made by the Massachusetts Turnpike Authority based on the fact that I-90-1 (071) was overbilled. There is no formal policy for determining how to prorate the audit adjustments in such circumstances. The amount questioned would not exceed \$7,776 ($77,756 * 10\%$ [90%-80%]).
(Department of Transportation – Highway Planning and Construction 20.205)

Recommendation

The Department should establish a mechanism to ensure all reports are received from Audit Operations. In addition, a procedure should be developed to contact FHWA for advice on processing credits in the event there are differing participation ratios. Finally, documentation should be retained as to the decision to credit another project rather than the original one.

Department Corrective Action Plan

The Department has completed the Expenditure Transfer Documents in order to credit the Federal Highway Administration for the \$382,396. The Department proved that this was an isolated incident by reconciling all credits prepared in FY'00 to the list of all audit reports prepared by Audit Operations in FY00. All reports were accounted for and all credits due Federal Highway were received in a timely manner. Currently, the Fiscal Management section prepares a monthly list of all Audit reports that are received and sends it to the Audit Operations section for review. To further increase the controls over this process, the Department is also requiring Audit Operations to send Fiscal Management a monthly report of Audits and Fiscal Management is requiring a signature by a Senior Manager to certify receipt of said reports in Fiscal Management. These controls should ensure that all Audit reports completed by Audit Operations are received in Fiscal Management for processing and that all credits due FHWA are credited in a timely manner.

Regarding the second issue where a credit was processed to Federal Highway on a contract that had two projects with different Federal participation. It is rare

that a contract will contain two federal projects with differing federal participation percentages. In instances where this does occur, the Department will conservatively apply the credit to the higher percentage unless there are system constraints (as in this case). The Department will formalize its procedures regarding this issue, and should this issue arise again, the Project Accounting and Reporting section will contact FHWA for advice on processing credits. Documentation will be prepared and filed regarding the justification for the action taken.

Responsible Person: Lina Arria, Director of Project Accounting and Reporting
 Implementation Date: FY 2001

Massachusetts Highway Department Findings on Compliance with Rules and Regulations

Finding Number 39: \$7,121 in Excess Fringe Benefits Charged

The Massachusetts Highway Department (Department) did not notify the Office of the Comptroller as to the effective date of the payroll additive rate approved by the Federal Highway Administration (FHWA). As a result, \$7,121 in excess fringe benefits was charged between September 1 and November 15, 1999, the effective date of the rate and the date Project Accounting and Reporting System (PARS) was revised to reflect the new rate.

Annually, the Department requests approval from FHWA to charge federal programs for fringe benefits. The approved rate is comprised of three components: unemployment compensation, the fringe benefit rate approved by the U.S. Department of Health and Human Services (HHS), and an additive rate, which represents the Department's cost for compensatory leave, workers' compensation, universal health insurance and Medicare. The unemployment insurance and the fringe benefit components used are those in effect for the current fiscal year and are programmed in MMARS to be charged back automatically against certain funds and appropriations. The payroll additive component is computed using the prior year's payroll costs without any roll-forward adjustment to current year actual cost, as is customary under Office of Management and Budget Circular A-87 Cost Principles for States, Local Governments and Indian Tribes. This practice has been acceptable to FHWA. The additive component is programmed into PARS to be included in billings submitted for reimbursement. FHWA reviews and approves each component to take effect from September 1 through August 31 of the following fiscal year.

The Department bills FHWA for certain costs charged to three different funds, 101, 210 and 290. Each fund may have different components and rates due to the statutory requirements of each fund. The FHWA approved rates through August 31, 1999 were as follows:

	Found 101	Found 210	Found 290
Payroll Additive	.41634	.24634	.24634
HHS Approved Fringe Rate	.00000	.24000	.17000
Unemployment	.00200	.00200	.00200
	.41834	.48834	.41834

On July 1, 1999, the HHS approved fringe benefit rate changed for Fund 290. As a result, from July 1 through August 31 the actual rate billed was 24% rather than the FHWA approved rate of 17%. This occurred because the HHS rate is approved on a fiscal year basis rather than for some other period.

FHWA approved the following new rates to be effective September 1, 1999:

	Found 101	Found 210	Found 290

Payroll Additive	.48394	.24394	.24394
HHS Approved Fringe Rate	.00000	.24000	.24000
Unemployment	.00200	.00200	.00200
	.48594	.48594	.48594

Although the Department notified the Office of the Comptroller to change the rates, through an oversight, it neglected to provide a copy of FHWA's approval with the effective date. The payroll additive component was not changed until November 15, 1999. As a result, the payroll additive component was unbilled by .0676 for fund 101 and overbilled by .00240 (.24634-. 24394) on funds 210 and 290 from September 1, through November 15, 1999, which resulted in a total overbilling of \$7,121.

In fiscal year 1999, the Department had \$689,689 in excess fringe benefit cost as a result of a mid-year change in the negotiated fringe benefit rate. A credit was provided to FHWA. (*Department of Transportation – Highway Planning and Construction 20.205; Fiscal Year 1999 Single Audit Finding 15*)

Recommendation

The Department should amend current and future fringe and payroll additive rate proposals to indicate that the fringe benefit rate that will be used is the rate negotiated with HHS for the time period of that agreement. In addition, procedures should be implemented to ensure PARS is programmed to be effective on the date approved by FHWA. If it is not possible to retroactively program PARS, an adjustment should be processed to reflect the approved amounts.

Department Corrective Action Plan

While the Department disagrees with this finding based on the principle of materiality, we do concur that the process of establishing this rate, based on timing issues with FHWA and OSC is convoluted. The Department is currently in the process of eliminating the Federal additive portion of the Payroll Additive rate with the cooperation of FHWA and OSC. This change will have no monetary impact because the reimbursement from FHWA will be recouped on a new highway or bridge project. The Department will be reimbursed for direct costs up to the Federal obligation amount.

Responsible Person: Michael Byrne, Chief Financial Officer

Implementation Date: FY'01

Massachusetts Highway Department Findings on Compliance with Rules and Regulations

1. The Massachusetts Highway Department (Department) needed to update many of its standard operating procedures(SOP). The Department has made significant progress in updating its SOPs and while the issue is not completely resolved, it is further discussed in the Management Letter. (*Fiscal Year 1999 Single Audit Finding 13*)
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Massachusetts Rehabilitation Commission Background

The Massachusetts Rehabilitation Commission (Commission) assists individuals with disabilities to live independently and go to work. The Commission is the agency of the Commonwealth responsible for Vocational Rehabilitation Services, Independent Living Services, and for eligibility determination for the Supplemental Security Income/Supplemental Security Disability Insurance (federal) benefits programs for Massachusetts citizens with disabilities.

The Commission has three distinct divisions: Vocational Rehabilitation, Independent Living and Disability Determination Services.

For fiscal year 2000, the Commission administered approximately \$108 million. Total federal funding amounted to approximately \$75.5 million.

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

<u>CFDA #</u>	<u>Federal Program Description</u>
84.126	Rehabilitation Services – Vocational Rehabilitation Grants to States
96.001	Social Security – Disability Insurance
96.006	Supplemental Security Income

No findings resulted from the audit of these programs.

Office of Child Care Services Background

The Office of Child Care Services (Office) is authorized by Section 3 of Chapter 28A of the Massachusetts General Laws to be the lead agency to administer child care services within the jurisdiction of the Executive Office of Health and Human Services and to communicate with other state agencies providing similar or related services outside of the Executive Office of Health and Human Services.

The primary mission of the Office is to regulate child care and administer child care subsidies for the Commonwealth.

The Office establishes standards for, and monitors, child care programs throughout the Commonwealth. Licenses are used and renewed, through its five regional offices, to over 17,000 providers of child care centers, nursery schools, private kindergartens, family day care homes, school age child care programs, preschool programs, residential and temporary shelter facilities for children and foster care and adoption placement agencies with capacity to serve nearly 222,000 children. In addition, the Office administers a primary prevention program and the Children's Trust Fund to provide statewide child abuse and neglect prevention services.

In fiscal year 2000, the Office administered \$369.5 million. Federal funds amounted to approximately \$283 million.

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

CFDA #	Federal Program Description
93.575	Child Care and Development Block Grant
93.596	Child Care Mandatory and Matching Funds of the Child Care & Development Fund

No findings resulted from the audit of these programs.

Office of Child Care Services Findings not Repeated from Prior Years

The Office of Child Care Services (Office) needed to perform monthly reconciliations with the State Treasurer's records, bank statements, department records and MMARS reports. The Office has instituted a monthly reconciliation process conducted by the Central Office Administration and Finance Unit. (*Fiscal Year 1999 Single Audit Finding 31*)

The Office needed to improve its on-site monitoring of subrecipients. The Office has developed a comprehensive monitoring tool for determining contract compliance and staff has been trained in the use of the tool. Introductory site reviews were made to all subrecipients and file and record reviews were conducted at five of the subrecipients during the site review. (*Fiscal Year 1999 Single Audit Finding 32*)

Institutions of Higher Education Student Financial Assistance Programs at Other Institutions Background

As part of the Single Audit of the Commonwealth, the Office of the Comptroller, the Office of the State Auditor of the Commonwealth, and Deloitte & Touche LLP entered into a cooperative agreement to provide the necessary audit coverage for the student financial assistance programs funded by the U.S. Department of Education and administered by the Commonwealth's colleges and universities. Beginning with the fiscal year 1997 audit, the institutions selected for audit were determined using a risk-based approach. The institutions covered by this arrangement are as follows:

State Colleges

Bridgewater State College
 Fitchburg State College
 Framingham State College
 Mass. Maritime Academy
 Mass. College of Art
 Mass. College of Liberal Arts
 Salem State College
 Westfield State College
 Worcester State College

Community Colleges

Berkshire Community College
 Bristol Community College
 Bunker Hill Community College
 Cape Cod Community College
 Greenfield Community College
 Holyoke Community College
 Massasoit Community College
 Mass. Bay Community College
 Middlesex Community College
 Mt. Wachusett Community College
 North Shore Community College
 Northern Essex Community College
 Quinsigamond Community College
 Roxbury Community College
 Springfield Technical Community College

During fiscal year 2000, the Office of the State Auditor performed the audit of the student financial assistance programs at two institutions selected using the risk-based approach. These institutions were: North Shore Community College and Bristol Community College. No findings resulted from these audits.

The University of Massachusetts contracted for an audit in accordance with OMB Circular A-133 for fiscal year 2000 with an independent public accounting firm. Separate reports on compliance, internal controls as well as the Schedule of Expenditures of Federal Awards and Data Collection Form are issued as a result of this audit. The findings resulting from the audit of the University of Massachusetts are excluded from this report.

Other Departments with Federal Funding

**Executive Office of Elder Affairs
 Findings on Compliance with Rules and Regulations**

Finding Number 40: \$623,294 in Unsupported Indirect Costs

The Executive Office of Elder Affairs (Office) has not developed actual indirect cost rates for fiscal years 1999 and 2000 and compared those rates to the rate billed as required by its Negotiation Agreement with the U.S. Department of Labor. As a result, \$303,108 for fiscal year 1999 and \$320,816 for fiscal year 2000, totaling \$623,294 in indirect costs billed to federal programs is unsupported.

The Office is allowed to bill federal programs using a rate specified in their Negotiated Agreement (Agreement) with the U.S. Department of Labor. The Agreement states that only actual indirect costs can be charged to federal grants and contracts. The Office is required to compute the actual rate for each fiscal year in accordance with the cost accounting procedures approved in the Elder Affairs Departmental Cost Allocation Plan (Plan). The resulting rate is to be compared with the rate used to bill federal programs. Any over recoveries must be credited against the applicable federal programs. Since the actual rates have not been developed for fiscal years 1999 and 2000, the amounts charged for indirect costs are unsupported. The federal programs and amounts are as follows:

Fiscal Year	CFDA #	Amount
1999	10.566	\$75,415

2000	10.570	\$63,196
1999	17.235	\$16,894
2000	17.235	\$13,899
1999	84.281	\$145
2000	84.281	\$1,216
1999	93.044	\$192,800
2000	93.044	\$220,088
1999	93.048	\$4,177
2000	93.048	\$6,511
1999	93.779	\$10,052
2000	93.779	\$9,598
1999	93.994	\$3,625
2000	93.994	\$5,678
		\$623,294

The Office stated that it had not prepared the rates due to staff turnover and budget preparations for a new state program. (*Department of Agriculture – Special Milk Program for Children 10.566, Nutrition Program for the Elderly 10.570; Department of Labor – Senior Community Service Employment Program 17.235; Department of Education – Eisenhower Professional Development State Grants 84.281; Department of Health and Human Services- State Programs for the Aging –Title III, Part B- Grants for Supportive Services and Senior Centers 93.044, Special Programs for the Aging--Title IV--Training, Research and Discretionary Projects and Programs 93.048, Health Care Financing Research, Demonstrations and Evaluations 93.779, Maternal and Child Health Services Block Grants to States 93.994*)

Recommendation

The Division should prepare the actual rate for fiscal years 1999 and 2000 and credit applicable federal programs with any over recoveries.

Department Corrective Action Plan

Elder Affairs has begun preparing the departmental cost allocation plan for fiscal year 2000, and will also prepare a plan for fiscal year 1999. Both plans will be completed by March 1, 2001. Elder Affairs will then review the plans with the Office of the Comptroller and will work with the Comptroller to respond to any over-recoveries that are indicated by the plans.

Regarding the delay in preparation of the plans, staff turnover was largely settled by the fall of 1999, when a fiscal year 1999 plan would have been completed. Implementation of new programs and program changes adopted in the FY 2000 budget consumed available fiscal staff time and delayed work on the cost allocation plans.

Contact: Randy Garten, Budget Director
Implementation Date: October 30, 2000-March 1, 2001

**Information Technology Division
Findings on Compliance with Rules and Regulations**

Finding Number 41: \$169,947 in Additional Costs Included in the 1999 Rates Affecting Both Federal and State Programs

The Information Technology Division had \$169,947 in additional costs in computing its final 1999 rates, which were prepared in fiscal year 2000. These costs affected the rates that were charged to both federal and state programs.

Costs as shown in MMARS and allocable to the Information Technology Division (Division) in accordance with OMB Circular A-87, Cost Principles for State, Local and Indian Tribal Governments, were used as a basis for preparing final rates for 1999 telecommunications, mail and computer services. During the audit of the rates the following was noted:

- The Division changed from expensing certain equipment through a 15-year use allowance to depreciating the equipment over a five-year life. In changing to a depreciation basis, OMB Circular A-87 Attachment B 15 (e) states: "When the depreciation method is introduced for application to an asset previously subject to use allowance, the annual depreciation charge thereon may not exceed the amount that would have resulted had the depreciation method been in effect from the date of the acquisition of the asset." Further the companion guide to Circular A-87, ASMB C-10 Cost Principles and Procedures for Developing Cost Allocation Plans and Indirect Cost Rates for Agreements with the Federal Government question 3-30 expands on this guidance saying, "when converting from use allowance to depreciation, the balance to be depreciated will be computed using a pro-forma depreciation schedule starting with the date of acquisition." The Division expensed the remaining life of the assets that were over five years old, which is longer than the new depreciation schedule. As a result, \$164,031 is questioned. A Division of Cost Allocation (DCA) official acknowledged that the calculation and methodology used were proper. However, the official questioned writing off the remaining life of the assets all in one year and stated that an advance agreement between DCA and the state should have been reached as to the number of years over which to write off the remaining life.
- The federally-approved rate for fringe benefits is allowable only on certain types of wages. Based on information from the Office of the Comptroller, the Division included \$2,745 for fringe benefits on bonus pay awards and \$3,171 on shift differential, which are not part of the federally-approved base. As a result, \$5,916 is unallowable.
- The distribution of costs among the nine network rates and among four tape rates was made using 1998 data. As a result, the rates for these services need adjustment. It could not be determined how the adjustments would impact departments billed for these services.

The total over recovery for the 1999 rates as a result of these issues is \$169,947.

During fiscal year 2000, the Division adjusted the 1999 final rates to reflect all under recoveries of \$3,598,369 (\$1,209,642, \$842,914 and \$1,545,813) and certain over recoveries of \$651,877 (\$552,650, \$70,269 and \$28,958) in the final 1998 rates, as disclosed in the 1999 single audit. The over recovery, also disclosed in the 1999 single audit, of \$41,491 for equipment use allowance, which was based on 1997, was recomputed to identify an under recovery of \$39,549 for the 1998 rates. As a result, the net total over recovery, which should be adjusted for both years' rates, is \$130,398 (\$169,947 less \$39,549).

Total Division costs before adjustment for the items noted above was \$46,039,988. Revenue as recorded in MMARS was \$17,217,591 for a net under recovery of \$22,822,397. The net over/under recovery by service could not readily be determined.

With regard to the items noted above, Division personnel stated that it (1) wrote off the depreciation in accordance with generally accepted accounting principles, (2) was not aware that fringe benefits should not have been computed on bonus pay awards and shift differential and (3) not update the distribution of costs among services due to an oversight. (*Unknown Federal Programs; Fiscal Year 1999 Single Audit Finding 72*)

Recommendation

The Division should seek an agreement with the U.S. Department of Health and Human Services Division of Cost Allocation to expense the remaining cost of equipment and adjust future rates and the reconciliation of retained earnings schedule for any variances.

Department Corrective Action Plan

Per the Single Auditor: The Division expensed the remaining life of the assets that were over five years old, which is longer than the new depreciation schedule. As a result, \$164,031 is questioned. A Division of Cost Allocation (DCA) official acknowledged that the calculation and methodology used were proper. However, the official questioned the writing off the remaining life of the assets all in one year and stated that an advance agreement between DCA and the state should have been reached as to the number of years over which to write off the remaining life.As a result, the net total over recovery, which should be adjusted for both years' rates, is \$130,398 (\$169,947 less \$39,549.)

ITD does not agree with the DCA Official but does agree with the Single Auditor: The Single Auditor validated ITD's calculation. The Single Auditor agrees that the calculation was made in accordance with OMB A-87 and ASMB C10. However, the calculations of the remaining life portion of the depreciable assets were made in accordance with GAAP since OMB A-87 and ASMB C10 are silent on the "remaining life" calculation method. ITD will meet with the DCA Official to review the depreciation methodology.

Per the Single Auditor: The federally-approved rate for fringe benefits is allowable only on certain types of wages. Based on information from the Office of the Comptroller, the Division included \$2,745 for fringe benefits on bonus pay awards and \$3,171 on shift differential, which are not part of the federally-approved base. As a result, \$5,916 is unallowable.

ITD agrees with the Single Auditor: ITD will deduct \$5,916 in the reconciliation for FY2000.

Per the Single Auditor: The distribution of costs among the nine network rates and among four tape rates was made using 1998 data. As a result, the rates for these services need adjustment. It could not be determined how the adjustments would impact departments billed for these services.

ITD agrees with the Single Auditor: ITD will adjust the tape and network charges in the FY2000 reconciliation.

Institutions of Higher Education

Roxbury Community College Findings on Compliance with Rules and Regulations

Finding Number 42: Status of the U.S. Department of Education Office of Inspector General Issues

The 1997 Single Audit of the Commonwealth reported that the U.S. Department of Education Office of Inspector General (OIG) conducted an audit of the English as a Second Language (ESL) program at Roxbury Community College (College) covering the period from July 1, 1993 to June 30, 1995 (Audit Control No. A01500991). The OIG's final report contained three findings. The College disagreed with the OIG findings and, at that time, was awaiting the final audit determination letter from federal officials. The 1997 Single Audit found eight additional students who, pending the outcome of the College's appeal, could have been ineligible. The 1998 Single Audit follow-up revealed that U.S. Department of Education (DOE) issued its Final Determination Letter on September 18, 1998. On the basis of this determination, the 1998 Single Audit concluded that five of the eight students were eligible and the eligibility of the remaining three students depended on the final result of College's continued appeal. Currently, the College is continuing its appeal of the three issues. The status by issue follows:

Ineligible ESL Programs: The OIG determined that the College improperly disbursed \$2.2 million in assistance to students attending an ineligible ESL program during the period July 1, 1993 to June 30, 1995. The OIG contended that the students enrolled for the sole purpose of taking ESL and that the classes students attended constituted a program. The OIG recommended that the College repay the \$2.2 million expended to ineligible students and strengthen controls over admissions and disbursement of Title IV funds. The College disagreed with the OIG's finding, contending that the students were liberal arts majors, and asserted that ESL was not a program but a sequence of courses. DOE's Final Determination Letter reduced this issue's liability to \$570,000. The College continues the appeal of this determination.

Pell Grant Refunds Not Paid: The OIG found that the College had not made, at the time of the OIG audit, Pell Grant refunds totaling \$4,513 to ten students out of 2,107 tested because the College did not timely enter student status changes into its computer system. The OIG recommended that the Secretary of DOE require the College to institute internal controls and identify and pay refunds due students who withdrew or did not attend during 1992-1993 and 1995-1996. The College replied that it had adopted internal controls and, although it disagreed with the finding, refunded the funds.

The College Awarded Funds to one Underage Student: The OIG determined that the College improperly awarded \$1,075 in Pell Grant funds to a 15-year old student for the fall 1993 semester. The student's General Education Development certificate was not valid until the student turned 16 years old. The OIG concluded that the College's procedures for flagging ineligible students were not adequate. The College responded to the OIG at the exit conference that the award, which was made after the student turned 16 years old, was proper even though the student was not eligible during the semester for which the aid was awarded. The College's response to the draft OIG report indicated that its new computer system and policy was in full compliance with program requirements. However, the OIG reasserted that the College must repay \$1,075 and have an independent assessment of its student eligibility control procedures. The College indicated that it would comply with OIG instructions and continue to work with DOE to resolve this issue.

The follow-up work performed at the College as part of the 2000 Single Audit, disclosed that the College contends that it (1) still has a liability of \$570,043 which is still in the appeal process and (2) has had an independent assessment of its student eligibility control procedures. (*Department of Education – Federal Pell Grant Program 84.063; Department of Education Report 7/93-6/95 Finding 1; Fiscal year 1997; 1999 Single Audit Finding 46*)

Recommendation

The College should continue to work with the DOE to resolve these issues.

Department Corrective Action Plan

The situation with the ESL audit continues unchanged as before. The College has engaged legal counsel to pursue a successful end to this case. For the time being, however, the College can do little more than wait for the federal government to act on this case.

Responsible Individual: Dr. Grace Carolyn Brown
Implementation date: June 30, 2001 or final settlement date, if later

Institutions of Higher Education Roxbury Community College Findings on Compliance with Rules and Regulations

Finding Number 43: Lack of Procedure to Identify Walk-Away Students

The fiscal year 1999 single audit reported that Roxbury Community College (College) lacked a procedure to identify walk-away students necessary to comply with federal regulations.

In the case of students who do not "officially" withdraw, federal student financial assistance regulations [34 CFR, Part 668.22] require schools to calculate refunds based on the last recorded date of attendance and establish procedures to identify that date. In describing what is expected of participating schools, the Student Financial Aid (SFA) Handbook states:

"Participating SFA schools are expected to monitor student attendance for the purpose of determining a withdrawal date in cases of unofficial withdrawal. The school must demonstrate that the student has remained in academic attendance through a specific point in time. The school's determination of the student's last day of attendance must be based on an event that the school routinely monitors and must be confirmed by an

employee of the school."

To evaluate the potential consequence of this inadequacy, a review was conducted of the first 20 financial aid students identified who earned no credits for the fall 1998 semester. All 20 students were assigned to two or more classes. Of these 20 students, only 6 officially withdrew. The College could not provide assurance that the remaining 14 students, who received financial aid of \$19,801, withdrew after the refund date. The refund date is the point at which the College should have calculated a refund for each officially and unofficially withdrawn student. Because students who earned no credits are likely to be unofficial withdrawals, the College should have calculated a refund for each.

Federal regulations require that the school base its refund calculations on the last date that it can demonstrate academic attendance. Therefore, the school may be liable for refunds as if the students withdrew before the first day of class. If the actual number of official withdrawals is consistent with our sample and if the school cannot demonstrate that the remainder stayed in school past the refund date, the school's liability could be substantial.

This liability was attributable to the fact that the College did not recognize the need for a procedure that is described in the SFA handbook. Such a procedure is essential to comply with federal regulations.

The follow-up work performed as part of the 2000 Single Audit, noted that in December 1999 a College employee manually went through the process to identify unofficial student withdrawals and prepared the required refunds to these students. The employee used a listing of SFA checks not disbursed to students because of failing grades as the universe to identify the unofficially withdrawn students. Instructors were required to certify that the student had attended classes before the check was released. The Office of Student Financial Aid used the last date of attendance to make proper adjustments to the student's awards and issue any refunds to the unofficially withdrawn students.

A three-step faculty attendance policy was adopted by the College on January 1, 2000. The first step was to forward class rosters to instructors two weeks into the semester to capture those students who never attended classes. The second step required all instructors to mark mid-term rosters with one of three grades: satisfactory, unsatisfactory or not attending. In addition, the instructors were verbally instructed to give the last date of attendance for those marked not attending. The third step is similar to the second but for final grades. Financial aid awards were consequently calculated or adjusted based on the actual withdrawal date. College personnel indicated that, for the most part, the first step was not implemented until the fall of 2000. The second and third steps were implemented in the spring of 2000, but were not uniformly enforced until the fall. (*Department of Education – Federal Supplemental Education Opportunity Grants 84.007, Federal Work-Study Program 84.033 and Federal Pell Grant Program 84.063; Fiscal Year 1999 Single Audit Finding 48*)

Recommendation

The College needs to assure that the three-step policy is fully implemented to ensure that all unofficially withdrawn students are identified along with the last date of attendance. The College then needs to properly calculate awards and refunds in accordance with 34 CFR 668.22.

Department Corrective Action Plan

In the fall of 1999, College officials clearly recognized that the current attendance record-keeping policies of the College were insufficient to identify all unofficially withdrawn students and, consequently, to prevent excessive Pell financial aid awards to these unofficially withdrawn students. As a result, the College instituted some temporary, extraordinary procedures to prevent unofficially withdrawn students from receiving excessive Pell awards. All students who received failing grades in all of their courses at mid-term were identified, and a hold was placed on their financial aid checks until and unless their professors confirmed in writing their attendance in the class for at least 60% of the term.

At the same time, the College issued new attendance record-keeping policies that would be sufficient to identify unofficially withdrawn student and to prevent excessive Pell financial aid awards to them. The effective date of these new policies was January 1, 2000, in time to prevent excessive Pell financial aid awards for the spring 2000 term.

While there were numerous oral instructions and some written instructions about the new policies, the College is unable to confirm that definitive instructions about its new policies were properly communicated to all of the faculty members in the spring 2000 term. Nevertheless, and partially in response to the possibility that its instructions were not adequate in the Spring term, the College has now included instructions about this policy in the initial classroom rosters, the mid-term grade sheets, and the final grade sheets. All faculty are clearly instructed to indicate last date attended for all unofficially withdrawn students on all

of these reports. In the opinion of management, the College has in the fall of 2000 corrected and implemented the official procedures necessary to prevent unofficially withdrawn students from receiving excessive Pell awards. All consequential inadequacies, if any, in fiscal year 2000 have now been corrected.

Responsible Individual: Craig Zaehring & the new financial aid director

Implementation Date: January 31, 2001

[More RCC Finding...](#)

Institutions of Higher Education Salem State College Findings on Compliance with Rules and Regulations

Finding Number 44: Perkins Loan and Nursing Student Loan Cash Balances not Supported by the College's Records and Funds do not Receive Interest Income Earned by the College

As reported in the fiscal Year 1999 Single Audit report, Salem State College's (College) cash balances for the Federal Perkins Loan (Perkins) and the Nursing Student Loan (NSL) Programs were pooled into a single cash account which included other College funds and the College still did not maintain an accurate record of the specific amounts belonging to the Perkins and NSL Programs. These practices still continue.

According to 34 CFR 668.163 (a)(2) and (4d) for Perkins funds, for each account that includes student financial aid program funds, the College must clearly identify that the program funds are maintained in that account and identify the cash balance of the funds that are included in the account as readily as if those program funds were maintained in a separate account. The account also must be an interest bearing account and the interest earned is to be retained by the College as part of the Perkins Program.

According to 42 CFR 57.305 for NSL funds, any fund established by a school with federal capital contributions will be accounted for separately from other funds, providing a clear audit trail. At all times the fund must contain the institution's capital contribution and the College must maintain the all monies relating to the fund in an interest bearing account and retain the interest for the NSL program.

The College continues to maintain a cash account that is available for use by all program funds, including the Perkins and NSL Program funds. The appropriate amount of interest earned for fiscal year 1999-2000 allocable to these two programs could not be readily determined. (*Department of Education – Federal Perkins Loan Program 84.038; Department of Health and Human Services - Nursing Student Loan Program 93.364; Fiscal Year 1999 Single Audit Finding 60*)

Recommendation

The College should determine, reconcile and monitor the proper cash balances for the Perkins and NSL Programs. The College should also determine the amount of interest earned that is applicable to these two programs and allocate to them their appropriate share.

Department Corrective Action Plan

Cash balances in the Perkins and Nursing Loan Programs were supported by college records as of the close of the fiscal year. The general ledger balances needed adjustments due to the beginning balance discrepancies. The necessary adjustments will be made to the general ledger. The college has determined the amount of interest earned and it has been allocated to the major programs in their appropriate share.

Responsible Person: Neil Brennan, Assistant Bursar
Implementation Date: January 1, 2001

Institutions of Higher Education Salem State College Findings on Compliance with Rules and Regulations

Finding Number 45: Amounts Reported on Federal Fiscal Operations Report and Application (FISAP) and Nursing Student Loan (NSL) Annual Report do not Agree to the College's Records

In fiscal year 1999 and again in fiscal year 2000, it was noted that amounts included in the Federal Perkins Loan Program (Perkins) section of the FISAP (Part III, Section A) and the NSL Annual Report did not agree with the amounts in Salem State College's (College) records and did not have adequate supporting documentation.

The amounts recorded for these programs are in a report prepared by Academic Financial Services Agency (AFSA) which monitors student loan balances and collects student payments. The AFSA records and the College's records are not in agreement and the College has not been able to reconcile the differences or determine which amounts are correct.

The College utilized certain amounts reported on the AFSA report and certain amounts from its records to complete the FISAP for the year ended June 30, 2000. The following illustrates discrepancies found during the audit:

- The cash on hand for Perkins as reported in the FISAP totaled \$0, while per the College's records the balance was a negative \$37,598.
- The cash on hand for NSL as reported in the Annual Report was \$26,219, while per the College's records the balance was \$12,075.
- No reconciliation was performed with regard to these discrepancies.

It appears that the discrepancies occurred because the College's financial management system lacks the necessary supervisory, monitoring and reconciliation procedures to ensure the accuracy and reliability of accounting records and financial reports as well as compliance with federal regulations.

Federal regulations, 34 CFR 668.24 and 34 CFR 674.19(d)(2), require an institution to establish and maintain financial records which reflect all program transactions. They also require an institution to establish and maintain general ledger control accounts and related subsidiary records that identify each program transaction and separate those transactions from all other institutional activity. Program and fiscal records must be reconciled at least monthly and the institutions must ensure that the information reported on the FISAP is accurate. (*Department of Education – Federal Perkins Loan Program 84.038; Department of Health and Human Services – Nursing Student Loan Program 93.364; Fiscal Year 1998; 1999 Single Audit Report Finding 61*)

Recommendation

The College should develop procedures to ensure that its financial management system can adequately provide support to, and be the basis for, accurate financial reports. The College's system of internal controls should be improved by the design of appropriate supervisory, monitoring and reconciliation procedures to reduce the risk of errors and omissions and to ensure the proper operation of the financial management system and reliability of the financial reports, as well as compliance with federal regulations.

Department Corrective Action Plan

The college is in the process of implementing procedures to ensure that its financial management system provides support to, and is the basis for, accurate financial reports. The college's system of internal control will be improved to ensure the proper operation of the management system and reliability of the

financial reports, as well as compliance with federal regulations. We have reconciled the general ledger to source documents and other reports. Necessary adjustments will be made to the general ledger.

Responsible Person: Neil Brennan, Assistant Bursar

Implementation Date: January 1, 2001

Institutions of Higher Education Salem State College Findings on Compliance with Rules and Regulations

Finding Number 46: Unreconciled Cash for Title IV Programs

In fiscal year 1999 it was noted that Salem State College (College) has unreconciled cash balances for the Federal Pell Grant Program (Pell) and the Federal Supplemental Education Opportunity Grants Program (FSEOG). As of June 30, 1999 the cash balances for Pell and FSEOG were \$18,651 and \$5,550, respectively. As of June 30, 2000, the unreconciled balances were \$22,101 for Pell and \$7,000 for FSEOG. Under the usual operations for these programs, no cash balances would be expected at year-end. The College believes that a portion of these balances is due to timing differences and a portion is due to incorrect prior year balances. College personnel have begun an analysis of prior year receipts and expenditures in an effort to resolve these differences.

Federal regulations, 34 CFR 668.161 and 166, require the institution to promote sound cash management of Title IV program funds and if there is any excess cash it should be returned promptly to the U.S. Department of Education (DOE). (*Department of Education – Federal Pell Grant Program 84.063 and Federal Supplemental Education Opportunity Grants 84.007; Fiscal Year 1999 Single Audit Finding 63*)

Recommendation

The College should complete the analysis of prior year receipts and expenditures to determine the accurate cash balances for each program. If applicable, the College should return any excess cash to DOE. Finally, the College should implement appropriate record keeping policies and procedures over Title IV program funds.

Department Corrective Action Plan

The appearance of excess cash is the result of inaccurate general ledger postings made over the years causing the balances to be overstated. There is no excess cash in either program. The general ledger will be adjusted accordingly. The college has implemented appropriate record keeping policies and procedures over Title IV program fund

s. Responsible Person: Neil Brennan, Assistant Bursar

Implementation Date: January 1, 2001

Other Departments with Federal Funding Findings not Repeated from Prior Year

1. The Department of Correction (Department) needed to improve the information included in its application for the State Criminal Alien Assistance Program (SCAAP) funds. The Bureau of Justice Administration changed the information required in the SCAAP application, thereby making some of the changes we recommended moot. The Department did initiate a review procedure for the application before submission. *(Fiscal Year 1999 Single Audit Finding 19)*
2. Roxbury Community College (College) did not have a process in place to routinely verify that funds drawn from the federal government were drawn from the appropriate account. The College instituted a procedure requiring a copy of the Grants Administration Report for each drawdown be made part of the package sent to management for review. *(Fiscal Year 1999 Single Audit Finding 47)*
3. Quinsigamond Community College did not report student status changes on the Student Status Confirmation Report (SSCR) in a timely manner. The SSCR is now produced by the Financial Aid Office and is regularly produced and updated within the required timeframe and no similar instances were noted as part of the fiscal year 2000 audit. *(Fiscal Year 1999 Single Audit Finding 49)*
4. Quinsigamond Community College (College) did not return a mistakenly doubled draw down to the federal government within the required 60 days. The College's new system is fully installed and operational and no such instances were noted during the fiscal year 2000 audit. *(Fiscal Year 1999 Single Audit Finding 50)*
5. Quinsigamond Community College's (College) Pell Payment Data Form for fiscal year 1999 was incorrect. The fiscal year 2000 Form was prepared correctly. *(Fiscal Year Single Audit Finding 51)*
6. Quinsigamond Community College (College) did not send delinquent accounts to a collection agency or credit bureau. The College has established a relationship with a collection agency to handle delinquent accounts. *(Fiscal Year 1999 Single Audit Finding 52)*
7. Quinsigamond Community College (College) did not make the required annual attempts to contact students with delinquent accounts. The College has established a relationship with a collection agency to handle delinquent accounts. *(Fiscal Year 1999 Single Audit Finding 53)*
8. Quinsigamond Community College (College) did not send demand letters to students with delinquent accounts. The College has established a relationship with a collection agency to handle delinquent accounts. *(Fiscal Year 1999 Single Audit Finding 54)*
9. Quinsigamond Community College's (College) Federal Perkins Loan Program cash account did not have "federal funds" in the name nor was the custodian notified in writing of their existence. All Perkins Loan funds have been returned to the U.S. Department of Education. *(Fiscal Year 1999 Single Audit Finding 55)*
10. Quinsigamond Community College (College) did not have a system in place to ensure that the various requirements of the Federal Perkins Loan Program and the Nursing Student Loan Program, with respect to contact with students, collection efforts, and conversion to repayment status, are performed on a timely basis. The College has established a relationship with a collection agency to handle delinquent accounts. *(Fiscal Year 1999 Single Audit Finding 56)*
11. Framingham State College (College) did not have any evidence within the files to document that exit interviews were conducted with borrowers under the Federal Family Education Loan Program. No similar instances were noted during the follow-up work conducted as part of the fiscal year 2000 single audit. *(Fiscal Year 1999 Single Audit Finding 57)*
12. Salem State College (College) did not have any evidence within the files to document that exit interviews were conducted with borrowers under the Federal Direct Loan Program. No similar instances were noted during our follow-up work conducted as part of the fiscal year 2000 single audit. *(Fiscal Year 1999 Single Audit Finding 58)*
13. Salem State College (College) did not prepare and make available to enrolled or prospective students, upon request, annual information regarding completion, graduation and transfer rates of certificate or degree seeking full-time undergraduate students. Such annual information is now available to students. *(Fiscal Year 1999 Single Audit Finding 59)*

14. Salem State College (College) did not report student status changes on the Student Status Confirmation Report (SSCR) in a timely manner. Notification of student status changes have been reported on a timely basis and no similar instances were noted as part of the follow-up work conducted as part of the fiscal year 2000 single audit. *(Fiscal Year 1999 Single Audit Finding 62)*
15. Bunker Hill Community (College) awarded funds to an ineligible student who did not demonstrate need. The College has installed a new data processing system and an annual review process. No similar instances were noted as part of the follow-up work conducted as part of the fiscal year 2000 single audit. *(Fiscal Year 1999 Single Audit Finding 64)*
16. Bunker Hill Community College (College) maintained insufficient refund documentation and made untimely refunds to students and return of funds to the federal government. The College has instituted new processes and controls to ensure that the Registrar's Office and the Financial Aid Office are notified of withdrawn students. It also offered additional training regarding refund calculations and documentation. *(Fiscal Year 1999 Single Audit Finding 65)*
17. Bunker Hill Community College (College) maintained its Federal Perkins Loan Program funds in a non-interest bearing account. The College has its Perkins Loan Program funds in an interest bearing account. *(Fiscal Year 1999 Single Audit Finding 66)*
18. Bunker Hill Community College (College) did not reconcile its Federal Pell Grant Program disbursements shown on the Financial Aid Office's summary records to the Business Office's ledger records or to the U.S. Department of Education Student Summary Payment report. The necessary reconciliations are now being performed. *(Fiscal Year 1999 Single Audit Finding 67)*
19. The Office of the Comptroller (Office) did not credit the U.S. Department of Energy State Energy Program for \$38,626 due to the decrease in the federally-approved fringe benefit rate for retirement and group insurance. The Office made the appropriate credit to the State Energy Program. *(Fiscal Year 1999 Single Audit Finding 68)*
20. The Office of the Comptroller (Office) did not adjust federal programs \$37,358 for excess indirect costs charged. The Office made the appropriate adjustments to the two federal programs involved. *(Fiscal Year 1999 Single Audit Finding 69)*
21. The Information Technology Division had \$1,533,262 in additional costs in computing its final 1997 rates. Additional costs of \$1,533,262 in the 1997 rates were either credited against the 1999 rates or offset against fiscal year 2000 billings. *(Fiscal Year 1999 Single Audit Finding 70)*
22. The Information Technology Division (Division) did not include all required documentation in developing its 1998 rates. The Division improved its documentation supporting its 1999 rates. *(Fiscal Year 1999 Single Audit Finding 71)*