Section V

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

North Bridge, Concord

Bicycle path on Wachusett Mountain

Autumn *is the most popular season lasting from early September until November. The brilliant autumn foliage lasts from September through the end of October. The foliage peaks at different times in different regions. Northern regions generally peak early in the season, with the foliage in the south in full force towards the middle of October. Each region hosts numerous harvest festivals, and Salem hosts Haunted Happenings, the premier Halloween celebration in the U.S. to around 45 degrees. If we are lucky, we are treated to an "Indian Summer." During this time the temperature rises several degrees and for a few weeks it almost feels as if summer has returned.*

Walden Pond boathouse

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 2001, the Department administered approximately $3.8 billion of state funds, and approximately $600 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:

CFDA#	Federal Program Description
84.010	Title I Grants to Local Education Agencies
84.027	Special Education – State Grants
84.173	Special Education – Preschool Grants
84.048	Vocational Education – Basic Grants to States
84.276	Goals 2000 Program
84.320	Class Size Reduction Program
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

Department of Education
Findings on Compliance with Rules and Regulations

Finding Number 9: Unallowable Expenditures

The Department of Education (Department) does not have the internal controls in place to properly budget, procure, approve, and classify the administrative expenditures necessary to manage its federal and state programs.

Twenty-five administrative expenditures were tested from four U.S. Department of Education major federal programs. Thirteen of the selections were payroll expenditures, which are discussed in findings number 13 and 16. For the twelve non-payroll administrative expenditures tested, problems were identified in eight of these cases. The problems can be classified as follows:

- federal program inappropriately charged because no state funds were available
- federal program inappropriately charged without an approved cost allocation plan
- state procurement regulations not complied with.

Federal program inappropriately charged because no state funds were available One expenditure for $50,000 was charged to the Special Education Program (CFDA 84.073) because, as Department officials explained the technology bond funds which were to be used to pay for consultants to review the Department's technology operations were not available at the time the invoice had to be paid. When we brought this issue to the Department's attention, the expenditure was transferred to a state account.

Federal program inappropriately charged without an approved cost allocation plan
Three of these expenditures totaling $43,837 were charged to a federal program without an approved cost allocation plan. These expenditures were for copier services ($1,787 charged to the Special Education Program CFDA 84.073), computer related services ($35,790 charged to the Special Education Program CFDA 84.073) and inputting GED certificates into Department records ($6,261 charged to the Goals 2000 Program CFDA 84.276). Discussions with Department officials disclosed that central general administrative and central technology administrative expenditures that benefit all of the Department's programs are often totally charged to federal programs based on budgeted amounts or because no state funds are available to pay the bills. While charging federal programs for a portion of these central administrative expenditures is appropriate, the charges should be made in accordance with an approved cost allocation plan so that the federal programs are only charged in proportion to the benefit received. These costs are questioned.

State procurement regulations not complied with
Seven of these expenditures, including three of the four described above as being inappropriately charged to a federal program, were transacted without complying with state procurement regulations. In four cases, the document encumbering the funds was dated after the document paying the bills. State regulations require the funds to be encumbered prior to the payment.

In one instance, the encumbrance document was not signed, as required, and the dates of service on the vendor's invoice (June 2000) did not coincide with the dates of service on the encumbrance document (July 2000 to June 2001). We did not make further inquiry to determine which dates were correct, however the Department paid the bill out fiscal year 2001 funds.

In another instance, there was no support in the file that the service paid for was actually received. In another instance, the payment voucher to pay the invoice was not executed for three months after receipt of the invoice. State regulations require payment in 45 days.

Problems with the Department's controls over administrative expenditures have been the subject of reports issued by the Massachusetts State Auditor's Office (OSA) and the U.S. Department of Agriculture. OSA, in a July 2001 report on the Department's expenditures for information technology services incurred during fiscal years 1999 and 2000, stated in part " During our audit, we identified a number of significant problems with expenditures being incurred by DOE for Information Technology (IT) related services, including DOE's incurring as much as $3.9 million in unnecessary and wasteful expenses, $4.9 million in undocumented or inadequately documented expenses, hundreds of thousands of dollars in questionable expenses, and noncompliance with state laws and regulations relative to the procurement of goods and services and the use of consultants."…. "These deficiencies were the result of DOE's failure to establish adequate internal controls within its IT cluster."

In a January 2001, report the OSA cited deficiencies in seven areas involving approximately $10 million in state funds. The deficiencies were primarily the result of inadequate internal controls over the Massachusetts Partnerships for Children program.

The USDA, in a report dated December 2000, stated that its review of invoices and supporting documentation disclosed that some consultant invoices did not contain adequate

documentation to support the hours charged and some payment vouchers required supplemental explanation to determine if costs were allowable.

Discussions with Department officials indicate that they believe that a shortage of experienced administrative personnel has contributed to these problems. However, they also acknowledge that the Department has not adequately documented its administrative and accounting controls. They also readily acknowledge that federal programs are charged with some administrative expenditures because there are funds available to absorb the costs. These officials went on to explain that the Department is now aware of its problems and are taking steps to correct them. It is in the process of interviewing candidates to fill the newly designated Chief Operations Officer position, has the funding and approval to hire additional resources for its administrative operations and is considering reorganization options. Also, in conjunction with the Office of the Comptroller, the Department has established a web site accessible to all Department employees with all Commonwealth and Department procurement regulations and policies. *(Department of Education – Special Education Program 84.027 and Goals 2000 Program 84.276)*

Recommendation

The Department's administrative operations and management structure need to be reviewed. The recruitment of a Chief Operational Officer should provide the opportunity for a top to bottom review of the administrative operations, management structure, and internal controls. We recommend that the Department contact other Commonwealth departments that administer large federal programs that are passed through to subrecipients, such as the Department of Public Health and the Department of Community Housing and Development, to examine their administrative operations and structure, including the organizational relationship between the program and finance staff, as well as their internal controls.

The Department distributes well in excess of 90% of it state and federal funds to the Local Education Agencies and as such the Department has as its highest priority the adequate distribution and control of those funds distributed to educate the Commonwealth's children. The adequate control over its own internal operations, until very recently, appears to have taken a back seat to its primary priority and goals. While this is somewhat understandable, results of recent audits indicate that the Department's top management needs to strengthen its administrative operations and internal controls and make appropriate structural and personnel changes necessary to accomplish those goals. These changes must include the establishment of policies and procedures that assure adherence to all state and federal procurement laws and regulations, including the need to develop a cost allocation plan for charging central general and technology administrative expenditures.

Department Corrective Action Plan

The Department has already taken steps to strengthen its management and fiscal structure. We expect to have a new Chief Operations Officer on board shortly. We have recently hired four new positions in the budget, business, and procurement offices. A plan is being formed to prepare a cost allocation plan to replace the internal budgetary allocations that are currently being done.

We have also initiated having fiscal liaisons in each of our clusters. Fiscal and operational training has begun for these positions which are being done in conjunction with the Office of the Comptroller.

Responsible person: Anthony Delorenzo, Chief Financial Officer
Implementation date: Anticipated completion by June 30, 2002

Finding Number 10: Lack of Control System for Allocation of Special Education Program Funds

The Department of Education (Department), at the time of our audit, did not have internal

controls in place to ensure that the new earmarking requirement and the corresponding new method of calculating the amounts to be awarded to the cities and towns under the Special Education Program are complied with.

IDEA-97 specified a change in the procedures for allocating state and local grants when the national appropriation for special education exceeded $4.9 billion. Fiscal year 2001 was the year that the national appropriation passed this threshold and the new procedures went into effect.

Before the new procedures, the allocation process was a simple determination of the available funds allocated in equal amounts for each eligible child. The new procedures froze a hold harmless base for each Local Education Agency (LEA) at the amounts awarded in the prior year. The Department must then distribute 85% of the remaining funding based on the population of school age children and then 15% of any remaining funds based on school age children living in poverty.

There were no written policies and procedures in place to calculate the awards made to sub-grantees and to ensure compliance with federal regulations. The Department did provide information to the LEAs in May 2000 and again in the documentation for use by the LEAs in the applications for funding. The new procedures lead to a significant shift in funding for some of the LEAs. To mitigate the effect of the change in the first year, the Department supplemented the Special Education Program funds with discretionary funds to "hold harmless" the award to any LEA that would have received less funds than under the original formula.

The Department did not maintain the documentation of the calculation of the award amounts and due to the complex nature of the new methodology and the use of additional discretionary funds, the auditors could not recreate the calculations for individual LEA grant awards nor could they determine if the earmarking requirements had been met. The lack of supporting documentation also limited the Department's ability to verify the accuracy of the calculations.

The Director of Special Education explained that because they calculate the awards based solely upon the federal regulations, no separate written policies and procedure were developed. Although the federal regulations are specific as to the formula, the calculations done by the Department were dependent upon more than one employee in more than one cluster and there needed to be documentation of the Department's implementation of the federal rules so each employee's responsibilities were clear. The need to retain an auditable record of the calculations was over looked and the student database and poverty level information was time sensitive and cannot be retrieved. There also seems to be a lack of adherence to proper record retention policies.

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. Also, 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 and Internal Control Guide for Departments* were issued by the Office of the Comptroller of the Commonwealth of Massachusetts. The Department has not demonstrated that these requirements have been met for important aspects of this program. *(Department of Education – Special Education Program 84.027)*

Recommendation

The Department should develop, document, and communicate to all appropriate employees written procedures for the Special Education Program so that it can document that the allocation is in compliance with all federal requirements. These procedures should then be reviewed and incorporated into the formal award process.

The Department should also design a format and methodology to demonstrate compliance with

the federal earmarking requirement. The same allocation formula is in place for the pre-school grants and the manager responsible for that program developed a well-documented spreadsheet to support the allocation amounts. It seems reasonable that this could become the standard for the Department.

Department Corrective Action Plan

The Department developed written procedures to ensure that calculations are well documented and maintained for future auditing as needed. Such procedures will be fully communicated to all involved parties.

Responsible person: Marcia Mittnacht, State Director of Special Education
Implementation date: In effect as of October 2001.

Finding Number 11: Lack of Control System for Goals 2000 Program

The Department of Education (Department) did not establish a system of internal controls over the Goals 2000 program. There are no written policies and procedures in place to administer this program and document compliance with federal regulation, other than the instructions provided to the Local Education Agencies (LEA) for use in their proposals for funding. Department personnel explained that because this grant is used for a variety of subgrants monitored by a variety of departments, and was similar to existing grants, it was decided that the existing grants management system was sufficient.

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. The Commonwealth of Massachusetts enacted Chapter 647 of the Acts of 1989 – *An Act Relative to Improving the Internal Controls within State Agencie*s and the companion *Internal Control Guide for Managers and Internal Control Guide for Departments* were 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 experience of its managers. This system may meet the needs 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 program.

Examples of how using the Department's existing system to administer the Goals 2000 Program can result in control weaknesses was highlighted during our testing of support for the Goals 2000 monitoring of the earmarking, maintenance of effort and special tests and provisions.

A calculation was not prepared by the Department to document the earmarking requirement. A print out of account detail was provided with no documentation of the amount retained by the Department (up to 10% of the grant award), and also no calculation of the amount used by the Department for administrative costs (no more than 4% or $100,000, whichever is greater) was provided. The fiscal year 2001 grant award totaled $8,927,819. The Department could therefore retain $892,782 (10% of the grant award). The Department did provide information that showed $1,571,135 was expended for departmental administrative and programmatic Goals 2000 activities. This exceeds the 10% it should have retained by $678,353. The Department is allowed to expend $100,000 for administrative costs, thereby reducing the overspending and questioned costs to $578,353.

The same lack of documentation was encountered regarding the maintenance of effort calculation and the special tests and provisions (Priority of Preservice Teacher Education and

Professional Development Subgrants). *(Department of Education – Goals 2000 84.276)*

Recommendation

The Department should prepare documents to support the fiscal year 2000, 2001, and 2002 calculations of required earmarking, maintenance of effort and special tests to determine if the requirements were met. Documentation of amounts to be retained by the Department or spent on general and administrative support should be calculated and retained for any new programs received for fiscal year 2002.

Department Corrective Action Plan

The Department will review the requirements and prepare documents to support the fiscal year 2000 and 2001 calculations of required earmarking, maintenance of effort and special tests to determine that the requirements were met. The funds being used in fiscal year 2002 are carry-over funds that must be expended by 9/30/02. The Department will ensure that these funds are expended appropriately.

The Department will also initiate the development of a grant's management guide for internal use that will be used for training of staff on correct procedures/requirements for current and new programs and grants.

Responsible person: Carole Thomson/Anthony Delorenzo
Implementation date: Anticipated completion by June 30, 2002

Finding Number 12: The Internal Control System for the Class Size Reduction Program Needs to be Better Documented

The Department of Education (Department) needs to better document its system of internal controls over the Class Size Reduction Program (CSR) and monitor its subrecipients in a systemic manner.

In response to the prior year finding that the Department lacked a control system over CSR, the Department reviewed the process for administering the CSR program and made some significant changes. A clear assignment of responsibilities and the naming of a Director for the program greatly enhanced the Department's ability to manage the program. Consideration was given to the requirements of the program and work was done to better understand what the Department needed to implement the regulations. A two-page document summarizing some aspects of the program was prepared as the first step in establishing and documenting a formal control system and was a positive step that allowed the maintenance of effort requirement to be met for fiscal year 2001. However, none of the steps taken to date reach the level of a formal system of control.

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. Also, 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 and the Internal Control Guide for Departments* were 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.

Another element lacking in the Department's administration of CSR, is its failure to monitor its subrecipients. The Department's Quality Assurance Cluster does conduct coordinated reviews to monitor subrecipients for a number of its large federal programs but CSR was not included in these reviews.

Federal regulations, 20 USC 1232 d (b) (3) (A) and (E), General Education Provision Act Section 435 (b) (2) and (5), and 34 CFR 80.40, state that state agencies must monitor grant and subgrant supported activities to assure compliance with applicable federal requirements and that performance goals are being achieved. CSR was a new program in fiscal year 2000 and is distributed to LEAs based on applications submitted. This program has very specific requirements that significantly limit the use of the funds at the LEA level. No process is in place to determine that these federal requirements are met or that performance goals are achieved. LEAs are subject to audit and reports are reviewed by the Department, however, the number of LEA independent audits that includes CSR as a major federal program subject to compliance testing is very small. Department officials explain that there is contact between Department staff and the LEAs and that technical advice may be provided or informal review may occur.

It is unclear why the Department does not include CSR, or other small federal programs, in the coordinated reviews performed by the Quality Assurance Cluster. There is no identified cluster that has total responsibility for this program to which the monitoring responsibility could be assigned. CSR does not allow funding of administrative costs which could contribute to its exclusion from the monitoring reviews. The Department has cited under-funding as a significant issue. *(Department of Education – Class Size Reduction Program 84.340; Fiscal Year 2000 Single Audit Finding 13)*

Recommendation

The Department should continue to develop and document an internal control system to assure that it administers the CSR Program in compliance with all federal requirements. This work should be done as part of a Department-wide effort to address the lack of controls pointed out by a number of audit reports on both federal and state funds. The system should be reviewed and incorporated into the Department's Internal Control Plan.

The Department also needs to review the requirements for monitoring subrecipients and establish a written policy that either includes this and other smaller programs in the coordinated reviews or that details how the monitoring requirements for those programs not included in the coordinated reviews will be met. There must be a documented plan in place to support the Department's monitoring activities.

Department Corrective Action Plan

The Department of Education will expand on its existing Internal Control System to ensure that we administer the CSR program in compliance with all federal requirements including monitoring. The Department will also initiate the development of a grant's management guide for internal use that will be used for training of staff on correct procedures/requirements for current and new programs and grants.

Responsible person: Cathy Depradine
Implementation date: Anticipated completion by June 30, 2002

Finding Number 13: 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 costs charged to federal programs to reflect the actual cost of salaries of 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 procedures used to calculate the actual salary costs charged to a program have been developed in consultation with the U.S. Department of Education Office of Special Education Programs, based on personnel activity reports completed by employees. At the time of audit fieldwork, the Department had not performed the required quarterly comparison of budget to actual because the Commonwealth's centralized accounting (MMARS) and payroll/labor distribution (PCRS) systems make such adjustments a very time consuming and cumbersome process. Subsequently, the Chief Financial Officer provided an analysis of the personnel activity reports and the amounts actually charged to federal grants for the entire fiscal year. This unaudited analysis shows salary overcharges (questioned costs) to those federal programs of $93,858. The programs and salary over and undercharges are as follows:

Title I – 84.010	$ 126,783
Special Education – 84.027	($347,945)
Vocational Education –84.048	$(7,830)
Safe & Drug-Free Schools and Communities – 84.186	$21,083
Acquired Immunodeficiency Syndrome Activity – 93.118	$29,260
Bilingual Education – 84.194	($73,013)
Education for Homeless Children & Youth – 84.196	($250)
Other	$345,770
Total Overcharge	$93,858

Included in the Other category are the following programs: Adult Education (84.002), Goals 2000 (84.276), Reading Excellence (84.338), and Innovative Education Program Strategies (84.298). The exact overcharge for each of these programs was not readily available.

In addition, the U.S. Department of Agriculture Food and Nutrition Service (USDA) issued a Financial Management Review report dated December 19, 2000 on the Massachusetts Child Nutrition Programs. Salary related findings in this report were that the Department 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 (CACFP) for the seven employees in audit functions. The USDA questioned $481,159 in salary costs charged to CACFP. In addition, the USDA report found that state employee salary costs were used to support the maintenance of effort charges for administration of the Child Nutrition Programs but there was no system in place to properly allocate those employees' salaries. Fifty percent of one employee's salary was used to meet the matching requirement, however, 100% of that same individual's salary is included in the salary base to develop the indirect cost rate. The USDA report concluded that the $441,407 of state funds used to meet the matching requirement was not adequately supported. *(Department of Education - Title I Grants to Local Education Agencies 84.010; Special Education – State Grants 84.027; Safe and Drug-Free Schools and Communities 84.186; Vocational Education 84.048; Bilingual Education 84.194; Education for Homeless Children and Youth 84.196; Goals 2000 Program 84.276; Adult Education 84.002; Reading Excellence 84.338; Innovative Education Program Strategies 84.298; Department of Health and Human Services - Acquired Immunodeficiency Syndrome Activity 93.118; Department of Agriculture – 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 Programs for Children 10.559; United States Department of Education, Office of Special Education and Rehabilitative Services, Monitoring Review Report Dated May 2, 1995 Finding 4; United States Department of Agriculture, Food and Nutrition Services, Financial Monitoring Review Report Dated December 19, 2000 Findings 2 and 4; Fiscal Year 1995; 2000 Single Audit Finding 12)*

Recommendation

The Department should develop procedures to meet the requirements of OMB Circular A-87, its agreement with the U.S. Department of Education and the corrective action plan for the U. S. Department of Agriculture. Controls need to be established to ensure the salaries charged to federal grants are properly supported. The procedures need to ensure that any employees' salaries used for federal match are properly documented and supported and that those salaries are not included in the indirect cost plan.

Department Corrective Action Plan

We acknowledge that while we were able to document our systems for salary charge adjustments we were not able to complete the detailed adjustments at the time of the audit fieldwork. Based on last year's payroll analysis and additional state funding in FY01, we were confident that the payroll charges to the federal programs were closely aligned to the activities to the staff in the reporting clusters. Additionally, in June of 2001 we did transfer (XA) a significant amount of payroll charges from the federal programs to the appropriate state programs. Payroll charges from federal Special Education funds totaling $142,749.79 and federal Title 1 funds totaling $21,713.94 were transferred to an appropriate state account in an effort to further reduce or totally eliminate any federal overcharge. Since the full payroll analysis had not been completed at the time of the audit fieldwork, this documentation was not presented to the auditors.

We also acknowledge that we did not allot the appropriate human resources to this task in FY2001 to address this reoccurring audit finding. However, we have recently made a financial commitment to permanently address this issue. We have hired a budget analyst with vast knowledge of the state payroll (HRCMS) and accounting (MMARS) systems. One of his primary tasks will be responsibility for the monthly reconciliation, the year-end totals, and any payroll adjusting entries in the current fiscal year.

We will also review all positions that are 100% federal charges, partial charges, federal match positions and those charged as indirect costs. These will be reviewed for adequacy and supporting documentation.

Responsible person: Anthony Delorenzo, Chief Financial Officer
Implementation date: Anticipated completion by June 30, 2002

Finding Number 14: 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 (SNS) requirements in fiscal year 2001 for the Title I Program (34 CFR 200.63), the Vocational Education Program (34 CFR 403.196) and the Class Size Reduction Program (Title VI of ESEA, Section 6401(b) (20 USC 7371(b)); and Title VII of ESEA, Section 7116(b)(4) (20 USC 7426(h)(4)).

According to OMB guidance, the State Education Agency (SEA) must ascertain if an 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 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, the Department was unable to provide evidence that the Title I Administrator performed 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, the Vocational Education Administrator was unable to provide evidence that the Department was performing the site monitoring of the five sites indicated in their policies and procedures. The Department has documented policies and procedures in place for both federal programs to monitor and review the SNS. However, as indicated above the Department had no evidence that procedures were being performed to determine if the total level of services applicable to the requirement increased in proportion to the level of federal contribution. There is no process in place to measure the requirement for CSR. *(Department of Education - Title I Grants to Local Educational Agencies 84.010, Class Size Reduction Program 84.340, and Vocational Education, Basic Grants to States 84.048; Fiscal Year 1992; 2000 Single Audit Finding 16)*

Recommendation

As recommended in prior years, the Department should work with the fiscal staff, Title I Administrator, and Vocational Education Administrator to implement a system that will assure the satisfaction of these requirements. The Department should consider which other federal grants have a similar requirement and include all in a Department wide documented control system to prevent issues if other programs are audited.

Department Corrective Action Plan

The Title I Administrator is taking the following two steps to provide evidence that a review was performed to determine school district compliance with the Supplement not Supplant requirement at the application approval stage:

1. Commencing with the FY 2003 Title I application review, the Title I reviewer will sign and date the "Title I Grant Review and Approval" form for each school district reviewed upon completion of the Reader's review and approval. The supplement not supplant provision is one of the items reviewed. A copy of the signed sheet will be retained with the file copy of the school district application in the Title I files. See attachment A for a copy of the "Title I Grant Review and Approval" form. Implementation date: Receipt and review of FY 2003 Title I applications.
2. The FY 2002 Title I applications have already been reviewed. In order to provide evidence that the supplement not supplant provision was reviewed as part of the FY 2002 Title I application review, the Title I reviewer will sign and date a statement that he/she has reviewed the supplement not supplant provision for the school districts in his/her region. The statement will be retained in the Title I files. See attachment B for a copy of the "FY 2002 Supplement not Supplant Review".

Responsible person: Barbara Solomon, Title I Director
Implementation date: Anticipated completion by December 1, 2001

Five Schools have been designated for monitoring this fiscal year. The liaisons will work with an auditing team chosen from the state listing. The procedures are in place now. The responsibility of the audit team will be to review the End of the Year Report that details expenses for the federal program and determine if details agreed to in the acceptance of the local plan have been performed.

Responsible person: Francis J. Kane, Director School to Career
Implementation date: Anticipated completion by June 30, 2002

The Department of Education will expand on its existing Internal Control System to ensure that we administer the CSR program in compliance with all federal requirements including supplement not supplant. The Department will also initiate the development of a grant's management guide for internal use that will be used for training of staff on correct procedures/requirements for current and new programs and grants.

Responsible person: Cathy Depradine, Class Size Reduction Program
Implementation date: Anticipated completion by June 30, 2002

Finding Number 15: Tracking and Reporting of the Amount Used to Comply with the Vocational Education Matching Requirement is Deficient

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. In prior years, there was an assumption that LEA level spending of state funds could be used to meet the match. In discussions with U.S. Department of Education personnel, part of CAROI process indicated that using the funds the LEAs use for administrative purposes could not be used to satisfy the matching requirement.

To support the match the Chief Financial Officer prepares an analysis of federal administrative spending for the state fiscal year (7/1 – 6/30). The appropriation used to record the expenditures to administer the State Plan also includes the cost of administering two other programs. This calculation is done independent of and the result is different than the amount reported in the Financial Status Report (SF 269) for state administration. Department officials explain that the Vocational Education Program can be spent over a 27-month period and two SF 269s must be filed for the entire grant period. The first report for the grant year is prepared for a 15-month period ending with the federal fiscal year (7/1 – 9/30) and the second report is filed for a 12-month period covering the next federal fiscal year. Thereby the entire 27-month period is reported. To complicate matters, Department officials explain that these reports cover overlapping 27-month grant periods. Department officials further explain that the first amount reported as matching funds for a grant period is an estimate provided by the Chief Financial Officer and the second reported amount contains the amount to report the actual match amount.

Department officials explain that the expenditures reported on the SF 269 can be traced to the official books and records of the Commonwealth (MMARS). However, the match amounts on the SF 269 cannot be traced to MMARS. Additionally, there is no documentation of the process, procedures, and necessary adjustments to be used to prepare the SF 269, especially the portion of the expenditures that relate to administration of the State Plan. This documentation takes on added significance because the individual who has historically prepared the report will no longer be performing that task.

The amount of the state funds used to provide the administrative match for federal funds as calculated by the Chief Financial Officer (CFO) is less than the $866,196 reported on the SF 269. The CFO and the report preparer could not reconcile the difference. The amount reported in the SF 269 as the required matching amount is $866,196 for fiscal year 2001 and is the amount of the costs questioned for failing to meet the required federal match.

Additionally, a portion of the amount reported as matching state funds is the salaries of individuals charged 100% to state accounts. OMB Circular A-87 requires that individuals who are used to meet a matching requirement that are charged solely to a non-federal account must prepare a semi-annual certification that they worked solely on that one program. Department officials were not aware of this requirement and therefore no certifications were prepared. Rent and energy costs are also used to meet the match and there is no cost allocation plan in place to support these costs. In a recent USDA financial review, it was noted that the Department lacked a system to properly support allocated costs and salary charges.

Perkins III, section 323(a); 20 USC 2391(a) has a maintenance of effort requirement that a State provide from non-federal sources for State administration an amount not less than the amount provided for the preceding year. In fiscal year, 1999 the cost claimed by the Department as State administration was not allowed. In fiscal year 2000 the cost of the

amount claimed was questioned. It is indeterminable whether the Department has maintained the level of effort for fiscal year 2001. *(Department of Education - Vocational Education, Basic Grants to States 84.048; Fiscal Year 1997; 2000 Single Audit Finding 19)*

Recommendation

The Department needs to put a process in place to administer its Vocational Education Program which meets all federal requirements and provides a clear audit trail between MMARS, the federal reports, and analysis used to meet the program's federal matching and maintenance of effort requirements. The Department also needs train its administrative personnel in all of OMB Circular A-87 requirements.

The Commonwealth's MMARS system does not always meet the federal reporting needs of the Commonwealth's departments, however, the Department should undertake a study to determine the feasibility of using the Commonwealth's Data Warehouse to generate the reports and analysis that is required of the Department to meet federal reporting requirements. Automation of the process will add to the efficiency and accuracy of the undertaking.

Department Corrective Action Plan

Due to a determination from the US Department of Education that the amounts used as match in prior years was disallowed all involved parties knew that the Commonwealth could not match the federal spending in 2001. We have requested additional funding from the Executive Branch and the Legislature to help provide relief from this problem in the future.

We acknowledge that we did not have certification of those state-funded individuals that are used in our compilation of match amounts. We are confident in future discussions with the Department of Education we can justify expenditures of approximately $850,000 to mitigate the questioned costs. The requirement of state funded certifications has never been discussed before in these circumstance and now that we are fully aware of them we will take steps in FY2002 to comply with the requirements. We have been and will continue to be conservative in our internal calculations to compile the amount we consider as match.

Actual expenditures, as done in the past will be used to prepare our SF 269 report. We will do a better job in coordinating the communication needed to prepare this report and analyzing and compiling the match amount.

Responsible person: Anthony Delorenzo, Chief Financial Officer
Implementation date: Anticipated completion by June 30, 2002

Working with the Chief Financial Officer, we have classified the staff and their positions into two major categories. The categories are Administration and Leadership. This will simplify the accounting and the State's ability to clarify the match.

Responsible person: Francis J. Kane, Director School to Career
Implementation date: Anticipated completion by June 30, 2002

Finding Number 16: Failure to Obtain Payroll Certifications

The Department of Education (Department) does not require all employees to follow the time reporting system. Six payroll transactions were selected for testing. Two of the employees selected did not have a signed certification that they worked exclusively on one federal program or a personal activity report required for those who work on multiple programs.

OMB Circular A-87, Attachment B (h) states "(1) Charges to Federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official(s) of the governmental unit. (3) 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. (4) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on: (a) More than one Federal award, (b) A Federal award and a non-Federal award, (c) An indirect cost activity and a direct cost activity, (d) Two or more indirect activities which are allocated using different allocation bases, or (e) An unallowable activity and a direct or indirect cost activity. (5) Personnel activity reports or equivalent documentation must meet the following standards: (a) They must reflect an after-the-fact distribution of the actual activity of each employee, (b) They must account for the total activity for which each employee is compensated, (c) They must be prepared at least monthly and must coincide with one or more pay periods, and (d) They must be signed by the employee."

One of the employees works in the cluster that is involved in the implementation of education reform as the Executive Director of Policy and Program. Her job description (MQ) includes many tasks that are related to educator quality and outreach and technical assistance to Local Education Agencies. It also notes that she is responsible for the Class Size Reduction program. The cost of salary and related costs for the employee were all charged to the Goals 2000 program. The Department argues that the Goals 2000 program is wide reaching and the implementation of education reform is clearly a cost of implementing the state plan, an allowable Goals 2000 cost. It seems a reasonable argument and no costs are questioned. However, since all costs were charged to one program there should have been a certification that the employee worked on that one program. The second employee with similar work tasks was also charged to Goals 2000 and does not have either a certification or a personal activity report. The remainder of those employees assigned to this cluster were not tested.

The Department's reason for the lack of proper documentation was that the people working in the cluster worked on so many programs that it was unrealistic to expect that time distribution records would be kept, especially since they believe that all the tasks fit under the Goals 2000 umbrella. It should be noted, however, that fiscal year 2001 was the last year that the Department will receive Goals 2000 federal funding. The Department will need to find some other program to which to charge these costs. *(Department of Education – Goals 2000 Program 84.276)*

Recommendation

The Department needs to develop a methodology to allocate the salaries of employees that work on more than one program. Consideration should be given, as allowed by U.S. Department of Education regulations, to the consolidation of administrative funds of many of the Elementary and Secondary Education Act programs, thus eliminating the need to account for these funds on a program-by-program basis. The Department could also include funds received for administration of Goals 2000 in this consolidation. The amount from each applicable program set aside for State consolidation may not be more than the percentage authorized for State administration under that program. Federal expenditures may be charged to the programs on a first in/first out method, in proportion to the funds provided by each program, or another reasonable basis.

Department Corrective Action Plan

All members of Educator Quality Policy and Program will comply with the federal certification process. The Department will also review all employees that work on federal grants to see if we are in compliance with documentation requirements.

Responsible person: Meg Mayo Brown
Implementation date: Anticipated completion by June 30, 2002

Finding Number 17: Lack of Data to Measure Earmarking

The Department of Education (Department) does not have a system in place that allows for the identification and classification of expenditures to document that the earmarking requirements for State set-asides are met.

IDEA, Part B (20 USC Section 1411(f)(1)) and Preschool Grants Program (20 USC 1419(d)) set forth the amount of funds a State must distribute to its Local Education Agencies (LEAs) on a formula basis and the amount it can set aside for administration, other State-level activities, and capacity building grants to its LEAs. The Department does consider this information in setting the obligation ceiling/maximum budget amounts in the Massachusetts Management Accounting and Reporting System (MMARS) system.

Note that the annual appropriation accounts are established using the current federal grant but the actual expenditures that flow through the appropriation account are said to be a mix of federal funding periods. The maximums established for the appropriation account established for the distribution of funds to LEAs, in practice, are closely matched to the annual expenditures for distributions since the Department makes grant awards to LEAs for the school year, it is the administrative funds that are carried from year-to-year. The federal grants are available for spending over 27 months, even though as indicated above the LEAs are in reality only given one year to spend the money, and it is said that this length of allowable grant spending and the difference in the time periods covered by the federal fiscal year and the state fiscal year render the Department unable to perform the accounting or analysis that would document the actual spending of federal funds to illustrate that the funds were spent in accordance with the earmarking requirements.

Testing could not be designed to independently determine if the Department has met the earmarking requirements. In prior years, the Department has offered MMARS documents as the evidence that the requirements are met and the % fell within the allowable ratios. In fiscal year 2001, when this approach indicated that the spending was not within the allowable ratios, the Department pointed out that the test approach was flawed, and that the statewide and Department systems cannot differentiate between grant year (27 months) and fiscal year (12 months). The Department does not have a system in place to monitor compliance with federal earmarking requirements. *(Department of Education – Special Education – State Grants 84.027 and Preschool Grants 84.173)*

Recommendation

The Department must review the multiple federal financial analysis and reporting requirements, as well as the currently available MMARS and MMARS data warehouse resources, the Department's internal data management systems and design an overall financial management and reporting system. This must take into consideration the requirements of Massachusetts General Law Chapter 647 and the related documents issued by the Comptroller's Office for strong internal controls. The Department should have in place a documented system that considers both state and federal funding for all grants and accounts.

Department Corrective Action Plan

The addition of two positions in the budget office along with better communication with administrators will help us in meeting this requirement. The Department will also initiate the development of a grant's management guide for internal use that will be used for training of staff on correct procedures/requirements for current and new programs and grants.

Responsible person: Anthony Delorenzo, Chief Financial Officer
Implementation date: Anticipated completion by June 30, 2002

Findings not Repeated from Prior Years

1. The Department of Education (Department) did not have a system in place to implement

corrective action plans and clear findings in a timely manner. The Department has hired an additional person in the Audit and Compliance Unit and anticipates hiring more new people. Resolving findings has taken on a higher priority in the Department and five of the nine findings from the fiscal year 2000 audit have been resolved. (Fiscal Year 2000 Single Audit Finding 14)

2. The Department did not issue management decisions for findings in subrecipient Single Audit reports. The Department updated its Desk Review Procedures for Audits and all appropriate management decisions were for subrecipients tested as part of the fiscal year 2001 audit. (Fiscal Year 2000 Single Audit Finding 15)

3. The 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 required number of monitoring reviews were conducted during fiscal year 2001. (Fiscal Year 2000 Single Audit Finding 17)

4. The Department did not reduce the Title I allocations for the Local Education Agencies that did not meet the maintenance of effort requirements. All Title I allocations were handled properly and all maintenance of effort requirements complied with. (Fiscal Year 2000 Single Audit Finding 18)

5. The Department did not reconcile its total quarterly expenditures as reported on its federal reports to the Commonwealth's accounting system (MMARS). A new subsystem report was developed and federal reports for the programs in question that were reviewed were reconciled to MMARS. (Fiscal Year 2000 Single Audit Finding 20)

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 2001, the Department administered approximately $764 million. Of this amount, federal funds amounted to $186 million.

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

CFDA #	Federal Program Description

10.557	Special Supplemental Food Program for Women, Infants and Children
93.959	Block Grants for Prevention and Treatment of Substance Abuse
93.994	Maternal and Child Health Services Block Grant
84.181	Special Education-Grants for Children and Families with Disabilities

No findings resulted from the audit of these major programs.

Findings not Repeated from Prior Years

1. 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. All required certifications were prepared by the Department for fiscal year 2001. (Fiscal Year 2000 Single Audit Finding 26)

More on Department of Public Health

Department of Revenue/Division of Child Support Enforcement Background

The Division of Child Support Enforcement (Division) is organizationally part of the Commonwealth's Department of Revenue. 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 2001, the Division's total expenditures were approximately $43 million.

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

CFDA #	Federal Program Description
93.563	SChild Support Enforcement

Findings on Compliance with Rules and Regulations

Finding Number 18: Inactive Cases not Closed in System

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

Federal regulation, 45 CFR 303.11, requires that the Division establish policies and procedures for case closure. In the cases examined there were four where no leads to locate the non-custodial parent have been discovered for over 1 year due to lack of information. Under 45 CFR 303.11, these cases should have been coded as non-active, and should have subsequently been terminated and removed from the COMETS system. However, all four cases remained active.

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; 2000 Single Audit Finding 27)*

Recommendation

The Division should implement new and/or enforce existing procedures or policies to ensure the timely review of case files so that cases are closed in accordance with federal regulations. Only open and active cases should be maintained in the system, and the collection and closing of accounts should be performed in a more timely manner.

The Division should have the Internal Audit Unit perform a comprehensive review of case closing policies and procedures.

Department Corrective Action Plan

It has and will continue to be the Division's position that the federal regulation, 45 CFR 303.11, requires the Division to establish policies and procedures for case closure. Once a case has been identified as eligible for closure based on the reasons set forth in the regulation, the Division may close the case. If the Division decides to close the case, it must do so in accordance with federal regulations.

To ensure that this will take place, policies and procedures have been issued for all case closure reasons. Additional policies and procedures will be issued as system functionality to support case closure is released.

Responsible person: Paul Cronin and Michele Monahan
Implementation date: June 30, 2002

Finding Number 19: Ineffective Case Tracking and Management System

The Department of Revenue/Division of Child Support Enforcement (Division) needs to improve its system for tracking and managing child support cases. Of the 25 case files selected for testing, eight 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 2 of the 25 cases tested. In accordance with 45 CFR 303.3(b)(5), the Division must repeat location attempts in cases where previous attempts to locate non-custodial parents or sources of income and/or assets have failed, but adequate identifying and other information exists to meet the requirements for submittal for location. Such attempts should be made quarterly or immediately upon receipt of new information which might aid in location. In one of these cases, quarterly location attempts were not made because minimal information was provided by the custodial parent (CP) about the non-custodial parent (NCP). In the second case, which was a transfer from another state, the CP did provide information about the NCP on two occasions yet the Division made no location attempts.

(B) A violation of 45 CFR 303.2 was noted in 3 of the 25 cases tested. In accordance with 45 CFR 303.2, upon complete referral or the submission of a complete application, the case must be assessed and additional necessary information obtained within 20 days. In two cases, a review of the Records of Support Action in disclosed that necessary information was not obtained within twenty days after submission of the complete application. In one case, the physical application was missing from the file, in another case the signature page was missing, and in the third case the first assessment was not made until 4 1/2 months after submission of the complete application.

(C) A violation of 45 CFR 303.4, establishment of support obligations was noted in 3 of the 25 cases tested. 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, there was a positive location match of the NCP, but the CP told the Division that the NCP was unemployed, so no attempts were made to establish support obligations. In the second case, the Division did not establish support because the NCP was on Supplemental Security Income. In the third case, the Division did not establish support because the NCP had been incarcerated.

(D) In 5 of the 25 cases tested, the Division could not determine the dates that the applications were received due to the lack of a receipt stamp on the application. 45 CFR 302.15 (a) regarding reports and maintenance of records, requires that the State plan shall provide that: the IV-D agency will maintain records necessary for the proper and efficient operation of the plan, including records regarding: statistical, fiscal, and other records necessary for reporting and accountability required by the Secretary. Since the applications were not stamped, it could not be determined if the Division complied with timelines spelled out in federal regulations.

As part of last year's corrective action plan, the Division explained that its systemic location efforts as well as the increased functionality of its automated case tracking and management system continue to improve. It also stated that the Department's Internal Audit Unit was conducting a review of the Division's case create function. The Internal Audit Unit completed its review the purpose of which was to evaluate the accuracy and reliability of case referral information in COMETS and determine whether the Division created and assessed these cases within the time limits specified in Division policies and federal regulations.

The review reached the following conclusions:

1. New referrals were not processed timely or accurately, for example, the Division complied with federal case assessment requirements in 72 (43%) of the 166 cases reviewed. The assessment process was completed, on average, 38 days after receiving the paper applications. The federal requirement is 20 days.
2. Division employees did not have an adequate understanding of the federal requirements.
3. Information recorded in the Referral Area was not evaluated for reliability or integrity.
4. Controls over the receipt of paper applications should be improved.
5. Case inventories could not be managed effectively.
6. The Division did not establish a standard procedure for date stamping applications upon receipt.
7. Non-TAFDC Medicaid referrals were not processed or tracked.

The report contained a number of recommendations, which the Division is in the process of implementing.

The Massachusetts State Auditor's Office also issued a report in May 2000 citing the Division for inadequate controls over case assessment monitoring.

The Administration for Children and Families (ACF) fiscal year 2001 data reliability audit also noted that case management needed improvement because the case create function did not require that the child's place of birth be entered in the COMETS system. Since the Division cannot receive credit (incentive funds) for establishing paternity for children born outside of Massachusetts, recording the place of birth is important. *(Department of Health and Human Services - Child Support Enforcement 93.563; Fiscal Year 1989; 2000 Single Audit Findings 28 and 30; Massachusetts Office of the State Auditor, 7/1/97 to 2/28/99, findings 1-8)*

Recommendation

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

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

The Division should implement the Internal Audit recommendations including centralizing case create and assessment operation, improving training for case workers, quarterly review of cases in the COMETS Referral Area, weekly COMETS reporting of all new electronic referrals, developing a division-wide automated tracking and reporting system to identify case inventories, backlogs and locations of cases within each regional office, establishing a policy of date stamping applications and instituting a standard method to receive Medicaid referrals.

Department Corrective Action Plan

The Quality Assurance Unit is part of Internal Audit, which reports to DOR's Inspectional Services Division, performs the annual Self-Assessment Review required by OCSE. The review employs a detailed statistical sampling methodology in order to capture cases in a wide range of statuses for purposes of reviewing the Division's compliance with federal case processing requirements.

The Division filed a comprehensive corrective action plan in response to the Internal Audit on case create, outlining its activities to meet the report's recommendations.

Responsible person: Rachel Madden
Implementation date: June 30, 2002

Finding not Repeated from Prior Years

1. The Department of Revenue/Division of Child Support Enforcement (Division) did not require employees who work solely on one federal program to file the required semi-annual federal certification. The required certifications were found for the employees tested during the fiscal year 2001 audit. (Fiscal Year 2000 Single Audit Finding 29)

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 and parent aid 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 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 2001, the Department administered approximately $570 million. Federal funds amounted to approximately $230 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:

program was:

CFDA #	Federal Program Description
93.667	Social Services Block Grant
93.658	Foster Care - Title IVE

Findings on Compliance with Rules and Regulations

Finding Number 20: Subrecipient Monitoring Needs Improvement

The Department of Social Services (Department) was not able to identify the amount of federal funding provided to its subrecipients under the Social Services Block Grant (SSBG) due to legislative changes and, as a result, it did not notify its subrecipients of the audit requirements of Office of Management and Budget Circular A-133 (A-133). A-133 requires a state government that receives federal financial assistance and provides $300,000 or more of it in a fiscal year to a subrecipient to determine that non-federal subrecipients have met the audit requirements of the Circular. The purpose of such audits is to determine whether subrecipients have spent the federal funds provided in accordance with applicable laws and regulations. The state government must also 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. In addition, the Circular requires that subrecipients submit copies of reports to the pass-through agencies that provide them federal assistance within 30 days after receipt of the auditor's report, or nine months after the end of the audit period, unless a longer period is agreed to with the cognizant agency.

The Operational Services Division (OSD) has been created by the Commonwealth to consolidate the procurement efforts at the various departments providing social services to the public. As part of the legislation, OSD has also been given the duty to monitor the compliance of subrecipients with A-133. OSD accomplishes this task by first verifying which subrecipients receive in excess of $300,000 of federal funds and confirming with them their responsibilities to file financial statements (Form UFR) to comply with the Commonwealth's requirements and to meet audit provisions of A-133.

OSD will then monitor the timely submission of the Form UFR with appropriate auditor's reports and all deficient providers will be notified again through a letter from OSD. If there are deficiencies noted, the Principal Purchasing Agency (PPA), and not OSD, is responsible for monitoring the resolution of the audit issue. A PPA is designated by the Executive Office of Health and Human Services to administer a provider's pre-qualification process and is responsible for assuring that corrective action is taken on findings resulting from audits. If there is a compliance or internal control finding on a program funded by a Commonwealth agency other than the PPA, the PPA is responsible to resolve the finding.

The Department is required by the legislature to pool the federal SSBG funds with state funds within various state appropriation accounts to perform the social services program objectives. These appropriations are funded through fund splits of federal and state dollars, which the legislature identifies through the state budget process. In the prior year, the Department worked with OSD to identify those subrecipients that received federal funding by using the fund splits within each appropriation. Each subrecipient was provided a percentage of the total funding received that was federal funds. This notification, when coupled with all other sources of federal financial assistance, allowed the subrecipients to determine if they needed to have an audit in accordance with OMB Circular A-133 and to comply with all federal requirements.

During fiscal year 2001, the Department again prepared these notifications to its subrecipients based on the fund splits in the budget. However, before forwarding the letters to the subrecipients, the Department had to wait for the legislature to finalize the fiscal year 2001 budget and the related fund splits. At the end of fiscal year 2001, the Department proposed a change to the legislature to revise the fund splits in order to account for an additional $16 million transferred from the Temporary Assistance to Needy Families Block Grant (TANF) to SSBG. Since the subrecipients' federal awards are determined by the fund splits, the letters could not be released for fiscal year 2001 until the revised fund splits were approved. The supplemental appropriation was passed on September 21, 2001. However, the fund splits were

significantly changed and the letters to the subrecipients that were drafted could not be released because the percentages were now inaccurate. Consequently, no notification of federal funding was sent to the Department's subrecipients for fiscal year 2001.

The Department is working with the legislature to correct the issue and allow the Department to finalize the fund splits and forward the information to its subrecipients. *(Department of Health and Human Services - Social Services Block Grant 93.667)*

Recommendation

The Department should continue to develop and implement a plan with the legislature to properly identify the fund splits within the social services program and allow for the timely notification of its subrecipients of the amount of federal funds received.

Department Corrective Action Plan

The Department as a 'pass through' entity for the expenditure of federal funds recognizes the responsibility to inform subrecipients of their receipt of federal funds in order to be in compliance with the Office of Management and Budget Circular A-133.

To accomplish compliance, the Department has been in discussions with analysts from the House Ways and Means Committee, the Senate Ways and Means Committee and the Fiscal Affairs Division to discuss issues that arose as a result of the changes retroactively applied to the Minor Fund / Social Services Fund. The Department will continue to work with these committees regarding the resolution of the SFY2001 subrecipient issue as well as ensuring that the issue does not arise in SFY2002.

The Department has sent subrecipient expenditures to the Operational Services Division for mailing to the subrecipients. This expenditure information is based upon the actual expenditure information used in authorization of federal draws.

The Department will be asking for flexibility within allocation accounts associated with the Social Services Fund / Minor Fund for SFY2002. The Department will use the assigned percentages as a basis for federal draws. The Department will complete the drawing from these accounts in June 2002 and will prepare and mail subrecipient information at that time.

Responsible person: Edward L. Thurman, Deputy Commissioner Administration and Finance
Implementation date: February 2002

Findings not Repeated from Prior Years

1. The Department of Social Services (Department) needed to better document the administrative controls used to support the fact that the funds transferred from the TANF Block Grant were spent in accordance with federal regulations. The Department developed an Interagency Service Agreement (ISA) with the Department of Transitional Assistance with regard to TANF transferred funds. The ISA included the methodology used to calculate the TANF eligible services. *(Fiscal Year 2000 Single Audit Finding 31)*

More on 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 2001, the Department administered about $1 billion in carrying out its programs. Federal funds amounted to approximately $600 million.

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

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

Findings on Compliance with Rules and Regulations

Finding Number 21: Food Stamps Status of Claims Against Household Report Filed with Inaccurate Data

The Food Stamps Status of Claims Against Household Report (FNS-209) submitted to the U.S. Department of Agriculture, Food and Consumer Service (USDA/FCS) for the quarter ended December 31, 2000, the Department of Transitional Assistance (Department) contained 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. The Department also has not prepared a 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. *(Department of Agriculture - Food Stamp Program 10.551; Fiscal Year 1994; 2000 Single Audit Finding 32)*

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: Arthur Locke 617-348-5060
Implementation date: Approximate date of resolution, February 2002

Finding Number 22: Failure to Provide Necessary TANF Case File Verification Forms

The Division of Transitional Assistance (Department) was unable to provide all of the documentation used to verify the eligibility of two of the 25 Temporary Assistance for Needy Families (TANF) recipients tested.

Federal regulations, 42 USC 607 and 608, indicate the general requirements and prohibitions of individuals to be eligible to receive TANF benefits. The State Plan, submitted to the Department of Health and Human Services, as part of the grant award to participate in the TANF Program, provides the detail procedures of the state's implementation of the federal program.

One of the requirements for an individual to receive full TANF assistance is their cooperation to establish paternity or support a court order for a child support case. The amount of TANF assistance for the family can be reduced for failure to cooperate and the state can also be penalized in the amount of its grant for failure to cooperate with the state child support program. The Commonwealth has developed an Absent Parent Information Form to verify parental cooperation. One case file tested did not contain this required form. Another eligibility requirement for receiving TANF assistance is that the recipient must be immunized. One of the files did not contain the required Immunization Status data to verify that the recipient was immunized.

The Department believes these two missing documents were simply misfiled at the Transitional Assistance Office (TAO). Without these verification documents the eligibility of these recipients could be questioned. *(Department of Health and Human Services - Temporary Assistance for Needy Families 93.558)*

Recommendation

We recommend that the Department review the TAOs' filing system, policies, and procedures to ensure that there is an adequate system in place for maintaining all required documentation.

Department Corrective Action Plan

We agree with the conclusion that there were some documents missing from the files. These missing documents, we strongly feel, are isolated incidents. As a precaution in the future, we will remind local office managers at statewide meetings to review local office policy on filing procedures at local office meetings with case managers.

Responsible person: Cescia Derderian
Implementation date: October 19, 2001

Findings not Repeated from Prior Years

1. The Department of Transitional Assistance (Department) needed to execute an Interdepartmental Service Agreement (ISA) with the Department of Social Services to formally document the transferred funds from TANF to the Social Services Block Grant. The Department did execute the ISA with the Department of Social Services. *(Fiscal Year 2000 Single Audit Finding 33)*

2. The Department needed to improve the existing documentation with regard to the funding options used to provide the various services and the methodology used to satisfy the TANF MOE requirement. The Department did document the funding options used to provide services and the MOE methodology. *(Fiscal Year 2000 Single Audit Finding 34)*

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. The Division assumed its responsibilities beginning in fiscal year 1994.

During fiscal year 2001, the Division administered approximately $5.8 billion in carrying out its program. Federal funds amounted to approximately $3.3 billion.

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

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

Findings on Compliance with Rules and Regulations

Finding Number 23: Eligibility Redeterminations were not Performed in a Timely Manner

The Division needs to monitor the redetermination process to ensure that redeterminations are performed within the timeframe required by the regulations. A total of 50 (25 from MassHealth, 25 from CHIP) recipient eligibility selections were selected for testing. Three (two MassHealth program and one relating to the CHIP program) out of 50 selections were not redetermined in a timely manner, resulting in MassHealth/CHIP benefits being provided to persons who were potentially ineligible to receive benefits at the time of service.

Massachusetts's regulation 130 CMR 502.007, 516.007 states that the Division shall review eligibility at least every twelve months with respect to circumstances that may change.

For the CHIP case, redeterminations were performed in 1998 and 2000 and the recipient was found to be eligible. However, no redetermination was performed in 1999 and the date of the service that we tested was June 2000. Therefore, no redetermination of eligibility was in effect on the date of the service that was tested.

For one of the MassHealth selections, a redetermination was performed in March 2000 and the recipient was found eligible. The date of the service in our test was October 2000 and was covered by the March redetermination. However, the next redetermination should have been performed in March 2001 but was not until September 2001, six months late.

For the second MassHealth selection which involved a long-term care recipient, a redetermination was performed in 1996 and not again until 2001. The date of service in our test was July 2000. If the redetermination of eligibility is not conducted in a timely manner as specified by the regulations, the Division cannot be assured that the member's circumstances have not changed and, consequently, cannot be assured that the member was eligible to receive MassHealth/CHIP benefits at the time the services were rendered. *(Department of Health and Human Services - Medical Assistance Program 93.778 and State Children's Health Insurance Plan 93.767)*

Recommendation

It is recommended that the Division continue to improve its redetermination procedures to ensure that redeterminations occur on an annual basis in accordance with the regulations.

Department Corrective Action Plan

For the SCHIP case, the Division agrees. The Division has been working diligently to ensure 100% redetermination of cases as required by federal regulations. The Division is currently reviewing cases within the twelve-month time frame as required by federal regulations.

For the first MassHealth selection, the Division agrees. A mid-spring systems enhancement required redetermination profiling to be suspended temporarily, causing a delay in redeterminations. As a result, the Division increased the number of profiles by 50% in the following months, and is now current with the redetermination schedule. The systems enhancement delay affected this case, which was profiled in August 2001, with the member returning the redetermination in September 2001.

For the second MassHealth selection, the Division disagrees. The finding states that a redetermination was not performed from 1996 until 2001. During that time, however, no redeterminations were required since the applicant was not eligible and was not an active member. The case record that was submitted to auditors with a community application dated March 7, 1996 was denied for excess assets on March 28, 1996. Although certain paper documentation has been misplaced, MMIS and other databases indicate that the applicant applied again in March 2000. In processing this new application, it was determined that the applicant would have been eligible for retroactive benefits to a January 1, 2000 start date. A redetermination was reviewed within the 12-month period from the new application date.

The Division will continue to process redeterminations timely; and to stress with MEC directors the importance of maintaining, managing and tracking case files.

Responsible person: Thomas G. DeVouton
Implementation date: November 2001

Finding Number 24: Change in Eligibility Status Questionable

One out of twenty-five recipients tested for MassHealth eligibility received benefits under two separate programs during March 2001. During this month, the individual's eligibility code was changed from category 24 to category 89 for a two-week period. A category 24 individual is eligible for full payment of Medicare Part B premiums while a category 89 individual is eligible for partial coverage based on their income. During this two-week period, the person was paid $40.17 as an annual reimbursement for partial payment of the Medicare part B premiums. On the 15th of the month, the category 89 eligibility status was closed and the individual was put back on full coverage, which is category 24 as he had been since November 1999. Division personnel explained that the critical date for coverage under category 24 is the 15th of the month. In other words, as long as someone is coded a 24 by the 15th of the month they are eligible for benefits during that month. Benefits for individuals who are classified as category 24 are paid directly to Social Security. Individuals classified as category 89 receive the annual reimbursement directly. Because this individual's classification was corrected on the 15th of the month, his full coverage was never disrupted.

Discussions with the personnel at the involved Medicaid Enrollment Center (MEC) indicated that the annual review process, which showed that this individual's income increased above the threshold for full coverage, triggered the eligibility change to category 89. However, review of the eligibility history on this account revealed that the individual was retroactively classified as a category 24 back to December 2000. At present, this person is still classified as a 24. Our review of the recipient file indicates that the person should always have been classified as a 24. The retroactive adjustment made by the MEC (which overlaps the dates that the person was classified as category 89) confirms this conclusion. Division personnel could not explain why this individual was apparently erroneously reclassified for a two-week period thereby receiving benefits to which he was not entitled.

Discussions with Division personnel indicated that a contributing factor to the Division's inability to adequately explain the issues in this case is that a manager has not been assigned to oversee this program. *(Department of Health and Human Services - Medical Assistance Program 93.778)*

Recommendation

The Division should determine what happened in this particular case to ensure themselves that it was, in fact, an isolated case and not due to some systemic problem. Additionally, the Division should assign a manager to oversee the category 89 program.

Department Corrective Action Plan

The Division agrees. The underlying point leads the Division to believe that the member experienced a period where he left work and then returned to work when able, accounting for the confusion. MMIS eligibility screens show that he went back and forth from categories 24-89-24. This case is not typical. However, there were no system notes on MA-21 relative to this case.

MEC operations will enforce the importance to MEC staff to use the MA-21 notes on household matters to capture and explain atypical occurrences such as these.

Responsible person: Thomas DeVouton
Implementation date: November 2001

Findings on Reportable Conditions

Finding Number 25: The Recording of Accounts Receivable Needs Improvement

Two out of three BARS items selected for testing were not valid receivable balances. The two selections were premiums receivable from individuals who were eligible for MassHealth/Family Assistance; however, their income was above the allowable Federal Poverty Level threshold. In order to obtain coverage, individuals pay premiums to the Division of Medical Assistance (Division) in accordance with the prescribed tables at CMR 130 506.011. An aid category is assigned to the individual within the eligibility system (MA-21). Each month the receivable amounts due are posted to BARS based on the information uploaded from MA-21.

In the first case, the recipient's income changed which caused the monthly premium to increase significantly. The Division recorded a receivable for the new premium amount. Upon notification of the premium increase, the recipient requested to discontinue coverage and paid the final month's premium at the old rate. Though the recipient's closed status was properly reflected in MA-21 and the final payment was appropriately credited to the receivable balance, the Division never wrote-off the remaining receivable balance. The unadjusted amount on the account is $2,583.50, which represents the difference between the new premium rate of $2,924.50 and the amount paid of $341.

The second case also relates to a change in the recipient's income, however, the new premium amount calculated by the Division was incorrect. The recipient contested the new premium amount and after a few months supplied the Division with documentation that clarified their income level. The documentation showed that the premium would still increase, however, not as much as originally calculated. During the intervening months the Division continued to record the premium at the higher amount, however, upon receiving the income documentation the receivable balance was not adjusted to reflect the correct premium amounts. The resulting overstatement of the amount selected for testing represents $654. The actual adjustment required is greater than this amount since the selection tested represents only one month of premium and several months of premium were recorded at the incorrect amount.

Both of these selections were classified in the greater than 90 days aged receivables category. The first instance dates back to December 1999 and the second instance dates back to August 1998. The age of these invalid receivable balances and the number of errors (two out of three) found in the sample indicates that the Division is not performing a timely review of these amounts and that there is potential for other errors of this nature. Last year we reported that the Division needed to improve its tracking and recording of receivables, uncollectibles and write-offs and recommended that it work with its contractors to obtain aging reports of its receivables and the individual claims that were deemed uncollectible and those to be written off. Division personnel explain that they are working with the Comptroller's Office to develop policies and procedures that will result in more accurate tracking and recording of receivables, uncollectibles, and write-offs. *(Department of Health and Human Services - Medical Assistance Program 93.778; Fiscal Year 2000 Single Audit Finding 25)*

Recommendation

The Division should make the appropriate adjustments to the above noted recipient accounts. Additionally, the Division needs to implement a process of monitoring aged accounts receivable balances so that timely corrective action can be taken, where appropriate.

Department Corrective Action Plan

Two corrective action steps are planned. The first is to develop better communication between MassHealth Enrollment Centers and Premium Billing staff. This will be completed before the end of fiscal year 2002. The second corrective action step involves developing on-going procedures to evaluate and resolve receivables that are over 90 days old. This step will be initiated in fiscal year 2002 and will continue as an on-going activity.

Responsible person: Gerry Beaudreault
Implementation date: January 2002

Finding Number 26: Drug Price Updates not Performed in a Timely Manner

The Division of Medical Assistance (Division) did not update its drug prices for the period July 1999 to March 2001. Twenty-five items were selected for rate testing. Three out of twenty-five selections were pharmacy claims and all three selections were paid at the incorrect rate. The selections were underpaid by $2.59, $1.02, and $5.84 respectively.

Follow-up inquiry revealed that from the period between July 1999 and March 2001, the Division stopped processing systematic weekly drug price updates. Prior to July 1999, the Division's practice was to contract with UNISYS to acquire and process price updates from First Data Bank, the sole supplier of prescription price information to all states and pharmacies. In October 1998, the Division brought claims processing in-house to the Information Technology Division from UNYSIS. Division officials explained that around this time there were also changes to the way that First Data Bank collected price information, which led to changes in the format of the file. Up to this time, the file provided by First Data Bank was completely customized to the needs of the Division. It could then be easily uploaded to MMIS with little or no modifications. Because of the format change, Division officials assert that they had to spend significant time outlining the new file definition in order to make sure that they were receiving a tape that was substantially equivalent to the previous tapes. In an effort to mitigate some of the loss of price information, the Division processed approximately 3,000 manual price updates to the records during the two-year period. The first price file was finally processed in March 2001. Weekly price updates resumed beginning in June 2001.

The result of the disruption in the price update process is that the Division underpaid pharmacy claims during this period. During fiscal year 2001, the Division made settlement offers to approximately 1,100 providers in an effort to remedy the resulting underpayment. In fiscal year 2002, approximately 475 providers have accepted the settlement offers to date. The Division has recorded a $20 million liability for its estimation of the settlement amount. *(Department of Health and Human Services - Medical Assistance Program 93.778)*

Recommendation

The Division needs to continue the regular price updates and be alert for the reoccurrence of any similar circumstance. Timely updating of drug prices is a process that is vital to the accurate calculation of the rates and reporting of pharmacy claims. The additional resources expended by the Division to resolve this matter could have been minimized if appropriate attention was given to this issue at the outset.

Department Corrective Action Plan

The Division resumed regular price updates in June 2001. Staff will continue to monitor the pricing process by ensuring that the Division receives the necessary data in a timely manner, and utilizes it in accordance with the Division's regulations.

Responsible person: Priscilla Portis
Implementation date: January 2002

Findings not Repeated from Prior Years

1. The Division of Medical Assistance (Division) could locate one of the hundred recipient case files tested. All cases files selected for testing during the fiscal year 2001 single audit were found. *(Fiscal Year 2000 Single Audit Finding 21)*
2. The Division needed to refund to the federal government the recoupments of overpayments in a more timely manner. All recoupments of overpayments tested during the fiscal year 2001 single audit were refunded to the federal government within the required time frames. *(Fiscal Year 2000 Single Audit Finding 22)*
3. The Division did not recognize the State Children's Insurance Program (SCHIP) as a separate federal program revenue when it drew down federal funds. SCHIP was treated as a separate program revenue during fiscal year 2001 and no other such instances were noted during the fiscal year 2001 single audit. *(Fiscal Year 2000 Single Audit Finding 23)*
4. Recipients in two of the twenty-five cases selected for testing received services which may have been in excess of what was medically necessary. The Division reexamined these cases and no similar cases were noted during the fiscal year 2001 single audit. *(Fiscal Year 2000 Single Audit Finding 24)*

Executive Office of Elder Affairs
Background

The Executive Office of Elder Affairs (Office) was established by Section 2 of Chapter 6A of the Massachusetts General Laws whose responsibility includes the administration and oversight of various programs and services that benefit older citizens in the Commonwealth in accordance with the requirements of the Older Americans Act of 1965, as amended.

The mission of the Office is to promote dignity, independence, and rights of Massachusetts' elders and to support their families through advocacy and the development and management of programs and services. The Office's responsibilities include the administration and monitoring of protective, supportive and nutritional programs and services for 1.1 million elders including Ombudsman Programs, Elders at-Risk Program, Senior Center Programs, Case Management, Legal Services, Home Care Programs, Transportation and Health Screening Services. The nutrition program provides education and over eight million meals to elders through home delivered (Meals on Wheels) or congregate meal sites. Elder Affair programs and services operate through a statewide network providing services to elders through both regional and local agencies which include 27 regional Aging Services Access Points, 23 Area Agencies on Aging which operate programs authorized under the Older Americans Act, 347

municipal Councils on Aging and 290 senior and drop-in centers. In addition, the Office is responsible for certifying over 100 Assisted Living Residences and administering the Prescription Advantage Drug Insurance Plan.

In fiscal year 2001, the Office administered $241 million with federal funds totaling approximately $28 million.

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

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

Findings on Compliance with Rules and Regulations

Finding Number 27: Indirect Cost Plan not Developed

The Executive Office of Elder Affairs (Office) needs to develop an actual indirect cost allocation plan. The Office last developed an actual plan for fiscal year 1996 and has not developed an indirect cost allocation plan for fiscal years 1997 through 2001. The Office currently applies a rate of 21% as a budgetary tool in establishing grant or contract amounts in accordance with a negotiated agreement with the Department of Labor dated October 1, 1996. The agreement stipulates that:

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

The agreement stipulates that the Office may apply a budgetary rate of 40% for all programs beginning July 1, 1996 "until amended" (an actual plan is developed). The Office and the Commonwealth, however, have taken a more conservative approach applying a 21% rate in the interim years resulting in a total of $292,100 in costs billed to the federal program for fiscal year 2001. Additionally, as reported in prior audits, the Office charged costs of $303,108 and $320,186 for fiscal years 1999 and 2000, respectively.

The Office is allowed to bill federal programs using a rate specified in its Negotiated 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. The resulting rate is compared with the rate used to bill federal programs and any recoveries must be credited against the applicable federal program or additional costs may be charged.

Our review revealed that the Office submitted a draft indirect cost allocation plan for fiscal year 2000 to the Office of the State Comptroller for review and plans to complete any revisions by November 30, 2001 for submittal to the Federal Government. On approval, the Office will then apply the same methodology to complete the plans for fiscal year 1999 and fiscal year 2001 by June 30, 2002. Since the actual rates have not been finalized and the indirect cost plan not developed for fiscal years 1999 through 2001, the amounts charged for indirect costs are still unsupported. The federal programs and amounts are as follows:

Fiscal Year	CFDA Number	Amount
1999	10.570	$ 75,415

2000	10.570	63,196
2001	10.570	66,932
1999	17.235	16,894
2000	17.235	13,899
2001	17.235	11,012
1999	84.281	145
2000	84.281	1,216
2001	84.338	1,058
1999	93.044	192,800
2000	93.044	220,088
2001	93.044	196,547
1999	93.048	4,177
2000	93.048	6,511
2001	93.048	6,858
1999	93.779	10,052
2000	93.779	9,598
2001	93.779	9,693
1999	93.994	3,625
2000	93.994	5,678
Total		**$915,394**

The Office attributed the lack of progress on the corrective action plan to staffing shortages and the demands of implementing and budget planning for the Prescription Advantage Plan, which began April 1, 2001. *(Department of Agriculture - 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, Reading Excellence Act 84.338; Department of Health and Human Services - Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers 93.044; Special Programs for the Aging - Title IV - 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; Fiscal Year 2000 Single Audit Finding 40)*

Recommendation

The Office should complete the actual indirect cost rate for fiscal years 1999, 2000, and 2001 and credit applicable federal programs with any over recoveries. The Office should also ensure timely completion of its fiscal year 2002 plan.

Department Corrective Action Plan

Elder Affairs submitted a copy of a draft cost allocation plan for fiscal year 2000 to the Office of the State Comptroller for its review in late August 2001. We are currently responding to questions the Comptroller's Office has raised based on their review; we will conclude our discussions with them and make the necessary revisions in the fiscal year 2000 cost allocation plan by November 30, 2001. We will then begin to prepare cost allocation plans for fiscal years 1999 and 2001 using the same methodology and format as the final fiscal year 2000 plan. At the same time, beginning with the fiscal year 2000 plan, we will work with the Comptroller to resolve any issues in the application of the results of the plan to indirect cost recoveries and to correct any over-recoveries of indirect costs that may have been made. We will complete the resolution for all three fiscal years by June 30, 2002.

Responsible person: Randal Garten, Budget Director, Finance Division

Implementation date:	Completion of fiscal year 2000 cost allocation plan-November 30, 2001 Completion of fiscal year 1999 and 2001 cost allocation plans and resolutions of indirect cost recoveries, if necessary-June 30, 2002

Finding Number 28: Monitoring of Area Agencies Needs Improvement

The Executive Office of Elder Affairs (Office) needs to improve its monitoring procedures of Area Agencies on Aging (AAA) to ensure that funds are being spent in accordance with contract requirements as well as federal and state regulations and to assess program quality and effectiveness.

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

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

The Circular, §400(d)(5) also states:

> *"A pass-through entity shall . . . for the Federal awards it makes . . . (5) 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."*

OMB Circular A-133, Part B Compliance Supplement, Section 3-M further states that:

> *"Monitoring activities may take various forms, such as reviewing reports submitted by the subrecipient, performing site visits to the subrecipient to review financial and programmatic records and observe operations, arranging for agreed-upon procedures engagements for certain aspects of subrecipient activities, such as eligibility determinations, reviewing the subrecipient's single audit or program-specific audit results and evaluating audit findings and the subrecipient's corrective action plan."*

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

> *"The Commonwealth has a responsibility to conduct monitoring and evaluation of the commodities and services it purchases. These activities can assist in identifying and reducing fiscal and programmatic risk as early as possible thus protecting both public funds and clients being served. Contract managers are responsible for monitoring contractor performance and other issues that arise during the life of the contract. In developing monitoring and evaluation procedures, the Commonwealth, through its departments should strive for methods which rely on, among other things, national or industry standards and which are coordinated, cost efficient and appropriate to the level of risk to the Commonwealth in the purchase of the commodities or services."*

AAAs are required by the Office to obtain and submit annual financial statement audits including audits to comply with OMB Circular A-133, if applicable. Although the Office relies on audit reports for monitoring activities, it has not received reports from the largest AAA in several years. In fiscal year 2001, this AAA represented 17% of federal awards to area agencies.

Office officials stated that they conduct monitoring activities through quarterly and annual

financial reports, monthly nutrition program statistical reports, annual programmatic statistical reports, phone contacts and monthly meetings with AAA Directors. However, there is no process in place to observe operations and review financial and program records maintained at AAAs not subject to A-133 audits. Office officials explain that they formerly had an evaluation unit, which reviewed subrecipients' program quality and effectiveness; however, the unit is not currently staffed. By not monitoring subrecipient activity including receiving all required audit reports, the Office cannot ensure that federal awards are used for authorized purposes in compliance with contracts, laws and regulations, or that fiscal and programmatic records are being maintained. *(Department of Health and Human Services - Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers 93.044; Special Programs for the Aging - Title III, Part C - Nutrition Services 93.045)*

Recommendation

The Office should restaff its Program Evaluation Unit and implement procedures to adequately monitor subrecipients for compliance with the terms and conditions of the contracts and applicable regulations sufficient to ensure that funds are spent in accordance with requirements. In addition, it should establish and implement procedures to evaluate and assess the subrecipient's performance and record keeping for quality and effectiveness. The Office should also obtain the audit reports from its largest AAA.

Department Corrective Action Plan

Elder Affairs plans to fill the two vacant positions in the Program Evaluation unit, which would enable periodic site visits to Area Agencies, conducted according to a documented process, to review compliance with regulatory and contractual requirements and to evaluate performance and record-keeping in Area Agency programs. However, this hiring may be delayed because of the state hiring freeze implemented in October 2001.

Elder Affairs will also compile all of the financial and program reports submitted by each Area Agency and conduct a desk review of this information once each year to identify potential compliance issues and issues for follow-up. These desk reviews will be conducted according to a documented process, and written summaries of the results will be retained in the contract files. Related to this, we note that for the Elderly Nutrition Program, which accounts for over 50% of Area Agencies' expenditures of the federal funds they receive from Elder Affairs under Title III of the Older Americans Act, Elder Affairs currently requires extensive reporting on operations, including monthly submission of menus; quarterly submission of a complete nutritional analysis of the ingredients of each meal served for an identified three consecutive days; annual submission of a summary of the results of a participant satisfaction survey; and biennial kitchen inspection reports. These reports are reviewed by Elder Affairs' nutritionist for the Elderly Nutrition Program; the nutritionist's capacity to follow up on problems indicated in these reports has been increased by the recent hiring of a part-time assistant nutritionist.

Elder Affairs will formally request the City Auditor of the City of Boston to provide a copy of the City's single audit report and will follow up on any findings included in the report related to the City's Commission on Affairs of the Elderly.

Responsible person:	Randal Garten, Budget Director, Finance Division
Implementation date:	Filling of Program Evaluation Unit positions-March 31, 2002 or after state hiring freeze is lifted Desk reviews of Area Agency reports-First review conducted by March 1, 2002 Formal request for City of Boston single audit-November 30, 2001

Finding Number 29: Program Payments are Processed Based on Budgeted Amounts not Actual Costs

The Executive Office of Elder Affairs (Office) processed six monthly payments totaling $242,600 to five Area Agencies on Aging (AAA) for cost reimbursement contracts based on budgeted amounts not on actual costs incurred.

OMB Circular A-87 Costs Principles for State, Local and Indian Tribal Governments states in part:

> *"A cost means an amount as determined on cash, accrual or other basis acceptable to the federal awarding or cognizant agency. Also, to be allowable under Federal awards, costs must meet general criteria including conform to any limitations or exclusions set forth in these principles, Federal laws, terms and conditions of the federal award or other governing regulations as to types or amounts of costs items."*

The Office contracts with 23 AAAs and the total amount of aging cluster federal funds distributed to these AAAs was approximately $20.5M. A review of 20 expenditure transactions noted that the Office processed six payments totaling $242,600 to five area agencies for Title III program cost reimbursement contracts which did not comply with the above federal requirements. The Office requires AAAs to submit monthly payment vouchers requesting reimbursement for administrative and program services expenses. The five AAAs in question billed and were paid the identical amount for 10 to 11 months during the year. Office officials acknowledge that the payments in question were for budgeted amounts and that payment of budgeted amounts is allowed as long as funds are available in the AAA's total budget. Six of the 23 AAAs that the Office contracts with are paid on a budget basis. *(Department of Health and Human Services - Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers 93.044; Special Programs for the Aging - Title III, Part C - Nutrition Services 93.045)*

Recommendation

The Office should establish procedures to ensure compliance with federal regulations. Specifically, payments processed should be based on actual cash or accrued program expenditure amounts in compliance with OMB Circular A-87. To accomplish this, the Office should discontinue allowing AAAs to bill based on budgeted amounts and perform reconciliations to quarterly reports and MMARS.

Department Corrective Action Plan

Since the auditors identified this issue, Elder Affairs staff has notified Area Agencies on Aging that we will enforce our current requirement for submission of vouchers tied to the principles and practices of a cost reimbursement contract and payment system to ensure compliance with OMB Circular A-87 requirements that payments be based on actual cash or accrued program expenditure amounts. Additionally, as noted in the Corrective Action Plan for the finding Inadequate Supporting Documentation For Payment Voucher Expenditures. Elder Affairs will strengthen the requirements for supporting documentation of monthly invoices, and will reconcile Area Agency program expenditures as reported on invoices to their Title III quarterly expenditure reports.

Responsible person:	Theodore R. Zimmerman, Federal Budget Analyst, Finance Division
Implementation date:	Payment vouchers based on reimbursement of program costs - October 1, 2001

Finding Number 30: Inadequate Supporting Documentation for Payment Voucher Expenditures

The Executive Office of Elder Affairs (Office) pays federal funds to Area Agencies on Aging (AAA) for reimbursement of program and administrative expenses without sufficient documentation supporting the expenditures. As a result, 14 transactions totaling $728,981 in grant payments to AAAs for fiscal year 2001 were inadequately supported.

The Office contracts with 23 AAAs and the total amount of aging cluster federal funds distributed to these AAAs was approximately $20.5M. AAAs submit monthly payment vouchers

listing program and administrative expense totals with descriptive titles such as Nutrition Program, support services or administrative services for which AAAs request reimbursement. The AAAs are not required to submit invoices with details of the monthly expenses to support the reimbursement requests. The Office relies on the AAA's quarterly and annual financial reports to support the expenses shown on the payment vouchers. However, our review noted that the quarterly reports did not reconcile to payments received and that reconciliations to the annual Program Income and Expense Statement submitted by AAAs for fiscal year 2000 had not been prepared. Fiscal year 2001 annual reports are not due until December 2001. The Commonwealth of Massachusetts' Procurement Policies and Procedures Handbook, Chapter 5, Contracts Execution and Management; Payments, states in part:

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

OMB Circular A-133 places the responsibility on pass-through entities to monitor the activities of subrecipients as necessary to ensure that federal awards are used for authorized purposes in compliance with laws, regulations and the provisions of grant agreements.

Our review noted that the quarterly reports submitted by AAAs did not agree to the monthly program expenditure payments made to them for the corresponding period. Office personnel stated that quarterly and annual reports were deemed sufficient support for the payments requested. However, without accompanying detail for monthly invoices, reports supporting requested payment voucher amounts or reconciled quarterly reports of actual expenses to payments, the Office cannot be assured that federal funds were disbursed for authorized purposes. Our review found 14 transactions totaling $728,981 during fiscal year 2001 were inadequately supported. *(Department of Health and Human Services - Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers 93.044; Special Programs for the Aging - Title III, Part C - Nutrition Services 93.045)*

Recommendation

The Office should require supporting documentation for monthly payment requests and review such documentation to ensure that federal funds are used for authorized purposes in compliance with federal and state regulations.

Department Corrective Action Plan

Elder Affairs will strengthen the current requirement for Area Agencies to submit cost reimbursement payment vouchers based on their monthly program expenditures. A revised monthly back-up form will be developed to record detailed program and administrative expenses of the Area Agencies on Aging. Area Agencies will be required to support reconciliation statements on a monthly, quarterly and annual basis, as indicated:

> Monthly payment vouchers will be reconciled to the revised supporting documentation;
> Title III quarterly reports will be reconciled to their corresponding three month period reports;
> Quarterly reports will be reconciled to the annual Income and Expense Statement.
> Discrepancies to reconciliation will postpone either monthly payments and/or monthly reconciling payments.

Additionally, in connection with the finding Monitoring of Area Agencies Insufficient, Elder Affairs will implement a desk review system through which program and fiscal personnel will compile and review all the reports submitted by Area Agencies, including the revised monthly back-up forms as well as annual statistical reports, to monitor the activities of the Area Agencies and their subrecipients and help to ensure that Federal funds are used for authorized purposes.

Responsible person: Theodore R. Zimmerman, Federal Budget Analyst, Finance Division
Implementation date: Revised supporting documentation requirement - January 1, 2002

Finding Number 31: Fiscal Year 2000 Reconciliation of Federal Program Funds not Completed

The Executive Office of Elder Affairs (Office) has not completed a reconciliation of program funds awarded to actual revenue and costs reported by area agencies for fiscal year 2000.

The Office's contracts with the Area Agencies on Aging (AAA) require payments to them on a cost reimbursement basis. As such, the AAAs are required to submit an annual Program Income and Expense Statement. The annual statement, which is one of the primary methods used by the Office to monitor and track AAA expenses, is due no later than December 31, 2000 for the federal fiscal year ending September 30th. Although the Office received all but one report from the AAAs, a reconciliation of fiscal year 2000 funds awarded and disbursed with actual expenses reported has not been completed. Therefore, the Office cannot properly determine whether funds awarded and disbursed reconcile to actual program revenue and costs reported by the AAAs or to the disbursement amounts recorded by the Office in MMARS.

Federal program requirements state that funds must be obligated in the fiscal year in which they were awarded and that the Office has two years to liquidate obligations for State Administration and payments to area agencies. Because several funding years are in process during the period, a proper accounting of funds would require knowledge of the status of funds for the year's obligated and timely reconciliations of program funds for unexpended amounts.

As indicated above, one fiscal year 2000 Program Income and Expense Statement has not been received and it is from the largest AAA. Without the statement, the Office cannot determine whether this AAA received program funds in excess of actual expenses.

Office personnel stated that since federal funds require closeout at the end of the federal year following the award year, funds are reconciled at that time. *(Department of Health and Human Services - Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers 93.044; Special Programs for the Aging - Title III, Part C - Nutrition Services 93.045)*

Recommendation

The Office should properly account for program funds, including the timely completion of reconciliations of AAA revenue and expenses. The Office should also pursue the missing annual Program Income and Expense Statement.

Department of Corrective Action Plan

Elder Affairs' practice of requiring an annual Income and Expense Statement of the Area Agencies on Aging provides for a reconciliation of program funds awarded to actual revenue and costs reported. We recognize, however that the current system for reviewing the statements commences too late in a given fiscal year in order to accurately reconcile funds awarded and disbursed to actual expenses of the Area Agencies. Elder Affairs will implement a universal format (individual formats are now accepted) for the Income and Expense Statement relating to Title III services. The due date of the Statements will remain December 31st, for a prior fiscal year ending September 30th. All Title III Income and Expense Statements will be reviewed within forty-five days after the reports are due to Elder Affairs. The reviewed reports will form the basis for determining whether funds awarded and disbursed reconcile to actual program revenue and costs. Elder Affairs will continue to pursue the City of Boston Commission on Affairs of the Elderly for submission of their fiscal year 2000 and succeeding fiscal years' Income and Expense Statements.

Responsible person: Theodore R. Zimmerman, Federal Budget Analyst, Finance Division

Implementation date: Revised Income and Expense Statement format - December 1, 2001
Income and Expense Statement review - February 15, 2002

Finding Number 32: Federal Reports Lack Secondary Reviews and Reconciliations to the Commonwealth's Accounting System

The Executive Office of Elder Affairs (Office) did not reconcile the Federal Financial Status Report (SF-269) to the Massachusetts Management Accounting and Reporting System (MMARS), the Commonwealth's accounting system. There was no system in place to ensure that amounts submitted by Area Agencies on Aging (AAA) in quarterly reports, which were compiled and reported by the Office on the SF-269, agreed with disbursements recorded on MMARS. In addition, estimated costs were used to prepare the reports and the reports lacked an independent review. Consequently, the federal government does not have adequate assurance that amounts reported are accurate.

The Office prepares the SF-269 based on quarterly expense reports submitted by the Area Agencies on Aging (AAA) and internal records for administrative costs. The purpose of the SF-269 is to report the status of funds including program outlays and program income. A review of the fiscal year 2001 reports for the first and second quarters noted the use of estimated administrative costs and estimated income and expenses for the AAAs whose reports were late. Office officials explained that estimates were used because the report preparer was new and lacked the knowledge and training to properly prepare the reports. In addition, as indicated in other findings, the quarterly reports submitted by the AAAs lack supporting documentation and monitoring verification reviews by the Office. Therefore, there was little assurance that reporting errors would be detected, which could result in under/over reporting of expenditures on the federal reports.

The SF-269s are prepared on an accrual basis and MMARS reports are on a cash basis, therefore, a standard reconciling item would be timing differences for expense reimbursements. In addition, there was no evidence of a secondary supervisory review by an individual other than the person preparing the report.

The Financial Status Report Instructions on the back of Standard Form 269 states in part:

> *"For reports prepared on an accrual basis, outlays are the sum of actual cash disbursements for direct charges for goods and services, the amount of indirect expense incurred, the value of in-kind contributions applied, and the net increase or decrease in the amounts owed by the recipient for goods and other property received and for services performed by employees, contractors and subgrantees."*

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

Recommendation

The Office should establish procedures to prepare timely reconciliations between the MMARS system and the SF 269s filed with the U.S. Department of Health and Human Services and discontinue the use of estimated costs. Procedures should also be established that require an independent review of the SF-269s to ensure report accuracy.

Department of Corrective Action Plan

The initial step to implement a corrective action plan for this finding is addressed in the Department Corrective Action Plan for the finding *Inadequate Supporting Documentation For Payment Voucher Expenditures,* that directs the Area Agencies to submit monthly program expenditures based on their submitted cost reimbursement vouchers. The design and execution of the new reporting system will provide documentation of actual amounts for Area Agency costs. Estimates will no longer be prepared at the State level, and the acceptable use of

estimates at the Area Agency level will be remedied using monthly reconciling vouchers.

A system for reviewing the procedures and calculations leading to the submission of the SF-269 reports by an individual other than the report preparer will ensure report accuracy. Beginning with the FS-269 report for the period ending September 30, 2001, Elder Affairs will implement a process by which the Chief Accountant or another member of the Accounting Unit staff, other than the preparer of the individual federal report, reviews the clerical accuracy of each report and how it ties in with the associated backup documentation, and then will sign off on the report before it is submitted. The Budget Director will review each report before submission to verify that the check of clerical accuracy has been performed and documented. The documentation of these reviews will be retained in the report file.

Elder Affairs will prepare reconciliation reports between MMARS and the SF-269 report for Title III within sixty (60) days after submission of the report for the periods ending March 31 and September 30. This process will begin with the December 31, 2001 report, and will be a formal, documented reconciliation comparing reported expenses and disbursements as reported in MMARS. Any variances due to timing differences will be explained.

Responsible person:	Kenneth Weeks, Chief Accountant, Finance Division
Implementation date:	Documented secondary review of SF-269 documentation - October 30, 2001 for period ending September 30, 2001 Reconciliation between SF-269 and MMARS - December 31, 2001

Finding Number 33: Salaries Allocated to Federally-Funded Programs are not Supported by Proper Documentation

The Executive Office of Elder Affairs (Office) did not maintain adequate documentation for salaries charged to federal awards. The Office did not have a process in place to determine that salaries charged to a federal program reflect employee's actual hours spent on that program. As a result, the Office was not in compliance with federal OMB Circular A-87 requirements.

We conducted a review of three employee payroll transactions including a review for compliance with OMB Circular A-87 requirement for periodic payroll certifications for individuals charged to one federal program or personnel activity reports for individuals charged to multiple programs. The Office does not maintain periodic payroll certifications or personnel activity reports nor do they have a formal cost allocation process to compare actual employee's hours to hours charged to the program.

OMB Circular A-87 states, in part:

> *"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.*
>
> *Where employees are expected to work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation. Such documentation must meet the following standards including a) They must reflect an after-the-fact distribution of the actual activity of each employee, b) They must account for the total activity for which each employee is compensated, c) They must be prepared at least monthly and must coincide with one or more pay periods and d) They must be signed by the employee."*

Management was unaware of these federal requirements. *(Department of Health and Human Services - Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers 93.044; Special Programs for the Aging - Title III, Part C - Nutrition*

Services 93.045)

Recommendation

The Office should establish policies and procedures that require proper support for salaries and wages charged to federal programs including periodic certifications and personnel activity reports to comply with OMB Circular A-87.

Department Corrective Action Plan

Since being notified of this finding, Elder Affairs staff has contacted two state departments identified by the Office of the State Comptroller as having effective procedures for complying with these requirements. We will review these procedures for their applicability to Elder Affairs' time and attendance system and will implement the required certifications and/or personnel activity reports by January 15, 2002.

Responsible person: Randal Garten, Budget Director, Finance Division
Implementation date: January 15, 2002

Finding Number 34: Federal Debarment and Suspension Checks not Completed

The Executive Office of Elder Affairs (Office) did not obtain certifications or complete verification checks of subrecipients and vendors for federal suspension or debarment in accordance with OMB Circular A-133 requirements. Therefore, it has no assurances that contractors receiving federal funds are eligible.

OMB Circular A-133, Part B, Compliance Supplement states in part:

> *"Non-federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred or whose principles are suspended or debarred. Contractors receiving individual awards for $100,000 or more and all subrecipients must certify that its organization and its principals are not suspended or debarred. Also, nonfederal entities may, but are not required to, check for suspended or debarred parties which are listed in the List of Parties Excluded From Federal Procurement or Non-procurement Programs issued by the General Services Administration (GSA)."*

The Office's contracts with subrecipients were the Commonwealth's old standard contract and amendment forms which lack the Commonwealth's current contract federal debarment terminology including certifications by the vendors and subrecipients as to their federal and state debarment and suspension status. In addition, the Office did not check the federal debarment listing issued by GSA to confirm the suspension or debarment status of contractors. Without certifications or conducting verifications to the List of Parties Excluded From Federal Procurement, the Office lacked assurances that subrecipients and vendors were eligible for federal funds. Office personnel were not aware of the federal requirement. *(Department of Health and Human Services - Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers 93.044; Special Programs for the Aging - Title III, Part C - Nutrition Services 93.045)*

Recommendation

The Office should ensure compliance with federal suspension and debarment requirements in accordance with OMB Circular A-133. Utilization of the Commonwealth's new contract and amendment forms which contains the required vendor certified debarment assurance terminology would help greatly in this endeavor.

Department Corrective Action Plan

Annually Elder Affairs conducts a Provider Pre-Qualification Process as the beginning of the contract renewal process. For Fiscal Year 2003, the Provider Pre-qualification Form will be amended to include language-addressing debarment. Contractors for whom Elder Affairs is the principal purchasing agency will be required to certify that they and their subcontractors are not currently debarred. For those contractors that Elder Affairs is not the principal purchasing agency their organizations will be checked against the federal debarred vendor list. The certification or the documentation of the check of the Federal Debarment/Suspension list will be retained in the contract file.

In addition, Elder Affairs will check any new contracts using Federal funds for the vendor's presence on the Federal Debarment/Suspension list and document this check in the contract file.

Responsible person:	William Sheridan, Contracts Manager, Contracts Unit
Implementation date:	Inclusion of certification in Provider Pre-qualification Form - May 1, 2002 Documented checks for new Federally-funded contracts, and for contractors not subject to Elder Affairs pre-qualification - November 13, 2001

More on Executive Office of Elder Affairs

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 2001, the Department administered appropriated funds of approximately $161 million. In addition, about $429 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:

CFDA #	Federal Program Description
20.205	Highway Planning and Construction

Findings on Compliance with Rules and Regulations

Finding Number 35: Subrecipient Monitoring for Single Audit Compliance Needs Improvement

The Massachusetts Highway Department (Department) needs to improve its system for identifying, communicating and monitoring subrecipients for compliance with the provisions of 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.

In the prior year's audit, it was noted that the Department was not aware that an agreement with a governmental entity to fund the building of a new ferry under federal-aid Project FBD-000S (005) was a subaward. In June 2001, the Department informed the entity it had been providing federal assistance. This delay in communication may not have enabled the subrecipient to include the award, which exceeded $300,000, in determining whether to obtain a Single Audit for fiscal year 2000. The Department has not requested or received a Single Audit reporting package, which is due no later than nine months after the entity's fiscal year-end. In addition, the Department has provided other contracts to governments and non-profits including institutions of higher education, exceeding $300,000, which were subsequently reimbursed by the Federal Highway Administration. It could not readily be determined whether these contracts were subrecipient or vendor agreements. Subrecipient agreements are subject to Single Audit requirements.

During the 2001 audit, three of the 25 expenditures tested were payments to subrecipients. In two of these cases, the contracts did not contain the program name or identifying number from the CFDA. Those two contracts were executed before August 2000, when the Department began sending notifications to its planning agencies regarding the award information. Those entities did obtain a Single Audit.

Finally, Subpart D Section .400 (d)(4) OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations* (Circular) concerning pass-through entity responsibilities, indicates that the Department must ensure subrecipients expending $300,000 or more in Federal awards in their fiscal year have met the audit requirements of the Circular. In one of the five subrecipients tested, the audit report submitted did not meet the requirements of A-133. There appeared to be some confusion on the part of Audit Operations staff as to whether all of the various reporting elements that are specified in the Circular were included in the package submitted. The additional schedules and reports, which were bound in a separate package, were subsequently obtained from the subrecipient. *(Department of Transportation - Highway Planning and Construction 20.205; Fiscal Year 1999; 2000 Single Audit Finding 36)*

Recommendation

The Department should review all current agreements with government and non-profit entities to determine whether they are considered a subrecipient or a vendor. For those contracts with subrecipients, the Department should immediately communicate the program name and *Catalog of Federal Domestic Assistance* number and that an audit is required under the Single Audit Act as amended. In addition, Audit Services should use a checklist, such as the one developed by the President Council on Integrity and Efficiency, to ensure the audits submitted meet the requirements of OMB Circular A-133.

Department Corrective Action Plan

As a result of this finding, Audit Operations has started using the checklist, as referenced in the finding, to review audit reports received from Subrecipients.

The Department's Commissioner sent out a memo last year to all personnel involved with the contracting process regarding the required information for Subrecipient Contracts. Additionally, since 01/01/2000 the Department has become more diligent in including the proper language in the review of Subrecipient contracts. The Department will continue to maintain the scrutiny and progress in this area.

Responsible person:	Michael Byrne, Chief Fiscal Officer Elizabeth Pellegrini, Director of Audit Operations
Implementation date:	November 1, 2001

Finding Number 36: Functions and Responsibilities Need to be More Clearly Defined

Last year's report recommended that the Massachusetts Highway Department (Department)

identify all applicable federal and Commonwealth of Massachusetts' requirements relating to the control, ownership and administration of grant related activities for the Central Artery/ Tunnel Project (Project) and, as necessary, amend the current Project Memoranda of Understanding to incorporate them. While there has been some movement to implement the recommendation, the functions and responsibilities of each of the parties involved need to be more clearly defined before full implementation can be achieved.

In October 1999, the Massachusetts Turnpike Authority (Authority) under a Memorandum of Understanding (MOU) with the Department assumed responsibility for managing the Project. Most of the Project staff previously employed by the Department became employees of the Authority. As part of its administrative responsibility, the Authority reviews all consultant and construction invoices. However, the Department has been designated as the Federal Highway Administration's (FHWA) single point of state contact and is responsible to pay the bills reviewed by the Authority and submit allowable costs to FHWA for reimbursement. The Department does not perform an in-depth engineering or financial review prior to paying or certifying its submission to FHWA and 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.

Although the 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 is it a grantee's responsibility to monitor federally-supported activities. The functions and responsibilities of the Department and the Authority have changed since the Project's inception and will likely change again before the Project is completed. The functions and responsibilities, including ownership of the Project, need to be more clearly defined to ensure that the Commonwealth complies with all federal and state requirements. *(Department of Transportation - Highway Planning and Construction 20.205; Fiscal Year 2000 Single Audit Finding 37)*

Recommendation

The Department should continue to work with the Authority and the Office of the Comptroller to clearly define the functions and responsibilities, including control and ownership, of the parties involved in the Project. This is a critical first step to ensure compliance with all applicable federal and Commonwealth of Massachusetts' requirements. Amendments to the current Project Memoranda of Understanding should then follow.

Department Corrective Action Plan

The Department strongly disagrees with this finding. The Department can not unilaterally implement this finding. The Department has been advised to refrain from further action on this issue until other parties can resolve related issues. While the Department will continue to work with those other parties towards resolution of this issue, their workload and timetable did not permit the Department to follow through on last year's action plan. The Department can not unilaterally guarantee that the recommendation will be implemented prior to next year's State Single Audit. It should be noted that the recommendation implies that "control and ownership" need to be clearly defined. The Metropolitan Highway System (MHS) legislation clearly outlines those responsibilities. While changes to that legislation may be suggested, as currently written the legislation is clear.

Responsible person: Michael Byrne, Chief Fiscal Officer
Implementation date: Immediate

Finding Number 37: Outdated Rental Appraisals

It could not be determined whether the Massachusetts Highway Department (Department) charged the fair market value for the lease of real property acquired with federal assistance in two of five leases tested.

The Department is required under 23 USC 156 to establish and charge the fair market value of real property acquired with federal awards unless an exception is granted. The Department's Right-of- Way Manual, which was approved by the Federal Highway Administration, requires that appraisals for property currently being rented must be updated every five years. Appraisals for two of the five leases tested were both seven years old. Department personnel indicated that rental agreements do not provide for the retroactive billing of any increase in rent after the lease expires when the appraisal is not performed on a timely basis.

Department staff indicated that for one property a new appraisal has been scheduled but not completed. The Massachusetts Bay Transportation Authority had conducted the original appraisal for the other property and not provided a copy to the Department so it could establish a base year for computing the five-year time frame. As a result, it could not be determined whether the Department has been collecting the maximum amount of rent possible for those properties. All program income collected from property acquired with funds from the Highway Trust Fund can be used to fund other eligible highway projects. *(Department of Transportation - Highway Planning and Construction 20.205)*

Recommendation

The Massachusetts Highway Department should update all appraisals when required and adjust leases to reflect market conditions in order to ensure the maximum amount of funds possible are generated for eligible highway projects. New leases should contain provisions that would allow the Department to retroactively bill any increases in the market value of rent, when appraisals are not performed on a timely basis. Finally, Right-of-Way should review its files to determine that there is complete information on each property.

Department Corrective Action Plan

The Right of Way Bureau commences the process for re-lease of properties one (1) year prior to expiration of an existing lease. This generally provides for adequate time to allow transition from one lease period to the next. The required time is difficult to estimate, however, particularly given that the lease process is undertaken by a different State agency not under control of MassHighway or EOTC. This was a factor in one of the two instances referenced, wherein the original appraisal was not undertaken by or submitted to MassHighway. Additionally, the period in question was during a Reorganization of the Right of Way Bureau that included the Property Administrator and the Appraisal Administrator.

To address this issue in the future, leases will be tracked to provide early recognition of the time to commence the re-lease process. Additionally, in case of a lapse, the Right of Way Bureau will update the economic rent determination, and apply it to occupants of the property pending finalization and execution of a new lease.

Responsible person: Gerry Solomon, Director Right of Way Bureau Implementation date: November 1, 2001

Finding Number 38: The Sale of Federally- Funded Property not Recorded, Deposited or Transferred on a Timely Basis

The Massachusetts Highway Department (Department) has not recorded, or deposited the proceeds from the sale of property acquired with federal awards on a timely basis. This has delayed the transfer of $16,240 to the Massachusetts Highway Trust Fund.

The Common Rule as stated at Title 49 of the *Code of Federal Regulations* for the U.S.

Department of Transportation Section 18.31 "Real Property" permits the Department to sell property previously purchased with federal funds. Under 23 USC 156, the federal share of the proceeds from property purchased with awards from the Highway Trust Fund can be used to fund other eligible highway projects. The Department makes those funds available to other eligible highway projects by transferring the federal share of the proceeds to Fund 290, the Massachusetts Highway Trust Fund. There is no policy as to the time limit by which the transfer must occur. It is the Commonwealth's policy to deposit all checks within one day of receipt.

In December 2000, the Department sold one of the five federally funded parcels tested of the twelve total sales during the fiscal year for $20,300. According to Department personnel, complete information concerning the federal-aid project number F-1-1.315 (7) did not accompany the check from the Right-of-Way Unit to the Fiscal Unit. Consequently, the check was held in a safe for 8 months. When the check was finally discovered it had expired. The Department has asked for the check to be reissued. As a result, an amount of $16,240 [$20,300 X 80%] has not been made available for use in another eligible project. In addition, Department officials could not explain why there was a one to five month delay from the date these properties were sold until the check deposit date for the remaining four items selected for testing. Proceeds normally become available within a few days after closing. *(Department of Transportation - Highway Planning and Construction 20.205)*

Recommendation

The Massachusetts Highway Department should establish procedures to promptly send checks received by the Right-of-Way Unit for the sale of property to the Fiscal Unit. All checks should be deposited within one day regardless of whether complete information is available concerning the federal-aid project number. Department management should emphasize to its staff that information accompanying checks from the sale of land should be accurate and complete or provided shortly thereafter. Finally, a policy should be established as to the period in which the federal share should be transferred to Fund 290 reprogramming the funds to other eligible highway projects.

Department Corrective Action Plan

The Fiscal Management Section has established new procedures with the Right of Way Bureau to strengthen the controls over checks received in the Right of Way Bureau for land sales. All checks from the Right of Way bureau for the sale of land will be signed for in the Fiscal section. Deposits will be made in a timely manner. Monthly reconciliations will be performed by each section to ensure that all checks sent to Fiscal from the Right of Way Bureau were received and deposited.

Responsible person: Gerry Solomon, Director of Right of Way Bureau/ Glenn Behmer, Director of
Revenue Implementation date: November 1, 2001

Findings not Repeated from Prior Years

1. Prevailing wages in accordance with the Davis-Bacon Act were not paid to three individuals in 1999 and one individual in 2000. The individuals were either paid the proper amounts in fiscal year 2001 or the companies provided evidence to the Massachusetts Highway Department that other fringe benefits paid on behalf of the employees should be added to the hourly rate paid. *(Fiscal Year 2000 Single Audit Finding 35)*

2. The Department did not provide $382,396 in credits to the Federal Highway Administration. The Department processed $382,396 in credits due the Federal Highway Administration. *(Fiscal Year 2000 Single Audit Finding 38)*

3. The Department charged $7,121 in excess fringe benefits. The Federal Highway Administration will not require the Department to credit the excess fringe benefits of $7,121 charged due to under recoveries on various projects. In addition, the Department

has decided to suspend billing FHWA for compensatory time previously recovered by a payroll additive rate. *(Fiscal Year 2000 Single Audit Finding 39)*

More on Massachusetts Highway Department

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 (EOHHS) and to communicate with other state agencies providing similar or related services outside of EOHHS.

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, childcare programs throughout the Commonwealth. Licenses are issued and renewed, through its five regional offices, to over 16,000 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 227,000 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 2001, the Office administrated $380.8 million. Federal funds amounted to approximately $310.3 million.

The federal funding to the Office is detailed in the accompanying Schedule of Expenditure 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 & Matching Funds of the Child Care & Development Fund

No findings resulted from the audit of these major programs.

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. The institutions selected for audit were determined using a risk-based approach. The institutions covered by this arrangement are as follows:

State Colleges	Community 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

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 2001, the Office of the State Auditor performed the audit of the student financial assistance programs at four institutions selected using the risk-based approach. These institutions were: Roxbury Community College, Holyoke Community College, Salem State College and Mass Bay Community College. As a result of these audits, findings are presented for Roxbury Community College and Salem State College.

The University of Massachusetts contracted for an audit in accordance with OMB Circular A-133 for fiscal year 2001 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.

Roxbury Community College
Findings on Material Weaknesses

Finding Number 39: Inadequate Administration of Student Financial Assistance Programs

Roxbury Community College (RCC) could not provide information and documentation to substantiate financial assistance awards to students for the 2000-2001 award year necessary to conduct an audit of its federal student financial assistance programs and thus is not complying with the U.S. Department of Education (DOE) standards of administrative capability. In addition, RCC did not have written policies and procedures, systems in place to process, record and report accurate SFA data, adequate staff to administer its programs, and lacked coordination between the student Financial Assistance Office and the Business Office. DOE authorized RCC a total of $3,531,595 in Federal Pell Grant (PELL), Federal Supplemental Opportunity Grant (FSEOG), and Federal Work Study (FWS) funds for student assistance. RCC drew down $3,246,629; these are questioned costs.

Title 34 of the Code of Federal Regulations, Part 668.16 states that:

> To begin and to continue to participate in any title IV, HEA program, an institution shall demonstrate to the Secretary that the institution is capable of adequately administering that program under each of the standards established in this section.

And further states that the:

> *The Secretary considers an institution to have that administrative capability if the institution-*

2. *Uses an adequate number of qualified persons to administer the title IV HEA programs in which the institution participates…;*
3. *Has written procedures for or written information indicating the responsibilities of the various offices with respect to the approval, disbursement, and delivery of…program assistance…;*

c. *(1) Administers title IV HEA program assistance with adequate checks and balances in its*

system of internal controls;

d. *Establishes and maintains records required under this part and the individual…program regulations;*
e. *Establishes, publishes, and applies reasonable standards for measuring whether an otherwise eligible student is maintaining satisfactory progress in his or her educational program.*

Also, 34CFR668.14(b) 4 states that an institution by entering into its program participation agreement with DOE:

> Agrees to establish and maintain such administrative and fiscal procedures and records as may be necessary to ensure proper and efficient administration of funds.

RCC has not complied with these requirements. We encountered or observed the following problems and conditions while conducting our audit.

- RCC disbursed Spring semester assistance on June 7, 2001 after the Spring semester ended. Federal regulations require that the payment period be within the semester or academic term.
- Student files were missing (i.e., Student Aid Reports, evidence of citizenship, applications, etc.) contained conflicting or questionable information (i.e., copy of joint tax return with only one signature which was in ink, etc.) and some were substantially incomplete (i.e., contained only a copy of a social security card and an RCC in house form, etc.). Of the folders requested, RCC could not provide any information or a file for one student.
- The Financial Aid Director informed us that there were many additional missing folders.
- RCC did not provide copies of the Institutional Student Information Record (ISIR) for student files requested. An ISIR is the electronic record sent to the College by the Central Processing System that contains the student's application information, the Expected Family Contribution, and the results of the database matches.

Additionally, the Business Office prior to disbursement of funds to the students made changes, without written explanation or substantiation, to the awards determined by the Financial Aid Director (FAD). Complicating this lack of file information and documentation was that the financial aid directors for the Fall and Spring semesters are no longer employed by the College, and the current financial aid director could not explain why some award decisions were made, since the files were lacking.

Also, RCC did not provide the following requested information although requested at the entrance conference on June 6, 2001and on subsequent requests, over a period of 10 weeks.

- Status of prior year audit findings corrective action plan form (CAP), which was requested weekly over a period of 10 weeks.
- Reconciled bank statements for the main federal financial aid and (FWS) accounts, which was requested repeatedly over a 10-week period.
- Internal Control Plan required by Chapter 647 of the Acts of 1989
- Single audit internal control questionnaire

Additionally, we observed that:

- Refunds for the Fall and Spring semesters' financial aid estimated by RCC to approximate $300,000 have not been determined or calculated.
- Student grade reports disclosed a number of students receiving financial assistance had earned no credits.

In addition to these issues RCC's new Financial Aid Director reviewed 1,897 student financial assistance files, which revealed 54% or 1,025 files were problematic because of questions regarding satisfactory academic progress, matriculation, attendance, excess developmental credit hours, and credits in excess of 120 hours. Because RCC has failed to take appropriate action on prior year audit findings and unless RCC takes immediate action to correct these

circumstances it could jeopardize federal financial assistance funding for its students in financial need. Moreover, RCC could not provide routine information (transcripts, credit, withdrawal dates) from the registrar.

The College attributes the problems we encountered to lack of a computer system that integrates the offices of student financial assistance, admissions, registrar, and business/ accounting. While we agree that RCC may have been hampered by not having an integrated computer capability, our observations also indicate that turnover of the financial aid director, uncertainty of duties within the financial assistance office, lack of coordination with the business office, and poor management practices and director oversight were at least as critical in causing the conditions previously described.

RCC administrators informed us that a new computer system was being implemented which when combined with proper training of personnel would provide the College with the administrative capability necessary to properly manage federal funds. The College, however must be aware that regardless of whether a system is supported by electronic or manual information RCC must maintain supporting documentation and maintain a control system and environment of checks and balances for recording, and processing financial assistance events and management and board of Director's leadership decisions. We withdrew from the audit on August 21, 2001 because the College was not able to provide necessary information and documentation.

Subsequent Event: At the request of the College, on October 30, 2001 we returned to the College to perform a second review of student financial aid files and other limited procedures. The Financial Aid Officer provided both a printed list and an electronic file of financial aid awards to each student as reported on the EDEXPRESS (award years 2000-2001) as of October 30, 2001. From the electronic file, we drew a random sample of 25 student files. The Financial Aid Officer provided us with the corresponding financial aid, registrar, and admissions information for the students' files. We tested these files for Student Eligibility Compliance Requirements as contained in Appendix A of the A-133 Compliance Supplement.

Our review disclosed that the student files were more complete than previously but two students from the sample tested should not have been awarded federal financial aid. One student did not meet the requirements of satisfactory academic progress and the second student did not meet the requirements of a regular student enrolled in an eligible program. More specifically, the first student attempted 72 credits but earned only 43 which is below the threshold of 48 credits required for financial aid eligibility as noted in the College's course catalog. Also, the student's grade point average of 1.7 was below the 2.0 required for financial aid eligibility as stated in the course catalog.

The second student was taking courses at RCC but was not admitted to the College in a degree program. The student's file contained a transcript listing the student as "non-degree". According to the College's catalog this student should have been listed as a "special applicant" and therefore not eligible for financial aid. Admissions Office erroneously entered the student into the student database as "A" (accepted) rather than "S" (special applicant). The "S" would have alerted the Financial Aid Office that the student was ineligible. We brought these two student files to the Assistant Financial Aid Director for further review and he agreed that these students were not eligible for federal financial aid. One student was awarded a Pell Grant of $825 and an SEOG Grant of $150. The second student was awarded a Pell Grant of $1,538.

Prior to our selecting the students' files for review, the Financial Aid Office along with outside consultants reviewed the files of all students and identified potential disallowances of $623,255 (Federal $417,015, State $206,240) and calculated an additional $48,691 (Federal $45,868, State $2,823) in refunds based upon student withdrawals.

The two errors identified in our sample are in addition to the adjustments identified by RCC. While student accounts have not been adjusted for the potential disallowances and refunds, and cash has not been returned to grantor agencies, approximately $330,000 in disallowances and $45,868 in refunds has been entered into EDE.

Also the financial report (FISAP) filed with the federal government on October 1, 2001 did not include most of the adjustments made to EDE. The table below summarizes expenditures shown on relevant records as of October 30, 2001.

	EDE	FISAP	Business Office
Pell	$2,967,994	$3,264,158	$2,960,966
SEOG**	174,793	191,900	174,725
FWS*	137,973	155,775	158,369
	$3,289,760	$3,611,833	$3,294,060

*Earned Compensation
**Represents amounts to recipients

(Department of Education - Federal Supplemental Education Opportunity Grants 84.007, Federal Work-Study Program 84.033 and Federal Pell Grant Program 84.063)

Recommendation

RCC in conjunction with the Board of Higher Education should temporarily assign the necessary personnel and other resources to the financial assistance and business offices to correct the administration and processing of SFA in a timely and accurate manner. There is an immediate need to establish proper records and procedures for the current Fall term. RCC should review, evaluate and document current policies and procedures and develop procedures and controls to improve the administration, documentation, and oversight of student financial assistance programs at the College. RCC needs to reconcile its records, make the appropriate adjustments during the FISAP edit period, and return funds to the respective grantor agencies.

Department Corrective Action Plan

The college used the software Powerfaids for disbursing financial aid for the fall 2001 semester. While this occurred in October and November due to the lateness in reconciling financial aid for the previous academic year, the software and the internal controls, particularly in monitoring satisfactory academic progress, the continued reporting of class attendance by faculty members, and the requesting and follow-up of students for documentation where this may be missing, will all enable the college to fully administer and manage financial aid resources. The college is making the appropriate adjustments to the FISAP reporting within the time allowed, and is meeting with and negotiating the obligation to return funds to the respective grantor agencies.

In addition, we have instituted joint meetings between the directors and staff of the financial aid, business, and registrar's offices to improve communication and the advice provided to our students.

Responsible persons: Raymond O'Rourke, Director of Financial Aid, and
William P. Fenstemacher, Interim Chief Financial Officer.

Implementation date: July 15, 2002

Finding Number 40: Status of U.S. Department of Education Office of the 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 and recommended that the College repay in excess of $2.2 million. 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 revealed

that the 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, who received Pell grants of $3,901, depended on the final result of College's continued appeal to an Administrative Law Judge.

As part of the fiscal year 2001 Single Audit, departments are required to prepare a Status of Prior Year Corrective Action Plan. The College did not provide its Status of Prior Audit Finding Corrective Action Plan form although it was requested weekly over a 10-week period. The form to be completed by the state agencies with prior audit findings is required by the Office of the State Comptroller to assist that office in its preparation of the Summary Schedule of Prior Audit Findings required by section 315(a) of Federal, OMB, Circular A-133. The written status is customarily confirmed as part of the following year's Single Audit. We withdrew from the audit on August 21, 2001 because the College was not able to provide this form and other necessary information and documentation.

Subsequent Event: At the request of the College, we returned to the College on October 30th to perform a second review of student financial aid files and other limited procedures. At this time the College presented its Status of Prior Year Corrective Action Plan. In addition, we learned that the Secretary of DOE issued a final decision certifying the earlier decision of the Administrative Law Judge for the College to repay $200,488 to DOE for awarding financial aid to ineligible ESL students and the $1,075 for awarding aid to a 15-year old student. *(Department of Education - Federal Pell Grant Program 84.063; Department of Education Report 7/93-6/95 Finding 1; Fiscal Year 1997; 2000 Single Audit Finding 42)*

Recommendation

The College should repay the $201,563 to DOE as well as the Pell awards of $3,901 paid to the three students identified in the fiscal year 1997 Single Audit as taking only ESL classes.

Department Corrective Action Plan

During mid-November 2001, the Secretary of the Department of Education (DOE) certified that the College should repay $200,488 to DOE for awarding financial aid to ineligible ESL students, the $1,075 for awarding aid to a 15 year old student (who became sixteen, the necessary minimum age later that academic year), and the three students in 1997.

The college is meeting with representatives of the DOE concerning its obligation to return funds to the DOE.

In addition to actively administering the internal controls verifying that students enrolled in English as a Second Language (ESL) also take a minimum of one course in an academic area, the College is considering seeking approval to provide a program of student involving only English as a Second Language (ESL) which would enable students to achieve their objectives in learning English without the current necessitity of maintaining a course in an academic area.

Responsible person: William P. Fenstemacher, Interim Chief Financial Officer
Implementation date: Ongoing Discussion with US DOE

Finding Number 41: Lack of Procedures 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 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."

Since these regulations require that the school base its refund calculations on the last date that it can demonstrate academic attendance, 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 1999 sample and if the school cannot demonstrate that the remainder stayed in school past the refund date, the school's liability could be substantial.

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 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.

In addition, during the fiscal year 2001 Single Audit, the Roxbury Community College (College) did not provide the completed Status of Prior Audit Finding Corrective Action Plan form although we requested the completed form weekly over a 10-week period. The form to be completed by state agencies with prior audit findings is required by the Office of the State Comptroller to assist that office in its preparation of the Summary Schedule of Prior Audit Findings required by section 315(a) of Federal, OMB, Circular A-133. The written status is customarily confirmed as part of the follow-up process. We withdrew from the audit on August 21, 2001 because the College was not able to provide this form and other necessary information and documentation.

Subsequent Event: Upon the request of the College, we returned to the College on October 30th to perform a second review of student financial aid files and other limited procedures. At this time, the College submitted its Status of Prior Year Corrective Action Plan. We also learned that for the Fall 2000 and Spring 2001 semesters, the Registrar's Office provided class rosters to faculty at mid-term. The faculty was asked to assign a status for each student as "Satisfactory," "Unsatisfactory," "Non-attending," Fall 2000) or "Walk Away" (Spring 2001) noting the last day of attendance in either semester. The College could not provide evidence that "walk-away" information was forwarded to the Financial Aid Office.

A more comprehensive system was in place for Fall 2001 where faculty were instructed on September 20, 2001 (add/drop deadline) and on October 30, 2001 (mid-term) to indicate on class rosters students that "never attended" (N/A) or "stopped attending" (W/A) noting the last day of attendance. The rosters were accompanied by written instructions. The class rosters were collated by the Registrar's Office and a report of "Student Changes" was forwarded to the Financial Aid Office. However, the "Student Changes" report was marked "In Progress" and the report stated many faculty did not prepare the initial status (add/drop) report or prepared it too late for initial reporting purposes. *(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 2000 Single Audit Finding 43)

Recommendation

The College needs to assure that the three-step policy is fully implemented so that all unofficially withdrawn students are identified along with the last date of attendance including the faculty preparing and returning the status reports in a timely manner. The College then needs to properly calculate awards and refunds in accordance with 34 CFR 668.22.

Department Corrective Action Plan

The description describes fairly the process prior to Fall 2000, which did not fully and completely document students who unofficially withdrew or stopped attending class. This process, which requires faculty members to take class attendance and to certify attendance and satisfactory academic progress after two weeks, at mid-semester, and at the end of the semester, was put into place in Fall 2000. Faculty members note the last day of attendance.

The College will continue to implement current practice, which is sufficient to identify and adjust the aid of students who withdraw officially as well as those who simply do not continue to attend class.

Responsible person: Valerie Abrahamsen, Registrar Implementation date: End of Fall 2001 Term
More on Roxbury Community College

Salem State College
Findings on Compliance with Rules and Regulations

Finding Number 42: Interest Bearing Accounts Not Maintained

Salem State College (College) did not maintain Nursing Student Loan Program (NSL) and Federal Perkins Student Loan Program (Perkins) funds in interest-bearing accounts as required. The 1999 and 2000 Single Audits reported that funds were pooled into a single cash account, which included other College funds, and that the College did not keep an accurate record of the specific balances of the Perkins and NSL programs. Pooled investment earnings were not allocated to the programs.

In April 2001, the College established separate bank accounts for the Perkins and NSL programs, however the accounts were not interest bearing. 34 CFR 668.163(c) and 42 CFR 57.305 state that

> *"An institution must maintain . . . Federal Perkins Loan Program . . . in an interest-bearing account or investment account consisting predominately of low-risk, income-producing securities…." "The school at all times must maintain all [NSL] monies relating to the fund in one or more interest-bearing accounts or investment instruments which meet OMB requirements…."*

The College uses a collection agency to collect loan repayments for both the NSL and Perkins programs. The collection agency deposits these repayments into a separate interest-bearing account. When the College authorizes the transfer of funds, the collection agency transfers the repayments, with 2.5% interest, to the College's non-interest bearing accounts. Applying this rate to the average available balance of $156,203 for Perkins and $117,993 for NSL would yield $976 and $737 in interest, respectively, since the accounts were open. The College explained that they believed that an interest-bearing account had been opened in April, however upon learning that the accounts were not they have made no attempt to convert them to ones that bears interest. *(Department of Education - Federal Perkins Loan Program 84.038; Department of Health and Human Services - Nursing Student Loan Program 93.364; Fiscal year*

1999; 2000 Single Audit Finding 44)

Recommendation

Salem State College should convert its current non-interest-bearing accounts to either an investment or an interest-bearing account.

Department Corrective Action Plan

The College will convert to the interest bearing accounts.

Responsible person: Matilda B. DelVecchio
Implementation date: January 1, 2002

Finding Number 43: Amounts Reported on the Perkins Loan Program Fiscal Operations Report (FISAP) and Nursing Student Loan Annual Operating Report (AOR) do not Agree with the College's General Ledger

The 2001 financial reports filed by Salem State College (College) for the Federal Perkins Loan (Perkins) and Nursing Student Loan (NSL) Programs did not agree with the College's general ledger and may be incorrect. This issue was reported in the 1999 and 2000 Single audit reports. The financial reports were prepared from information supplied by the loan servicing agent and certain bank account information. The general ledger balances and other bank account information were not included in the FISAP and the AOR.

A comparison of major accounts on the financial reports versus the College's general ledger follows:

Account	Perkins Loan (FISAP)	General Ledger	Nursing Loan (AOR)	General Ledger
Cash	$48,184	$323,786	$39,049	$238,039
Loan Receivable (Net of collections, cancellation, etc.)	1,643,507	1,431,241	696,072	515,652
Federal Capital Contributions	1,751,849	-	633,217	-
Institution Capital Contributions	344,035	-	101,411	-
Interest and Other Income	741,652	113,664	172,564	65,031
Fund Balance	-	1,651,813	-	689,795

The reports and the general ledger account nomenclature are different. The general ledger does not have Federal and State Capital Contributions accounts but has a fund balance account, which has no corresponding account on the reports. College officials stated that they have been experiencing problems with the installation of a new general ledger package, which is the cause of the erratic general ledger balances and non-applicable chart of accounts.

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 institution must ensure that the information reported on the FISAP is accurate.

The Perkins cash balance reported on the FISAP reflected an adjusted College Perkins bank account balance of $48,184. However, our examination revealed that the loan service agency's account bank balance of $10,240 held for the College and a deposit in transit of $8,850 were not included in the $48,184. The FISAP cash balance should have included these amounts. The Perkins FISAP balance, precluding any further adjustments that the College may determine, would have been $67,274 if these amounts had been included.

Because the College reported the service agency loan collections amounts on the FISAP, but did not include the service agency's bank account balance, the FISAP trial balance report should have been out of balance by collections activity not included in the FISAP cash balance. However the FISAP debits and credits were equal because of adjustments to the Institutional Capital Contributions Account (ICC).

The FISAP report may be in error by at least $240,000 because the Institutional Capital Contributions (ICC) was adjusted to make the FISAP report balance. The 1997 FISAP showed an ICC balance of $573,700 while the 2001 FISAP shows a balance of $344,035. The same reports show however, that no capital has been returned so the balance should still be $573,700. College officials stated that in past years they unsuccessfully sought USDOE's assistance to correct certain FISAP accounts. The College explained that it therefore decreased ICC by about $240,000 to balance the FISAP report and facilitate report filing. In fiscal year 2000 the College reported an ICC of $336,559 and increased this amount by $7,476 in 2001 to balance the FISAP report. The ICC has been increased or decreased in intervening years such that the FISAP trial balance shows the equality of debits/credits. SSC could not provide any support for the changes to the ICC account.

Additionally, the NSL Annual Operating Report (AOR) requires a statement of changes in the yearly cash balance (beginning balance plus receipts minus disbursements). For the year ended June 30, 2001 the AOR showed a cash balance of $39,049. The College offered the following "reconciliation" to support the AOR balance:

College NSL Bank Balance (June 30, 2001)	$151,827
NSL Loans Made During Award Year from College Disbursement Account	(121,826)
Reconciled Cash Balance	$ 30,001

The College could not explain the variance of $9,048 between cash reported ($39,049) and cash as "reconciled" ($30,001). Additionally, we noted that the reconciled balance provided did not include the service agency's bank account balance of $5,635 or collections of $6,300 in transit to the College NSL account. The NSL cash balance precluding any further adjustments that the College may determine would have been $41,936 if these amounts were added to the reconciled cash:

College NSL Bank Account	$30,001
Loan Service Agency Bank Balance, June 30, 2001	5,635
Cash Transfer in transit to College NSL account	6,300
Calculated Cash Balance	$41,936

It would appear that the AOR report was incorrect by more than $9,048. *(Department of Education - Federal Perkins Loan Program 84.038; Department of Health and Human Services - Nursing Student Loan Program 93.364; Fiscal year 1999; 2000 Single Audit Finding 45)*

Recommendation

Salem State College should develop reliable general ledger account balances that agree with bank statements and collection agency reports, investigate the $9,048 variance between the College's records and the AOR and determine the correct AOR cash balance. The College also should, with USDOE's assistance, research and correct FISAP balances.

Department Corrective Action Plan

PeopleSoft is unable to distinguish and separate fiscal year activity. The College is currently in the process of reviewing, reconciling and developing correct general ledger account balances. General ledger activity will be reconciled and incorrect balances will be adjusted. Monthly

reviews and reconciliations of accounting entries will be conducted. The College will research the variance between the College's records and the loan service agents and request USDOE assistance in researching and correcting FISAP balances.

Responsible person: Neil E. Brennan
Implementation date: Immediately

Finding Number 44: Unreconciled Cash for Title IV Programs

At the fiscal year ended June 30, 2001, Salem State College (College) had unreconciled cash balances for both the Federal Pell Grant Program (Pell) and the Federal Supplemental Education Opportunity Grants Program (FSEOG). The College's general ledger showed cash deficits of $884 for Pell and $8,814 for FSEOG. The 1999 and 2000 Single Audits also reported unreconciled cash balances with College officials explaining the problems were caused by incorrect general ledger postings and timing differences. Under the usual operations of these programs, where cash should only be drawn down on an as-needed basis, no cash balances would be expected at the year-end.

A review of the College's bank statements detailing cash drawdowns and disbursements shows different balances than the general ledger. According to the statements, Pell has a positive cash balance of $627 while FSEOG shows a balance of $1,050. College Officials stated that the excess cash might be recoveries for students no longer attending class. The College has not reconciled the general ledger to the bank statements to determine the accurate balances.

Under the Program Participation Agreement (34 CFR.668.14) with the Secretary of Education, the College agrees that:

> *"It will establish and maintain such administrative and fiscal procedures and records as may be necessary to ensure proper and efficient administration of funds received from the Secretary….."*

The ability to properly account for cash through reconciliations is a basic financial control necessary to safeguard cash and provide for proper reporting. *(Department of Education - Federal Perkins Loan Program 84.038; Department of Health and Human Services - Nursing Student Loan Program 93.364; Fiscal Year 1999; 2000 Single Audit Finding 46)*

Recommendation

Salem State College should immediately implement appropriate record keeping policies and procedures over Title IV funds. Included in these procedures should be a monthly reconciliation between the Bursar, General Accounting, and Financial Aid Offices.

The College should also determine the correct cash balances for prior years and, if necessary, return any excess cash in the Title IV programs to the DOE.

Department Corrective Action Plan

PeopleSoft is unable to distinguish and separate fiscal year activity. The College is in the process of implementing monthly reconciliations of the general ledger account balances. These reconciliation procedures will be conducted between the Bursar, General Accounting, and Financial Aid Offices. The necessary adjustments and corrections to incorrect account balances will be made after the review of general ledger postings is completed.

Responsible person: Neil E. Brennan
Implementation date: Immediately

Finding Number 45: Credit Balances not Returned to Students Within Required Time

Salem State College (College) did not refund credit balances on two student accounts, from a sample of 35, in a timely manner. Federal regulation, 34 CFR 668.164(e), states that:

> *"whenever a school credits Student Financial Aid (SFA) funds to a student's account and those funds exceed the student's allowable charges, a credit balance occurs. A school must pay the excess SFA program funds (the credit balance) directly to the student as soon as possible, but no later than 14 days after the later of:*
>
> - *…the date the balance occurred on the student's account, if the balance occurred after the first day of class of a payment period, or*
> - *…the first day of classes of the payment period if the credit balance occurred on or before the first day of class of that payment period."*

In 2 cases of 35 sampled, the College exceeded the 14-day limit by 16 and 183 days. The amounts were $292 and $1,552 respectively.

The College's software did not automatically flag credit balances after 14 days, thus requiring a manual review. *(Department of Education - Federal Pell Grant Program 84.063, Federal Supplemental Education Opportunity Grants, 84.007 and Federal Direct Loan Program 84.268; Department of Health and Human Services - Nursing Student Loan Program 93.364*)

Recommendation

The College should monitor credit balances to ensure that credit balances resulting from financial aid awards are paid to students within the required time.

Department Corrective Action Plan

The College has implemented procedures that will ensure that credit balance refunds are paid to students within the required time. The Accounts Receivable Department of Student Financials currently monitors all student balances after Financial Aid is applied to student accounts. This will ensure the timely refund of credit balances to students thus complying with the Federal regulation time line.

Responsible person: Neil E. Brennan Implementation date: Immediately

Finding Number 46: Late Notification to the Loan Origination Center

Salem State College (College) reported a student loan and required disbursement records to the Loan Origination Center late. The Student Financial Aid Handbook and federal regulation, 34 CFR 685.301, require the College to report all loan disbursements and submit required records to the Loan Origination Center within 30 days of disbursement.

In August 2001, the College reported to the Loan Origination Center (LOC) a $362 loan made in two installments in May 2001. These loans should have been reported to the LOC in June. The reporting was 54 and 52 days past the respective due dates.

Title 34 CFR 685.301(d) states that:

> *"A school that originates a loan must submit the promissory note, loan origination record and initial and subsequent disbursement records to the Secretary no later than 30 days following the date of disbursement. A school must submit the loan origination record and disbursement record to the Secretary no later than 30 days following the date of disbursement for each subsequent disbursement."*

Late notification could affect the lender's ability to track the borrower and thus allow a student to default on a loan. College officials attributed the late notification to an error in the system,

which was not caught by the monthly reconciliation of loans disbursed during the month versus loans reported to the LOC. *(Department of Education - Federal Direct Loan Program 84.268)*

Recommendation

Salem State College should implement procedures to ensure that all loan disbursements to students are included in the monthly reconciliation to effect timely notification and submission of records to the LOC for students.

Department Corrective Action Plan

The new PeopleSoft administrative software system, which will handle the transmissions of Federal Direct Loan disbursements to the Loan Origination Center, will be in production for the fall 2001. This process will be linked to disbursements and be automatically done to ensure compliance with the 30-day rule.

Responsible person: Janet Lundstrom, Director of Financial Aid
Implementation date: Fall 2002

Finding Number 47: Title IV Program Funds Need to be Returned

Salem State College (College) did not, as required by federal regulations, return funds to program accounts for students who did not attend or ceased attending classes. In the case of students who do not "officially" withdraw, federal regulation, 34 CFR 668.22 requires schools to calculate refunds based on the last recorded date of attendance and base its refund calculations on the last date that it can demonstrate academic attendance. The regulation also requires that the funds identified must be returned to the proper Title IV program within 30 days.

Federal Pell Grant funds of $1,179 awarded to one student of the 35 tested were not returned to the federal Programs. This student withdrew from the College unofficially; students who unofficially withdraw are termed "walk-away" students. Additionally, the College identified 46 students from the Fall 2000 and Spring 2001 semesters for which $51,945 should be returned to the programs.

College officials stated that they were late in identifying the walk-away students and calculating the refunds because the College was installing a new financial aid and accounting software system. If the College identifies walk-away students in a timely manner, it is in a better position to recover funds owed by students and comply with the federal 30-day requirement. *(Department of Education - Federal Pell Grant Program 84.063, Federal Direct Loan Program 84.268, Federal Supplemental Education Opportunity Grants 84.007 and Federal Perkins Loan Program 84.038)*

Recommendation

Salem State College should return the funds for these 47 students to the appropriate programs. The College should continue to identify the walk-away students in the manner it did prior to the new system until the new system is fully implemented.

Department Corrective Action Plan

The College will return the funds to the appropriate Federal Program. The College will process refunds in a timely manner for the future.

Responsible person: Ali Guvendiren, Director of Records and Registrar
Janet Lundstrom, Director of Financial Aid
Beverly Rhodes, Assistant Director of Financial Services and Bursar
Implementation date: Immediately

More on Salem State College

Other Departments with Federal Funding

Information Technology Division
Findings on Compliance with Rules and Regulations

Finding Number 48: The Distribution of Costs for Computer Tape and Report Storage Affecting the 2000 Rates for Both Federal and State Programs did not follow the Cost Allocation Plan

The Information Technology Division (Division) did not properly distribute the cost of tape and report storage in computing its final fiscal year 2000 rates, which were prepared in fiscal year 2001. These costs affected the rates that were charged to both federal and state programs.

Costs as shown in MMARS and allocable to the 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 fiscal year 2000 telecommunications, mail and computer services. During the audit of the rates, the following was noted.

The Division's cost allocation plan for establishing rates requires the distribution of tape and report storage costs using a standardization factor. This factor was not applied in computing the final rates for those services. Therefore, $189,974 in costs needs to be redistributed between tape mount, archive, and storage and report storage rates billed to all central service and operating agencies. It could not be determined how the adjustments would impact federal programs billed for these services. Division staff inadvertently omitted this step in the calculation.

During fiscal year 2001, the Division adjusted the fiscal year 2000 final rates to reflect over recoveries of $5,916 ($2,745 and $3,171) for fringe benefits in the final fiscal year 1999 rates, as disclosed in the 2000 single audit. Also disclosed at that time was the Division's deduction of $164,031 of the remaining life of assets that were over five years old to convert from expensing through a 15-year use allowance to depreciating the equipment over a five-year life. An agreement with the U.S. Department of Health and Human Services Division of Cost Allocation was reached with the Division to deduct the remaining life of these assets over two years. Consequently, the Division deducted $82,000 in expenses from the 2000 rates to comply with the agreement. The distribution of costs among nine network rates and among four tape rates made using 1998 instead of 1999 data was not adjusted. As a result, the rates for these services need adjustment.

Total Division costs before adjustment for the items noted above was $49,405,121. Revenue as recorded in MMARS was $18,614,763 for a net under recovery of $30,790,358. The net over/under recovery by service could not readily be determined. *(Various Federal Programs; Fiscal Year 1999; 2000 Single Audit Finding 41)*

Recommendation

The Division should adjust the fiscal year 2001 final bill for the $189,974 redistribution of computer tape and report storage costs. In addition, it should compute and adjust the cost of 1999 network and tape rates using 1999 information.

Department Corrective Action Plan

Responsible person: Ed Shapiro
Implementation date: FY2001 Cost Allocation Plan submission. - Approximately December 31, 2001

Issue 1. Adjustment of Standardization factors for Tape rates and prior year adjustments not included in FY2000 submission.

The standardization factors for aligning the various Tape cost center rates were not updated for FY2000. The cost pool will be adjusted in the FY2001 submission.

The FY1999 standardization factor adjustment for Tape and some Magnet rates was calculated but inadvertently omitted from the FY2000 submission. This adjustment will be included in the FY2001 submission.

Both of these adjustments are re-distributions of cost between chargeback customers. Neither adjustment represents a disallowance of federally allowed costs.

Issue 2. Assertion by Single Auditor of a net under-recovery of $30 million.

Per the Single Auditor:
Revenue as recorded in MMARS was $18,614,763 for a net under recovery of $30,790,358. The net over/under recovery by service could not readily be determined. ITD disagrees with the Single Auditor:
ITD manages two separate and distinct chargeback systems, the federally approved ITD ADP Cost Allocation Plan and the Statewide Chargeback billing system, authorized by the State Legislature.

Per State legislation, in FY2000, ITD was authorized to bill and collect $18.6 million. The revenue recorded in MMARS is revenue from the Statewide Chargeback billing system.

Per the Federal Cost Allocation Plan, ITD cost allocated $49 million. As required by the federal rules, the ITD federally approved cost allocation plan was reconciled, by service by customer and by customer by service.

ITD complied with the rules of both chargeback systems. Neither chargeback system had a significant over or under recovery.

Office of the Comptroller
Findings on Compliance with Rules and Regulations

Finding Number 49: Incorrect Indirect Cost Rate Charged

Some grants administered by the Department of Social Services (Department) were assessed indirect costs by the Office of the Comptroller using a 17.10% rate rather than charging the grants in accordance with the Department's cost allocation plan.

The Office of the Comptroller (Office) is responsible for developing and negotiating indirect cost rates for many departments. When the rates, which are prepared in accordance with OMB Circular A-87, Cost Principles for State, Local and Indian Tribal Governments, are approved by federal cost negotiators, the Office provides instruction to program MMARS to assess appropriation accounts for indirect costs using the approved rate and base. The Office does not prepare cost allocation plans for public assistance agencies, such as the Department. Those departments prepare and negotiate their own plans. The allocations that result from implementing the approved plans should be used to charge indirect costs to federal programs administered by those departments.

Since the Department only billed reimbursement grants using their public assistance cost allocation plan, a few advanced funded grants were not recovering indirect costs. The Office, in an effort to ensure that all federal grants were assessed indirect costs as required by state finance law, M.G.L Chapter 29 paragraph 6b, developed an estimated indirect cost rate of 17.10% to charge those grants. The Office planned to compare the charges using the estimated rate with the allocations that resulted from the plan and adjust any overcharges. The Department, through consultation with the Office, changed its allocation plan methodology but did not receive federal approval to use it until the third quarter of fiscal year 2001.

During the audit, it was noted that a comparison between the indirect costs charged using the 17.10% rate had not been compared with the indirect costs from the new allocation methodology. Department personnel subsequently applied the new allocation methodology for the entire fiscal year to the programs that had been charged the 17.10% rate. This analysis showed that an additional $1.9 million in indirect costs could have been charged to these federal programs. *(Department of Health and Human Services - Promoting Safe and Stable Families 93.556; Refugee and Entrant Assistance -State Administered Programs 93.566; State Court Improvement Program 93.586; Adoption Incentive Payments 93.603; Children's Justice Grants to States 93.643; Child Welfare Services - State Grants 93.645; Foster Care - Title IVE 93.658; Child Abuse and Neglect - State Grants 93.669; Family Violence Prevention & Services/ Grants for Battered Women's Shelters - Grants to States and Indian Tribes 93.671)*

Recommendation

The Office of the Comptroller should only charge federal programs for indirect costs based on a federally-approved indirect cost rate or cost allocation plan. As the primary state department responsible for developing, negotiating and assisting in implementing individual department rates and plans, the Office needs to improve its coordination with departments in an effort to recoup only properly supported indirect costs.

Department Corrective Action Plan

The Office has met with the Department and encouraged them to complete the quarterly plan process and coordinate any further modifications to the methodology with the Office. The Department recognizes the serious impact full indirect cost recovery will have on their programs. The Department intends to petition the Fiscal Affairs Division for some relief from the recovery requirements mandated in MGL Chapter 29 section 6b. Until such decisions are made, the Office has suspended any indirect cost chargeback against the Department's grant accounts. When the Fiscal Affairs Division makes a decision, the Office will work with the Department to insure any indirect cost recovery is within the allowance established in the Department's plan.

Responsible person: Kathleen Still
Implementation date: July 1, 2001

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