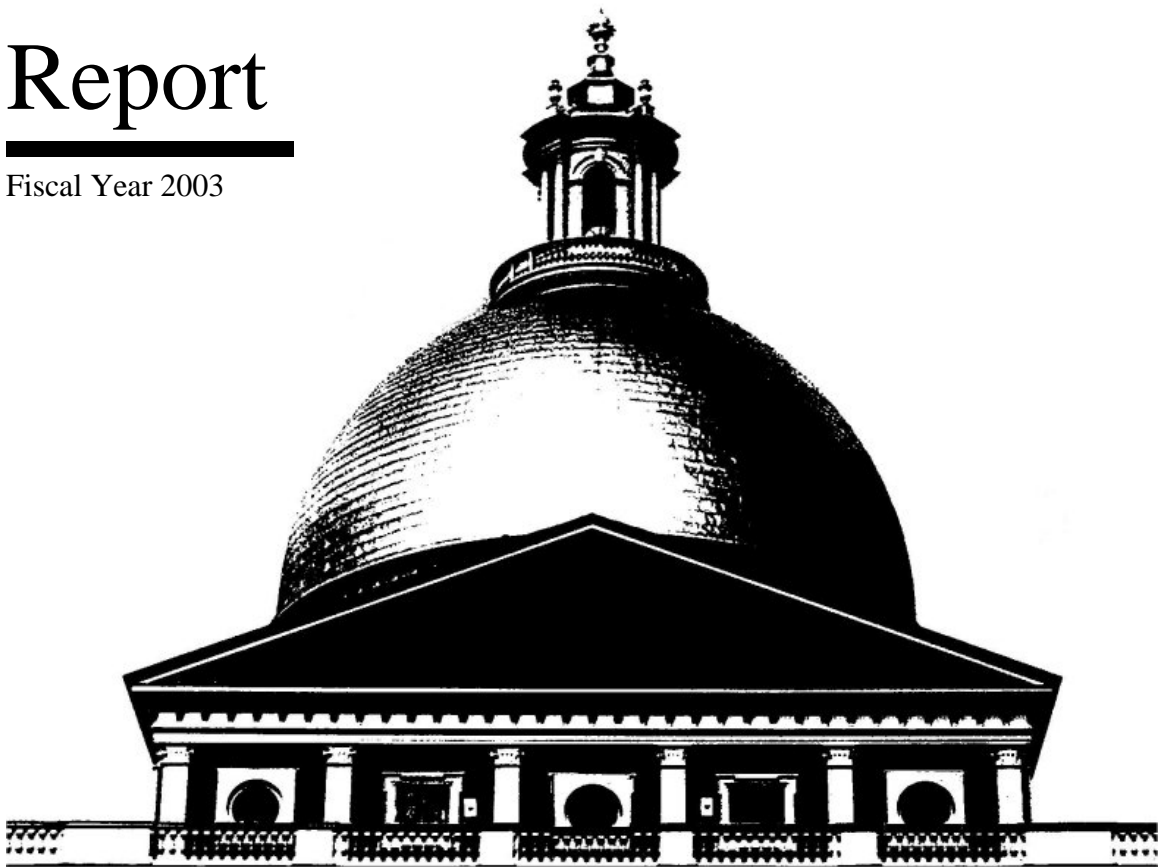


Office of the State Auditor

Annual Report

Fiscal Year 2003



Commonwealth of Massachusetts

A. Joseph DeNucci, Auditor



The Commonwealth of Massachusetts

AUDITOR OF THE COMMONWEALTH

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November 2003

His Excellency Mitt Romney, Governor
Honorable Kerry Healey, Lt. Governor
Honorable Robert E. Travaglini, President of the Senate
Honorable Thomas M. Finneran, Speaker of the House of Representatives
Honorable Therese Murray, Chairwoman of the Senate Committee on Ways and Means
Honorable John H. Rogers, Chairman of the House Committee on Ways and Means
Honorable Members of the General Court:

I am pleased to submit herewith the Annual Report of Audit Results and Activities of the Office of the State Auditor (OSA) for the period July 1, 2002 through June 30, 2003.

This report summarizes major OSA audit and other oversight activities, as well as proposed and ongoing audit initiatives. It is intended to present officials and the public with audit results and recommendations for improving state financial operations and program performance. Of particular interest during this report period, the OSA issued several audits that assess transportation-related capital projects and two statewide compliance reviews, one on the state's Salary Reserve Program for low-wage direct care service providers and the other on the Operational Service Division's Audit Resolution Policy.

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

I look forward to continuing to work with you for the improvement of the quality, cost-effectiveness, and accountability of state government and the services that the Commonwealth provides its citizens.

Sincerely,

A handwritten signature in black ink, reading "A. Joseph DeNucci".

A. Joseph DeNucci
Auditor of the Commonwealth

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OFFICE OF THE STATE AUDITOR: AUTHORITY AND RESPONSIBILITIES

The Office of the State Auditor (OSA) operates under the direction of the State Auditor, A. Joseph DeNucci, an independently elected constitutional officer. The OSA provides the Governor, the Legislature, auditees, oversight agencies, and the general public with an independent and objective evaluation of the Commonwealth's financial and programmatic activities. As mandated by Chapter 11, Section 12, of the Massachusetts General Laws (MGLs), the OSA audits the operations of state government, including state agencies, higher education institutions, the state court system, and authorities. The Auditor also performs audits of vendors and contractors that do business with the Commonwealth and its instrumentalities. Moreover, under Chapter 7, Sections 52 through 55, MGLs, the Auditor carries out mandated responsibilities relative to privatization initiatives. Furthermore, the Auditor is responsible, under Chapter 11, Section 6B, MGLs, for the Division of Local Mandates, which is charged primarily with determining the financial impact of legislation and regulations on cities and towns. In addition, under the provisions of Section 12 of Chapter 184 of the Acts of 2002, the Bureau of Special Investigations, which investigates fraud within public assistance programs, became a division of the OSA.

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

OSA audit activities include the following objectives:

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

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

AUDIT RESULTS, RECOMMENDATIONS, AND INITIATIVES: OVERVIEW

During the report period July 1, 2002 through June 30, 2003 the Office of the State Auditor issued 210 reports covering 576 agencies, authorities, institutions of public higher education, human service entities, judiciary/law enforcement entities, and various other state activities. For a complete listing of audit reports, see the Appendix on page 74. In these reports the OSA disclosed millions of dollars in financial and operational deficiencies and provided recommendations intended to safeguard the Commonwealth's assets and improve the effectiveness and efficiency of governmental operations.

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

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

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

AUDIT SUMMARIES

Education

During the report period, the OSA released twelve audits covering 22 education entities. Among these audits was a review of the monitoring practices of state colleges regarding foreign nonimmigrant students, which found general compliance by state facilities but serious problems with federal practices. In addition, as part of the Single Audit of the Commonwealth, the OSA issued audits of federal student assistance programs at selected colleges, one of which is detailed in the section that follows. Also included in this section is a summary of OSA oversight activities relative to charter school compliance with financial reporting requirements.

Fitchburg State College

Pursuant to the requirements of Chapter 647 of the Acts of 1989, the state's internal control law, Fitchburg State College reported to the OSA that a former employee had circumvented the school's internal control system, altered and falsified financial documents, and stolen \$32,229. The OSA determined that this theft occurred due to inadequate enforcement of the school's internal control plan, including the failure to properly segregate financial duties, and made recommendations, summarized below, to correct control weaknesses.

- The OSA recommended that Fitchburg State College officials ensure that staff members adhere to the College's written internal control procedures, which would have prevented the employee charged with the reported theft from functioning as both bookkeeper and cashier. During the course of the audit, the College instituted a number of internal control improvements, including ending the practice of accepting cash as a form of payment. The OSA recommended that the cash prohibition continue, that supervisory monitoring be strengthened, and that the principle of segregation of duties, whereby no individual controls all aspects of a transaction, be strictly enforced.
- The OSA referred this case to the Worcester County District Attorney and assisted in his investigation. As a result, the former bookkeeper pleaded guilty and received five years probation. She must also make restitution of \$32,229.

Nonimmigrant Students

The OSA conducted a review of certain Massachusetts public institutions of higher learning regarding their recordkeeping practices pertaining to nonimmigrant foreign students. This audit, which examined six of 24 state and community colleges and two of five state university campuses, determined that staff members at the selected institutions understood applicable federal requirements; were maintaining necessary data in student records; and were generally following proper policies and procedures for processing, reporting, and recordkeeping. However, the schools were unable to crosscheck information with the U.S. Immigration and Naturalization Service (INS) because INS was not providing them with the data required to do so. This issue is discussed below.

- INS was not sending each school a list of those students allowed into the United States on F-1 student visas as required by federal law. This information is essential for identifying all F-1 students and determining their immigration status. Without the required lists, the schools cannot identify all F-1 students, verify that each student is pursuing a full course of study, and notify INS of any unlisted foreign nonimmigrant students. The audit did note that INS was in the process of implementing its Student and Exchange Visitor Information System (SEVIS), an Internet-based system for providing online tracking and monitoring, as well as access to accurate and current information regarding nonimmigrant foreign students. Results of a pilot study of this system have been positive, and INS should increase its efforts to fully implement the program as soon as possible so that verifications of enrollments and records of foreign students can proceed as required.

Roxbury Community College Student Financial Assistance Programs

The OSA conducted an audit of student financial aid programs at Roxbury Community College that are funded by the U. S. Department of Education (DOE). This review, which also updated the status of prior audit results, noted substantial administrative improvements, due in part to the implementation of new computer systems. In addition, the College was in the process of fully resolving a longstanding issue relative to \$201,563 owed to DOE principally because financial assistance had been awarded to ineligible English as a Second Language students. The College has agreed to repay these funds and had made two quarterly payments of \$13,977 as of the close of the audit period. However, further improvements were needed in oversight and accountability in order to assure the College's continued eligibility for all federal financial aid programs.

- Although Roxbury Community College had made progress in reconciling in-house records of student assistance funding with information on the Massachusetts Management Accounting and Reporting System, fund activity was not updated and reconciled monthly, as required. Until this further step is taken, the College is unable to verify that financial reports required under federal regulations are complete and accurate. In addition, the College still needed to improve certain areas of program administration, such as the identification of unofficial student withdrawals.
- New issues identified during the current audit included noncompliance with requirements for communicating financial aid information to current and prospective students and inappropriate Pell Grant awards. Among issues noted with respect to the Pell Grants were awards to students who did not have a high school diploma or its equivalent and an instance in which a student filed six separate applications using three different Social Security numbers and two different dates of birth.

Berkshire Community College

The OSA conducted a comprehensive audit of Berkshire Community College, which included an examination of internal controls and trust funds. Major findings are summarized below.

- The College's board of trustees unanimously and inappropriately voted to delegate authority to the Berkshire Community College Foundation, Inc., to facilitate the sale of real estate originally bequeathed to the school in 1965. This action was contrary to Chapter 7, MGLs, which requires the Commonwealth's Division of Capital Asset Management and Maintenance (DCAM) to handle the sale of public property. Moreover, failure to sell this property in a timely manner deprived the College of funds that could have been used to provide student scholarships, as intended by the grantor, and may have caused the College to incur \$13,000 in property-related costs and back taxes.
- Berkshire Community College Foundation, Inc., received excess matching funds of at least \$35,723 from the Board of Higher Education's Endowment Incentive Program (EIP). The Foundation may have received additional excess funds as a result of the College's requests for matching funds for grants that were ineligible under EIP guidelines.
- During calendar year 2000, the College did not withhold taxes from its president's salary for benefits such as allowances for housing and automobile expenses, as required by applicable federal tax laws.
- The College did not maintain sufficient documentation to substantiate that it put its contracts out to bid, that credit card purchases were appropriate, and that time spent by College employees on Foundation matters did not exceed the 25% time commitment limitation set by state law. The College also needed to update its inventory listing in order to properly safeguard property and equipment.
- The College has taken several steps to address these findings, including immediate notification to DCAM regarding the intended land sale, repayment to the Board of Education for excess funds received through EIP, and preparation of an amended W-2 Form that reflects its president's receipt of certain fringe benefits. The College has also implemented stronger controls over credit card usage, inventory records, and payroll and attendance records.

Charter School Desk Review

State law requires that all charter schools file annual independent audits of their accounts with the Department of Education and the State Auditor, and that these reports be in a form prescribed by the State Auditor. The Auditor is also authorized to examine the records of charter schools and investigate their budgets, finances, and financial dealings.

Pursuant to this authority, the OSA developed a basic chart of accounts, pro forma budgets, and financial reports in addition to those required by Generally Accepted Accounting Principles. These models were included in a report issued on October 30, 1998.

During December 2002, the OSA sent all charter schools a notice reminding them that they are to have an annual independent audit report performed and to send a copy to the OSA and the Department of Education.

The OSA conducted reviews of 41 charter school independent audit reports for fiscal year 2002. We identified the following deficiencies in a number of audit reports: failure to submit a management letter with the audit report, audit reports not dated and signed in conformity with the requirements of professional standards, reports that did not state that the audit was performed in accordance with generally accepted government auditing standards, and reports that did not adequately describe the scope of compliance or internal control testing. Of the 41 schools reviewed, 30 complied with audit requirements for the areas tested.

The eleven schools whose independent audit reports did not fully comply with audit requirements were notified of their deficiencies and were requested to take corrective action.

INITIATIVES

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

Student Financial Aid Programs

The OSA is continuing to conduct audits of federal student financial assistance programs at the Commonwealth's institutions of public higher education.

The University of Massachusetts (UMass) System

The OSA is conducting a performance audit at the University of Massachusetts focusing on various financial activities, including investments and cash management, endowments, unclaimed checks, and contract management. The audit will also review operations at the UMass Amherst bookstore, which is a privatized service, and examine controls over the UMass Amherst Continuing Education Trust Fund to determine whether funds are being used for their intended purposes.

AUDIT SUMMARIES

Health and Human Services

During fiscal year 2003, the OSA issued 24 audits pertaining to 115 health and human service agencies and contractors. Audit work in this area covers activities administered under the Executive Office of Health and Human Services (EOHHS) and the Executive Office of Elder Affairs (EOEA). EOHHS oversees fifteen state agencies with combined budgets of over \$8.9 billion dollars; EOEA services are funded at approximately \$280 million. Utilizing both agency and contract workers, these entities provide a broad array of services, including medical assistance; public health initiatives; mental health programs; programs that serve the mentally retarded; rehabilitation services; child protection, childcare, and family assistance programs; refugee assistance; juvenile justice programs; and home care and other senior services.

The following section highlights findings and recommendations from reports of selected health and human service agencies and of private vendors that provide services under state contracts. In addition to reports examining internal controls and management issues at individual agencies, these audits include statewide reviews of human service providers' compliance with the state's Salary Reserve Program, state agencies' compliance with the state's Audit Resolution Policy, and state-funded childcare services. Findings are also summarized from selected vendor audits, which reported questionable and unallowable charges and made recommendations for cost recovery by the Commonwealth.

Department of Mental Health (DMH): Greater Lawrence Site Office

Pursuant to the requirements of Chapter 647 of the Acts of 1989, the state's internal control statute, DMH officials notified the OSA of an alleged theft of funds from clients participating in the Representative Payee Program run by its Greater Lawrence Site Office. This program maintains accounts for clients who need bill-payment and other financial assistance. The subsequent OSA investigation disclosed control and managerial weaknesses that enabled an employee to divert client funds for personal use; the audit also made recommendations for corrective action.

- The OSA determined that a total of \$18,070 was taken from the bank accounts of 26 DMH clients participating in the Representative Payee Program by an employee who was able to make electronic bank withdrawals without supporting documentation or supervisory approval. The major program control deficiencies identified were ineffective supervision and a failure to separate financial duties so that the work of one employee could act as a check on that of another. In fact, these thefts might have gone undetected for an even longer period of time had a work absence not resulted in a substitute employee's discovery and reporting of apparent client account irregularities.
- The OSA recommended the prompt implementation of new procedures that strengthen management oversight and properly segregate financial duties. The Greater Lawrence Site Office responded by implementing new DMH guidelines that address these issues and also help to ensure consistency in local area office control procedures.
- While the audit was in progress, DMH referred this case to the Eastern District Attorney's Office. As of the close of the audit, the employee allegedly responsible for the thefts was scheduled to appear in court to answer charges.

The Department of Public Health's (DPH) Enhanced School Health Services Program

The Enhanced School Health Services Program, funded through DPH grants, gives participating school districts the opportunity to expand their basic school health services by implementing tobacco control programs, linking school health programs with community providers, and implementing special information technology projects. The OSA conducted a review to determine whether grant funds for the Enhanced School Health Services Program had been properly disbursed and expended, and whether school health service programs were meeting DPH standards and guidelines. Results of this review are detailed below.

- As of fiscal year 2002, the Enhanced School Health Services Program encompassed 109 school districts, of which eleven were consultation schools that provide mentoring and other assistance to 85 additional school districts and to selected non-public and charter schools. Grants awarded through the program totaled \$15,434,664 in fiscal year 2001 and \$15,360,228 in fiscal year 2002.
- The OSA found that grants were generally disbursed and implemented effectively and that overall student health and access to health care providers were improved. However, many schools had not established smoking cessation programs, which are a condition for receipt of these grant funds. In fact, the majority of recipient school districts had either no smoking cessation program available or no students enrolled in the smoking cessation programs that were offered. Although DPH officials were aware of the deficiencies within the tobacco portion of the Enhanced School Health Care Program, they had not prioritized working with school districts to make improvements and did not assess penalties on noncomplying school districts.
- In response to the audit report, DPH initiated training sessions for school nurses to enable them to better assist students, on an individual basis, to stop smoking. The new smoking cessation model has been implemented in selected schools, with the intention of applying successful results to schools throughout the state.

The Executive Office of Elder Affairs

The OSA, in conjunction with the Single Audit of the Commonwealth for the fiscal year ended June 30, 2002, conducted a review of the financial activities of the Executive Office of Elder Affairs (EOEA). The audit reviewed prior findings, assessed the internal controls in place at EOEA during the review period, and evaluated compliance with laws, regulations, and requirements governing federally funded EOEA programs. In fiscal year 2002, EOEA administered \$310 million of which federal funds totaled approximately \$30 million. The audit found that EOEA had resolved certain compliance issues by performing required program fund reconciliations, documenting salary allocations, and conducting verifications of contractors' debarment status. However, certain unresolved and subsequent issues were disclosed, as summarized below.

- EOEA did not have a process in place to review financial and program records maintained at its subrecipient Area Agencies on Aging (AAA) or to observe and assess AAA elder services programs. In addition, EOEA reimbursed AAA program and administrative expenses totaling \$1,332,873 without sufficient supporting documentation. The audit noted that EOEA formerly had a program evaluation unit, which reviewed subrecipients for quality and compliance issues, but that the unit was not staffed during fiscal year 2002. Because subrecipient activity was not adequately monitored, EOEA could not ensure that state and federal funds awarded to AAAs were properly expended, and was hampered in evaluating AAA program performance.
- EOEA needed to improve administrative controls in several areas, including fixed-asset records, which were incomplete; compliance with federal reporting requirements; and implementation of an approved plan for allocation of indirect costs, a matter that has been unresolved for many years.

Human Services Providers' Compliance with the State's Salary Reserve Program

The OSA reviewed the administration of state funds provided to eight contracted human services vendors for wage increases for their direct-care staff. Four of the eight providers selected for review had inadequate controls over salary reserve funding and, as a result, charged \$100,093 in unallowable expenses against their state contracts. The audit noted insufficient documentation of fund disbursements, retention of funds that should have been disbursed to eligible employees, and disbursements to ineligible employees.

- Since the providers reviewed represent only about 5.5% of Salary Reserve Program funding, state agencies are potentially reimbursing millions of dollars in salary reserve expenditures that are not in compliance with laws, regulations, or contract terms. Agencies should take necessary measures to ensure that all contracted human services providers establish adequate administrative controls over salary reserve funding and expend these funds only for their intended purpose, which is to raise the salaries of direct-care workers.

The Soldiers' Home in Holyoke: Privatization Proposal

Chapter 7, Sections 52-55, MGLs, the state's privatization statute, establishes procedures that must be followed by agencies seeking to privatize a service currently being performed by state employees. These procedures include composing a detailed statement of services to be used in soliciting competitive bids, estimating the most cost-efficient method of providing those services with agency employees, and comparing the in-house cost with the cost of contract performance. Additional provisions address wage, benefit, and other vendor compliance issues. The proposal is then submitted to the State Auditor, who conducts an independent evaluation and, based upon the requirements of the law, accepts or rejects the contract.

During the report period, the Soldiers' Home in Holyoke submitted a proposal to privatize its X-Ray and EKG departments. The following is a summary of the State Auditor's determination.

- The State Auditor determined on March 3, 2003 that the Soldiers' Home had not met the requirements of the privatization statute in that Soldiers' Home officials failed to solicit competitive bids for the privatization contract, as expressly required in Section 54 of Chapter 7, MGLs. Certain vendor compliance issues involving health insurance, reimbursement rates, and tax standing also needed to be addressed prior to a resubmission of the proposal. As a result of those specified deficiencies, pursuant to Section 55 of Chapter 7, MGLs, the State Auditor notified the Soldiers' Home at Holyoke of his objection to the awarding of this contract.

State Agencies' Compliance with the Operational Services Division's Audit Resolution Policy

The OSA reviewed follow-up actions by state agencies regarding deficiencies identified in 27 provider audits. This comprehensive audit involved ten agencies that contract with private vendors for the provision of various health and human services. These agencies are required to follow the Audit Resolution Policy of the Operational Services Division, the entity responsible for maximizing the return of state funds improperly spent by human services providers. The 27 audit reports selected for review identified 144 deficiencies involving \$21,767,981 in state funds and recommended numerous corrective measures, including the recovery of as much as \$3,838,453.

- The OSA found that the majority of agencies had not established required recovery procedures and corrective action plans. In several instances, moreover, state agencies agreed to accept less than the amount recommended by the OSA.
- The OSA review concluded that although approximately \$1 million had been recouped by state agencies in response to OSA audit findings and another \$1.5 million was in the process of being recouped, substantial amounts of misspent funding remained unrecovered.

Current Vendor Audits

OSA reviews of individual vendors that contract with Commonwealth agencies to provide services identified continuing problems involving questionable and unallowable charges and reimbursements. Findings from these reports, as well as cost recovery recommendations, are summarized below.

- *Friends of the Shattuck Shelter*, a nonprofit organization that provides programs and services to homeless people in Greater Boston, charged and was reimbursed \$44,118 for expenditures that were either inadequately documented or otherwise unallowable under state regulations. These charges included \$16,347 for fundraising, \$1,857 for staff bonuses, \$1,968 in undocumented travel, and \$23,946 for capital items that were expensed in one year rather than being depreciated. The OSA recommended that the appropriate state agencies review these findings, as well as additional information assembled by the entity that was not provided to the audit team, to determine the amount of money that Friends of the Shattuck Shelter should remit to the state.
- *Friendly House, Inc.*, a multi-service neighborhood center, was unable to substantiate at least \$94,677 in expenses that it charged under state contracts from July 1, 2000 through December 31, 2001. The OSA recommended that the appropriate Commonwealth agencies recover these funds and consider conducting a review of contract billings for periods preceding and following the dates covered by the audit.
- *The Thorndike Street School*, a private nonprofit daycare provider, did not have documentation to substantiate that the daycare services for which it billed the Office of Childcare Services (OCCS) were provided to eligible clients. In addition, the School could not substantiate all of the administrative expenses for which it billed. As a result, the Commonwealth could not be assured that the \$146,549 that the School received from OCCS during the audit period was appropriately charged. The audit also noted that, in violation of state law and regulations, the School's Director did not make all financial records available to audit staff within reasonable time frames. The OSA recommended that OCCS recover all funds that were improperly billed for and reimbursed.
- *Turning Point, Inc.*, a nonprofit human services agency, charged and was reimbursed for at least \$222,618 in expenditures that were duplicative, undocumented, or non-program-related. In addition, Turning Point made undocumented accounting adjustments totaling \$42,500, which it inappropriately charged to state contracts; improperly allocated \$964,732 of indirect costs to its state and federal programs; and could not substantiate that \$38,075 in funding provided by the state for wage increases for the entity's lowest paid employees was properly distributed. The OSA recommended that the Commonwealth recover all improper reimbursements and that the Department of Mental Health, Turning Point's principal state purchasing agency, conduct its own review of contract reimbursements for prior and subsequent periods.

Community Group, Inc.

The OSA examined administrative and operational activities at Community Group, Inc. (CGI), a for-profit subsidiary of a publicly held corporation, First Community, Inc., that provides services for developmentally disabled individuals in several residential facilities and at a training center.

Our audit identified highly questionable undocumented and unallowable expenses totaling at least \$1,575,553; undisclosed related-party transactions totaling hundreds of thousands of dollars; unallowable profits charged against state contracts totaling an additional \$463,058; inadequate documentation to substantiate the allocation of \$1,767,768 in administrative payroll expenses; and inadequate internal controls over many aspects of CGI's operations. These findings of substantial overcharges and violations of state law are detailed below.

- CGI did not properly report on its financial statements at least \$1,121,964 in commercial income that it transferred from its state-assisted Community Training Center Program to its Executive Director and to organizations owned by the Executive Director. As a result, these transferred funds were not used to defray the Commonwealth's cost of operating the Training Center Program as required under state regulations. Furthermore, the Executive Director used the transferred funds to pay for personal expenses, including \$210,027 in mortgage costs related to private business ventures; \$74,370 in lease costs for a Mercedes Benz; \$103,920 for dues, restaurant charges, and other expenses at a country club; \$5,500 for laser eye surgery; \$15,331 for flowers; \$80,993 in landscaping fees; \$26,654 in electrical service fees; and \$21,156 in personal home heating oil charges. CGI also failed to disclose at least three other related-party transactions involving hundreds of thousands of dollars. The OSA recommended that state funding agencies take steps to recover all overcharges, including the \$1,121,964 specifically identified in the audit.
- CGI billed and received duplicate payments totaling \$221,426 against its state contracts and allocated an additional \$43,482 in undocumented expenses to state contracts. CGI also retained as much as \$463,058 in profits in excess of the amount allowed by its state contracts.
- CGI had not established adequate controls over the use of company credit cards, which resulted in 186 expenditures totaling \$75,197 charged to state contracts that were either inadequately documented or did not appear to be related to the purposes of CGI's state-funded programs. These expenditures included \$2,010 in restaurant charges, \$4,711 in car rentals, and \$13,978 in hotel charges.
- CGI did not require its salaried employees to complete weekly records documenting hours worked and functions benefited, which resulted in inadequate assurance that all of the approximately \$1,767,768 in salaries and related costs that CGI allocated against its state contracts during the audit period was accurate. In addition, CGI charged \$75,000 in management fees to its state contracts for services purportedly provided by CGI's Executive Director on behalf of a related organization. However, CGI could not provide any documentation to substantiate that these services were actually provided.

- CGI used \$38,484 in state funds that was supposed to be used to provide salary increases to its lowest-paid direct care staff to finance other operational activities.
- CGI had not developed and implemented an adequate system of internal controls over various aspects of its operations. Specifically, CGI did not properly document its accounting system, improperly accounted for inter-company transfers, did not maintain all of its records in accordance with state regulations, failed to establish an effective inventory system for its fixed assets, and did not establish proper security over access to its computer-based accounting records.
- Subsequent to the issuance of this report, the Department of Mental Retardation (DMR) reported to the OSA and to the Office of the Attorney General additional related-party issues as well as an attempt by CGI to obligate the state to a rental increase through an apparently forged document. On October 22, 2002 DMR informed CGI's new Executive Director of the department's decision to terminate its contracts with CGI effective December 21, 2002. Although efforts to recoup funds owed to the Commonwealth are continuing, CGI ceased operations on the date that its contracts were terminated.

State-Funded Childcare Services

The OSA conducted a statewide audit of the Office of Childcare Services' (OCCS) childcare program and the Department of Education's (DOE) Community Partnerships for Children Program (CPC). OCCS, an agency within the Executive Office of Health and Human Services, regulates childcare and administers childcare subsidies for the Commonwealth. DOE's CPC program awards grants to communities for childcare and educational programs for three- and four-year old children. The intent of this audit was to determine the extent to which state-funded childcare services are available to income eligible families throughout the Commonwealth and to evaluate administrative and accounting controls in place to safeguard public funds.

- The audit identified several interrelated problems that needed to be addressed in order to more effectively utilize the state's childcare resources. Specifically, OCCS needed to better monitor waitlist activities and submissions by individual childcare providers. OSA testing indicated that many childcare providers did not submit required quarterly waitlist reports to OCCS and those that did report, in many cases, submitted outdated and incomplete information. Overall, OSA testing indicated that approximately 80% of waitlist information maintained and submitted by providers was inaccurate. The audit also noted the need for improved collaboration between OCCS and DOE in addressing unmet childcare needs, as well as more effective communication and interaction among all of the entities in the state's childcare system. Finally, OCCS had not taken sufficient action to identify and redistribute underutilized resources or to give providers flexibility to independently reallocate at least a portion of their funding. As a result of these deficiencies, the childcare system experienced reversions of childcare funds at the same time that OCCS's own data indicated an average annual unmet demand for services for approximately 18,000 children, with an especially urgent need for infant/toddler care.

Irving A. Glavin Regional Center

Pursuant to the requirements of Chapter 647 of the Acts of 1989, the state's internal control statute, the Irving A. Glavin Center reported to the OSA a series of fraudulent transactions totaling \$15,148 that occurred between October 25, 2000 and September 18, 2001. The report indicated that a former employee allegedly submitted personal utility bills along with bills for unallowable personal purchases to the Center for payment. The completed OSA review determined that the alleged thefts actually totaled \$19,230, identified internal control policies and procedures in need of modification, and made recommendations to correct control weaknesses.

- The OSA found that financial duties at the Center were not adequately segregated, in that one employee made purchases, received vendor invoices, and made vendor payments. As a result of this fundamental internal control weakness, a clerk with responsibility for all aspects of Center financial transactions was able to misappropriate funds over an 11-month period. The review also found that the Center did not adequately secure unassigned spare credit cards left in its business office, which enabled the clerk to also make unauthorized credit card purchases totaling \$11,807.
- The OSA recommended the strict separation of Center financial duties and several measures to better safeguard unassigned credit cards. The Center, in conjunction with the Department of Mental Retardation (DMR), took prompt action to segregate its financial duties so that employees who make purchases do not participate in bill payment and reconciliation activities, to reduce the inventory of spare credit cards, and to move unassigned credit cards to a safe at the Regional Office. Management oversight over Center operations has also been increased.
- The OSA worked on this investigation with the Shrewsbury Police Department and the Worcester County District Attorney's Office, which was prosecuting the former employee in Superior Court as of the close of the audit period. Furthermore, DMR has notified the Massachusetts Retirement Board of the alleged thefts and requested that the defendant's retirement funds be frozen until a verdict is rendered. Lastly, DMR's bonding company will pay the Center's claim of \$19,230 less a \$10,000 deductible.

INITIATIVES

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

Statewide Review of Pharmacy Operations at Executive Office of Human Services Institutions

The OSA has issued an audit of pharmacy operations at state institutions. This audit, which includes an assessment of inventory controls, as well as a review of the purchasing, receiving, storing, issuing, and safeguarding of controlled and non-controlled substances is available from the OSA.

Daycare Provider Background Checks

The OSA will conduct an audit to determine whether the Office of Childcare Services (OCCS) has periodically reviewed Criminal Offender Record Information (CORI) maintained by each daycare provider in accordance with state regulations and OCCS's own policies and procedures. OSA auditors will also conduct tests at provider entities to determine whether they have developed procedures to ensure that the Executive Office of Health and Human Services and OCCS can audit CORI check compliance requirements.

Division of Medical Assistance - Medicaid Administration

The OSA will examine the Division of Medical Assistance's (DMA) program monitoring policies and activities relating to the Medicaid program to determine: (1) the extent of DMA oversight; (2) the nature and extent of methods and criteria for identifying and investigating improper payments, fraud, and abuse; (3) the measures in place to initiate recovery of overpayments and funds obtained fraudulently; and (4) the measures in place to sanction providers. The audit will also determine the amount of funds DMA devotes to program monitoring efforts and the extent and effectiveness of DMA's collaboration efforts with other state and federal agencies in identifying, investigating, and prosecuting fraud and abuse cases.

AUDIT SUMMARIES

Housing Authorities

Massachusetts public housing is built and managed under the direction of the Department of Housing and Community Development. Its Bureau of Housing Management oversees the operation of over 250 local housing authorities, which perform the vital function of providing apartments for low- and moderate-income families, the elderly, and individuals with disabilities. OSA audits help to ensure the solvency and proper operation of local housing authorities by making sure that adequate accounting and administrative controls are in place and that authorities are in compliance with laws and regulations governing such areas as eligibility, rents, inspections, tenant selection, and unit turnover.

During fiscal year 2003, the OSA issued 104 housing and independent authority reports, of which 34 were federally mandated Single Audits that local housing authorities receiving federal funds are required to obtain. In general, housing authorities complied with state and federal management, internal control, and program requirements. However, certain deficiencies were noted, as summarized in the section that follows.

Audits under the Single Audit Act

The federal Single Audit Act of 1984 created many opportunities for state governments to reduce duplication by using one audit to satisfy both federal and state requirements. The Commonwealth, for example, closes its books on June 30 each year through a Single Audit conducted jointly by the Office of the State Auditor and a private accounting firm.

Procedures developed by the OSA and authorized by Chapter 138 of the Acts of 1991 for the procurement and conduct of housing authority audits provide another example of the way in which the Commonwealth has improved the coordination and efficiency of the audit process. Chapter 138 gives the OSA the authority to prescribe standards, in addition to any federal requirements, for audits of all housing authorities that receive federal financial assistance, whether conducted by the OSA or a private firm. Housing authorities that choose private firms to conduct audits of their federal programs are required to submit these audits to the OSA for review and approval. As a result of these Single Audit procedures, accountability is strengthened, duplication is prevented, and costs are reduced. During the report period, the OSA issued 34 Single audits of housing authorities and reviewed an additional 33 Single Audits completed by private accounting firms. Except for the issues noted below, most of the housing authorities reviewed under the Single Audit Act were in compliance with federal and state regulations and requirements.

- Adams Housing Authority did not convert its basis of accounting for its state and federal programs to generally accepted accounting principles, as required, or electronically submit required financial information to the U.S. Department of Housing and Urban Development (HUD). In its response to these findings, the Authority indicated that it has converted its basis of accounting to comply with HUD regulations effective for the fiscal year ended June 30, 2003.
- Holbrook Housing Authority also did not convert its basis of accounting to generally accepted accounting principles or file all required financial information with HUD. In response to the audit, Authority officials indicated that they were in the process of converting to generally accepted accounting principals and that they would appropriately submit federal and state program financial information on July 1, 2003. The audit also found that there were excessive tenants' accounts receivable, in response to which the Authority indicated that it has put into place procedures to collect the unpaid rents, including the hiring of an attorney to expedite the process.

In addition, one audit, that of Springfield Housing Authority, disclosed serious internal control and compliance issues. The audit report also noted that federal law enforcement officials had seized certain Authority records from the year under audit. Due to the ongoing federal investigation, the OSA could not review documentation for approximately \$14.9 million in expenditures and thirteen contracts totaling \$1,623,827. However, based on records reviewed and an examination of the Authority's operational procedures and internal controls, the OSA identified programmatic, contract, and administrative deficiencies, as summarized below.

Springfield Housing Authority

- The Authority did not adequately document that applicants selected for housing were taken, in order, from its waiting list. As a result, there was inadequate assurance that tenants were housed in the proper order of application.
- The Authority donated \$500,000 to Springfield Housing Authority, Inc., a related-party component unit. The related party then loaned the funds to another entity for housing rehabilitation. Although the funds were ultimately used for housing-related purposes, the donation from operating reserve funds violated provisions of the Authority's funding agreement with the federal Department of Housing and Urban Development and also raised issues of conflict of interest. The audit also noted the questionable purchase of \$191,222 of natural gas from this related party.
- Potential problems were noted regarding expenditures from a \$250,000 state grant to help in the conversion of a project from public housing to assisted living. Specifically, only one contractor bid on the conversion work, which is ultimately expected to cost \$1.75 million; ambiguity existed as to whether the Authority or its related party controlled the grant funds; and Authority administrators were charging other state and federal programs for salary time that should have been reimbursed under the grant.
- Although Authority records indicated an accounts receivable balance of \$585,447, this balance may have been overstated by \$129,485 because it included items such as old insurance claims, which were probably uncollectible.

Internal Control and Compliance Audits

The OSA conducted audits of various activities, including internal controls and compliance with laws and regulations, at 63 local housing authorities. The audits found general compliance and adequate management controls at most of the housing authorities reviewed. Of those audits with reportable findings, excessive tenant accounts receivable balances, inadequate payroll controls, and inadequate Board of Commissioner oversight were identified as issues that needed to be addressed. Two audit reports, however, disclosed more serious conditions. Findings from these reports are summarized below.

Dennis Housing Authority

- Dennis Housing Authority's lax payroll practices permitted its former Executive Director, who resigned suddenly during the course of the audit, and a maintenance man to cash altered payroll checks worth \$63,881. Furthermore, the former Executive Director received \$6,250 in extra compensation for performing functions that appeared to fall within the duties covered by her annual salary. The Authority, under the direction of the former Executive Director, also improperly awarded \$13,173 in sick and vacation time to several employees, including \$6,723 to a maintenance man who had been employed by the Authority for less than five months. The Authority's own policies and procedures prohibit the earning of annual leave before the completion of six months' employment.

- The Authority did not properly administer the rehabilitation project for its Melpet Farms property, six acres of land that had been deeded to the Town of Dennis for affordable housing. Authority management did no planning or budgeting before contracting for the rehabilitation of housing units on the property. After spending \$370,350 of a \$400,000 construction loan for the project, only seven of the thirteen existing units at Melpet Farms were rehabilitated and occupied. Expenditures from this loan included \$244,600 for electrical work that was paid under two contracts awarded without bid and determined to be excessive, and a \$6,300 undisclosed loan to a related party. The Authority, at the close of the audit period, did not have sufficient resources to finish the restoration of the Melpet units.
- The Authority failed to solicit competitive bids, which are required by state law, on several contracts in addition to those awarded for electrical work at Melpet Farms. The total amount awarded without bid for rehabilitation work was more than \$409,300, with some of the contracts resulting in excess profits, improper payments, and work not performed. In addition, the audit disclosed \$39,290 in questionable purchases of supplies and equipment, including outdoor furniture and a swing set, that were made without any oral or written price quotes and without justifying the need for the items.
- The overall result of the Authority's poor management practices was an extreme decline in its financial position and a consequent inability to perform its mission. The Authority's operating reserve decreased from \$157,000 on June 30, 2001 to \$26,232 as of December 31, 2002, more than \$70,000 below the minimum operating reserve required by the state. The Authority also owed the Commonwealth \$178,536 for overpayments of its annual state subsidy. In response to this audit, the Authority's Board of Commissioners concurred with the findings, acknowledged its own lack of oversight, and began steps to rectify the cited problems. On March 11, 2003 the Board entered into a partnership with Barnstable Housing Authority in an effort to stabilize the Dennis Housing Authority's tenuous financial position. The Commissioners and management also supported submission of the audit to the Office of the Attorney General and the Cape and Islands District Attorney for further investigation and possible criminal prosecution.

Attleboro Housing Authority

At the start of the audit of Attleboro Housing Authority, its Executive Director informed OSA staff that an Authority employee had recently been discharged for misappropriation of funds. An investigation by a private accounting firm hired by the Authority had disclosed that the employee used Authority funds for personal transactions, such as making long distance phone calls and paying personal bills. In addition, the employee falsified payroll time cards and other payroll data. The accounting firm quantified the misappropriation of Authority funds at \$21,000. That amount did not include costs that the Authority incurred for legal, accounting, and bookkeeping services, which brought the total to approximately \$28,000.

- The OSA reviewed the policies and internal controls that had been in place prior to the misappropriation, as well as changes that the Authority had made to prevent the future theft and misuse of Authority funds. The review disclosed that internal controls had been inadequate regarding expenditures and payroll. The software used for these activities lacked proper security settings and could be manipulated, especially if monitoring was inadequate. The Authority had acted promptly to improve internal controls by acquiring new software with various levels of security capabilities designed specifically for the Authority. However, as of the date of issue of the audit, the Authority was still in the process of implementing and fully utilizing the capabilities of this new system. Additionally, the Department of Housing and Community Development needed to implement standard reporting procedures that require housing authorities to notify the Department of all misappropriations of funds. The Department would then notify the OSA in accordance with Chapter 647 of the Acts of 1989, the state's internal control statute, which requires state agencies to report to the OSA all thefts or shortages of funds.

INITIATIVES

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

Statewide Review of Subsidy Calculations for Local Housing Authorities

The OSA is completing a statewide review of subsidy calculations for local housing authorities for the period July 1, 2000 to March 31, 2003. The objectives of the review are to determine whether subsidy calculations submitted by authorities to the Department of Housing and Community Development (DHCD) are proper and accurate, whether subsidy amounts owed to and due from DHCD are accurate, and whether DHCD's monitoring and oversight activities relating to these subsidy calculations are adequate.

AUDIT SUMMARIES

Judiciary/Law Enforcement

During fiscal year 2003, the OSA issued 33 audit reports pertaining to 47 judiciary, law enforcement, and public safety entities. These reviews included eleven letter reports related to technical assistance provided to District Attorneys in connection with ongoing investigations. These reports cover a variety of issues, including court controls over bail funds, issues identified at sheriffs' departments, and Department of Correction facility closings. Findings from selected reports are summarized in the section that follows.

Bail Funds and Abandoned Property at Selected Superior and Probate and Family Court Divisions

The OSA conducted an audit to determine the adequacy of controls over the forfeiture and abandonment of bail funds at seven Superior Courts and the abandonment of custodial and probate funds at three Probate and Family Courts. The main objective of the review was to follow up on the Superior Court and Probate and Family Court divisions that had been previously identified as not following established rules and regulations regarding forfeited and unclaimed bails or the abandonment of custodial passbooks.

- The Superior Court divisions reviewed were complying with Administrative Office of the Trial Court control procedures for the receipt, accounting, and reporting of bail funds; the return of bail; and the remitting of forfeited and unclaimed bail to the State Treasurer.
- The Essex Probate and Family Court took steps while the audit was in progress to determine which custodial and probate funds met the state's definition of abandoned property and properly transferred these funds, which totaled \$247,150, to the State Treasurer. However, the Suffolk and Middlesex Probate and Family Courts were holding approximately \$844,000 and \$2.3 million, respectively, in custodial funds, some dating as far back as 1958. These funds needed to be evaluated, and the amounts determined to be abandoned transferred to the State Treasurer. Although rightful owners maintain their entitlement to these funds, once transferred they may be utilized for general Commonwealth purposes.

Department of Public Safety

The OSA conducted a follow-up review of internal controls at the Department of Public Safety, with specific focus on the handling of license fees. The following revenue, asset-protection, and security access issues were noted.

- The Department still was not properly segregating duties within its Cashier's Office, and oversight remained inadequate. In addition, each cashier had access to the personal information, including passwords, of other cashiers. Finally, access to licenses was not properly restricted. As a result of these deficiencies, license fee revenue, the Department's licensing database, and licenses were exposed to potential loss, theft, and misuse.
- In response to the audit, the Department indicated that it was taking steps to ensure adequate segregation of duties and management oversight in its Cashier's Office. The Department stated that it would also improve its license inventory controls and implement a new license software program for the whole department.

Berkshire Sheriff's Department Hampshire Sheriff's Department

The Berkshire and Hampshire Sheriff's departments were established as independent state agencies when county government was abolished in Berkshire and Hampshire counties. The Sheriff, an elected official, administers the department, as well as the area jail and house of correction. The OSA conducted audits of both departments in order to assess internal controls over operations, the appropriateness of expenditures, and the status of certain issues, including deposits, internal control plan development, and reporting requirements, that have generally presented problems in transferred sheriff's departments. Results of these reviews are summarized below.

- The Berkshire and Hampshire sheriff's departments needed to seek legal clarification regarding the deposit of both telephone commission revenues and civil processing fees. Both departments have continued to retain these revenues under laws and procedures that governed their operations as county offices. However, since these departments are now state entities, these revenues may fall under a statute requiring that they be deposited into the General Fund. The OSA recommended, as it has in the case of each of the transferred sheriff's departments, that legal clarification be obtained to resolve these issues.
- The Berkshire and Hampshire sheriff's departments had begun development of, but had not implemented, a comprehensive internal control plan as required of all state agencies under Chapter 647 of the Acts of 1989 in order to safeguard assets and promote operational efficiency. Similarly, neither department had collected and submitted to the Office of the State Comptroller (OSC) all of the financial activity information required of state agencies in order to assist OSC in completing the Commonwealth's Comprehensive Annual Financial Report.
- The Hampshire Sheriff's Department had significant price variances among similar prescription drugs purchased for inmates. Further investigation of these variances disclosed that the pharmaceutical vendor that provided these drugs was not adhering to the agreed upon rates contained in its contract, and had overcharged the Department during the previous 26 months for prescription drug purchases. As a result of this finding, which was taken up with the vendor by the Department, a billing error of \$29,882.67 was discovered. The vendor repaid this money to the Department and agreed to submit monthly detailed prescription price reports along with its billings.

The Committee on Criminal Justice

The OSA completed an audit of the Committee on Criminal Justice, the state planning agency responsible for applying for and administering federal and state criminal justice grants. This review was conducted in conjunction with the Single Audit of the Commonwealth for the fiscal year ended June 30, 2002 to determine adherence to federal rules and regulations and to assess internal controls in place at the Committee. Failure to comply with federal requirements could potentially jeopardize eligibility for certain federal grants on which the Executive Office of Public Safety depends for important law enforcement assistance. The audit found that although the Committee on Criminal Justice was generally complying with federal rules and regulations, some areas of oversight and recordkeeping needed to be improved, as summarized below. The Committee responded by promptly taking recommended corrective action.

- The Committee on Criminal Justice did not have a process in place to review sub-recipient financial activity. As a result, the Committee could not be assured that federal awards were being used by subrecipients efficiently and for authorized purposes. Officials stated that they formerly had a financial evaluation unit that reviewed subrecipients' accounting systems and internal controls, but that they no longer had staff to perform that function. Among steps the Committee has taken to improve oversight of its awards is the implementation of random on-site visits to at least 10% of subrecipients annually.
- The Committee on Criminal Justice needed to improve documentation and accuracy in several areas of recordkeeping and financial reporting. Specifically, salaries allocated to federally funded programs were not supported by proper documentation; reimbursements were made to subrecipients for program and administrative expenses without appropriate invoice and other supporting documentation; dates on payment vouchers did not always accurately reflect the corresponding payments to subrecipients; and in at least one case, a transaction on the Massachusetts Management and Reporting System was deliberately misclassified. The Committee indicated that it has implemented a new payment voucher policy and has strengthened both its own and subrecipient documentation requirements.

Suffolk County District Attorney's Office

The OSA conducted a transition audit of internal controls and financial activities at the Suffolk County District Attorney's Office. The primary objective of this review was to inform the new Suffolk County District Attorney of the status of fiscal and administrative operations as of the date of his assuming office. The audit concluded that the rate of spending for the Office was consistent with approved budgets and that internal controls were generally adequate. However, the OSA did note certain areas in which the control environment could be improved and made recommendations intended to assist the new administration, as summarized below.

- The Suffolk County District Attorney's Office did not have a documented internal control system, including written administrative and accounting policies and procedures for its operations. Documented internal control systems are required under Chapter 647 of the Acts of 1989, the state's internal control statute, in order to increase the efficiency and effectiveness of agency operations and to reduce the risk of loss, theft, or misuse of agency assets. The District Attorney's Office stated in its response that a documented internal control plan has been developed and will be implemented.
- The Suffolk County District Attorney's Office did not conduct an annual physical inventory or maintain a cumulative inventory, and fixed assets had not been valued since June 1995. As a result, there was inadequate assurance that Office property and equipment were properly safeguarded against loss, theft, or misuse. The District Attorney's Office responded that it had conducted a physical inventory and would maintain a complete and updated inventory listing.
- The Suffolk County District Attorney's Office needed to address two issues relative to controls over checks. The Office was not properly monitoring uncashed checks or transferring them, as required, to the State Treasurer's Unclaimed Check Fund. In addition, eighteen checks totaling \$3,238 had been written to cash instead of to the appropriate vendor or payee. Although these checks were used to pay for appropriate Office expenditures, sound business practices advocate that disbursement checks be written to a specific payee. The District Attorney's Office responded that it had discontinued the practice of making checks payable to cash.

Department of Correction: Facility and Program Closings

The OSA conducted an audit at the Department of Correction (DOC), which reviewed controls in place during and after the closing of three DOC facilities and the elimination of two inmate work programs. Although the audit determined that internal accounting and administrative controls were generally adequate, two inventory issues were noted as summarized below.

- DOC did not maintain adequate records of the property and equipment at the facilities and programs that were closed as of July 1, 2002. Specifically, inventory records at the various facilities and programs reviewed were not maintained in a uniform format and inventory item valuations, disposals, location changes, and tag number changes were not properly documented or reflected on inventory records. As a result, there was inadequate assurance that inventory lists at closed facilities and programs were sufficiently reliable; that all equipment items could be readily located; and that fixed assets were accurately reported on financial statements.
- DOC deposited revenues totaling \$234,610 from the sale of dairy cows that had been maintained as part of its Concord Dairy Farm program in an in-house Massachusetts Correctional Industries fund. The audit noted that because the program had closed, it appears that the money should have been forwarded to the Commonwealth's General Fund in accordance with Chapter 29, MGLs. DOC officials responded that these revenues had been properly retained for other inmate work programs and that all regulatory authorities had been notified. However, they also indicated that in the future they will comply with the OSA recommendation that they seek appropriate legal clarification before the sale or disposition of any Correctional Industries assets.

INITIATIVES

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

Rates to House Federal Prisoners

The OSA will conduct an audit of the Department of Corrections to determine whether the Department is adhering to its interstate/federal contract regarding fees charged to house prisoners from outside Massachusetts. The audit will focus on, but not be limited to, an examination of how other states and the federal government are charged for these prisoners; how often the charges are evaluated and, where appropriate, adjusted; and whether the state is receiving all of the revenues to which it is entitled under the contract.

Technical Assistance to District Attorneys

The OSA will continue to provide technical assistance to District Attorneys' Offices throughout the state on a number of audit-related issues.

AUDIT SUMMARIES

Transportation

During fiscal year 2003, the OSA issued eleven transportation audit reports. The major audits in this group addressed ongoing capital projects, including the Central Artery/Third Harbor Tunnel Project, the purchase by the Massachusetts Bay Transportation Authority of Green Line cars, and the Massachusetts Turnpike Authority's Electronic Toll Collection (Fast Lane) system. Findings from selected audits are summarized in the section that follows.

Central Artery/Third Harbor Tunnel (CA/T) Project

The OSA's ongoing examination of activities associated with the design and construction of the CA/T Project has resulted in seventeen interim reports to date, which have identified \$546 million in excessive, unnecessary, and avoidable costs as well as savings opportunities. As important, these audits of selected contracts and issues have identified problems in the overall management of the project and areas where enforcement and recoupment actions are appropriate. Results of reviews completed in fiscal year 2003 are detailed below.

■ CA/T Management Contingency Budget

The OSA examined the CA/T Project's Management Contingency account of \$494 million, which is earmarked to settle potential construction claims. The audit found that as of June 2002, based on historical project claims settlement experience, project management had overestimated the amount needed to settle outstanding contractor claims by \$86 million, thereby overstating the total estimated cost of the project and potentially resulting in additional borrowing costs to the Commonwealth of approximately \$88 million.

■ CA/T Project Force Accounts

The OSA is continuing to review CA/T Project Force Accounts, which are maintained to pay entities for work performed under cost-reimbursement rather than the project's more often utilized competitively bid contracts. In prior reports, the OSA had noted the improper use of \$1.6 million in Force Account funds to pay for non-CA/T Project design activities and had identified \$1 million in unused funds that could be, and subsequently were, reallocated for other eligible project activities. Findings from the current audit are summarized below. The review of Force Account activities, which are currently estimated to cost approximately \$600 million, is ongoing and will result in additional reports.

CA/T Project management did not have current, complete, and accurate Force Account records. In some instances, utilities that carried out activities under Force Account agreements submitted bills years after work was completed, which impacted both recordkeeping and project managers' ability to verify the work done and the charges submitted. The audit also noted activities for which funds had not been properly budgeted, errors in management reports, and a lack of timeliness in identifying unused funding available for future projects. Specific Force Account problems included inaccurate and duplicate budgeting relative to construction of a marina on Spectacle Island and inaccurate accounting for work done by the Metropolitan District Commission, the Inspector General's Office, and the Attorney General's Office. In sum, the review of selected Force Account projects identified approximately \$22 million in Force Account activities in which lax management controls resulted in unused project funds and unreliable project recordkeeping and management reports.

The OSA recommended that the CA/T Project take prompt action to ensure that its financial records reflect current and accurate data on Force Account activities and to determine whether available unused funding should be directed to other project uses. CA/T Project officials agreed that the recordkeeping and monitoring of Force Account spending needed to be strengthened and took action to improve invoicing practices of entities that perform work under Force Account agreements, and to update and correct project reports.

■ **CA/T Project: Summary Report**

The OSA, in April 2003, issued a summary report of its audit activities relative to the CA/T Project. This report details the sixteen CA/T Project audit reports completed as of that date, as well as audit work on Project-related issues. The report's general findings and recommendations include the following:

- Lack of adequate coordination leading to project delays and increased project costs were consistently identified as a significant and expensive managerial weakness. Examples discussed in the report include work on the Charles River Crossing, where the decision to begin construction without an acceptable design increased costs by \$23 million; inadequate coordination of construction work at Bird Island Flats, which resulted in \$30 million in additional project costs; and premature project initiation at the Boston Marine Industrial Park that resulted in construction delay, resequencing, and acceleration costs totaling over \$32 million.
- Potential cost recovery issues and recommendations are a central aspect of audit activity and recommendations. The OSA has emphasized from the outset of oversight work at the CA/T Project that management must initiate cost recovery efforts as soon as a valid cost recovery issue is identified. For example, the OSA audit that examined contractor delay claims associated with the need to reinforce unstable excavation support walls at Bird Island Flats stated that responsibility for the problem, which could add \$64 million to project costs, needed to be pinpointed. However, amounts for which contractors rather than the Commonwealth would be responsible were never assessed, and the time limits for filing for recovery passed. Because project managers did not pursue recovery in a timely manner in this and other cases only small amounts of the project's overruns have been recovered.

The Massachusetts Highway Department (MHD)

In accordance with the requirements of Chapter 647 of the Acts of 1989, the state's internal control statute, MHD's Director of Administrative Services reported a theft of funds through the agency's payroll system. The Chapter 647 report stated that a former MHD payroll department employee had altered her own pay rate and leave time information in the Human Resources/Compensation Management System (HR/CMS), as well as leave records of two other employees, resulting in a theft of \$3,217. The OSA examined the control environment in which the theft occurred, identified internal control policies and procedures in need of modification, and made recommendations for corrective action, as detailed below.

- The OSA review determined that a lack of segregation of duties in the MHD payroll department, insufficient on-line payroll record access controls, and inadequate supervisory oversight allowed the \$3,217 theft to occur. MHD had discovered the theft when its payroll manager had noted that an employee ineligible to do so was receiving premium pay. However, weak payroll controls, which were noted in a prior audit, created continuing vulnerability to thefts and diversions of funds. The OSA recommended, as it had in the previous audit, that payroll duties be properly segregated and that employees be prohibited from making entries to their own records. In addition, MHD management needed to provide a more thorough and continuous review of data, including sick, compensatory, and vacation time entered into the HR/CMS payroll system.
- MHD responded by implementing procedures that limit the ability of payroll employees to access and alter their own payroll data. Supervisory oversight has also been strengthened. Moreover, MHD officials conducted a hearing on the reported theft, after which the employee who altered the payroll data agreed to make restitution and resign. A second employee who admitted knowledge of her altered leave time was suspended for 30 days and had \$409 in unauthorized leave time deducted from her payroll record. The leave records of the third MHD employee, who was apparently unaware that her leave time had not been properly recorded, were also corrected.

Massachusetts Turnpike Authority: Fast Lane Audit

The OSA conducted an audit to determine whether the Violation Enforcement System of the Massachusetts Turnpike Authority's Electronic Toll Collection system was functioning as designed and whether Turnpike Officials had established and maintained an adequate control system to monitor violators, collect appropriate revenues, and discourage and reduce violations. A review of public safety issues relative to Fast Lane speeding was also conducted. Results of this review are summarized below.

- The audit found that the Turnpike Authority's violation processing system was functioning as designed. However, its assessment of penalties and tolls on violators could be improved. The Authority's policy was to issue only a written warning for a first violation. For each subsequent violation, vehicle owners were charged a \$50 fine. The Authority was not charging offending drivers for the tolls that they avoided. We estimated that, if Turnpike officials eliminated the policy of issuing warnings to first time violators and instead enforced the normal \$50 fine, an additional \$4.8 million in fine revenues could be generated, and if tolls were also imposed, an estimated \$548,000 in annual toll charges could also be collected.
- The OSA recommended that the Turnpike Authority consider assessing fines and tolls for all violations of the Fast Lane system. One suggestion would be to assess a \$25 fine for first-time offenders and the current \$50 fine for each subsequent violation. By adopting these fee and fine modification recommendations, the Authority could recoup lost toll revenue and generate significant additional revenue to help defray the cost of operating the Turnpike system.
- At each Fast Lane there is a clearly posted notification that vehicles traveling through the lane must not exceed a speed of 15 miles per hour. Although Turnpike Officials stated that the speed limit is enforced by State Police officers located at the Fast Lane tollbooths, during the field test portion of the audit, several vehicles were observed exceeding the speed limit. Furthermore, there were only approximately four officers per shift assigned to cover the entire Turnpike, which had 24 toll plazas and 92 lanes with Fast Lane capability.
- Authority officials were also not using the Violation Enforcement System to enforce the posted speed limit, in part because they were concerned that strict enforcement might negatively affect the acceptance and use of the Fast Lane system. However, because speed limit violators pose a serious safety hazard for Turnpike personnel and other drivers, the OSA recommended that posted limits be strictly enforced.

Massachusetts Bay Transportation Authority (MBTA): Procurement of Disabled-Accessible Cars

The OSA reviewed the MBTA's procurement process for 100 low-floor, disabled-accessible Green Line cars purchased from Breda Costruzioni Ferroviarie (Breda) for \$215 million. The audit disclosed the following issues.

- The MBTA, at Breda's request, and in negation of its contractual rights, agreed to a reduced testing period for the cars and forgave eligible damages for Breda's late delivery and limited testing. Moreover, the MBTA did not maintain track survey data necessary for the design of these cars but instead allowed Breda to substitute track survey data from San Francisco and adjust it through computer modeling, which contributed to the MBTA's inability to detect the propensity of these vehicles to derail. As a result of these contract and monitoring deficiencies, the MBTA purchased 25 cars that may harbor major design flaws.
- The MBTA incurred additional unnecessary contract costs due to its failure to oversee its design engineer's activities, which resulted in design changes and consequent cost overruns. Additionally, the MBTA followed a process of negotiating additional costs and credits rather than subjecting them to competitive bidding, which further increased costs. The combined effect of these procurement problems ultimately resulted in projected extra costs ranging between \$28.5 million and \$53.5 million, or 13% - 25% greater than the original contract price.
- The OSA recommended that the MBTA reopen negotiations with Breda to reach agreement on the steps necessary to improve the reliability of the cars and urged the MBTA to follow its original plan for testing and debugging cars in future vehicle procurements. The OSA also endorsed certain recommendations from the American Public Transportation Association, including that the MBTA develop new track-maintenance standards and attempt to restructure the financial terms of the contract so that Breda assumes an equitable share of technical and financial responsibility for correcting the derailment problem.

MBTA Facilities Management

The OSA conducted an audit of the Massachusetts Bay Transportation Authority (MBTA) Real Estate Department to determine its effectiveness in overseeing the activities of several private companies contracted to manage the North Station Parking Garage and the South Station Bus Terminal and Parking Garage. The audit also examined the MBTA's compliance with the provisions of Chapter 15 of the Acts of 1993, which authorized the establishment of arena and transportation center facilities at North Station. Results of this review are detailed below.

- The MBTA did not properly monitor the activities of its private management companies concerning the various parking, cleaning, and security-services subcontracts for the parking facilities at North and South Stations. As a result, several contracts were not awarded through a competitive bidding process, and as contracts expired they were not formally extended or advertised for bid. Moreover, the MBTA did not ensure that annual certified audits were performed for these management contracts as required in the management agreements. Finally, these management contracts were awarded based on a flawed selection process that did not properly consider the proposed budgeted costs to operate these facilities.
- Section 6 of Chapter 15 of the Acts of 1993 specifically limited the term of the initial private management contract for the North Station Parking Garage to two years, after which the MBTA was to have assumed the facility's management. Moreover, the legislation specifically prohibited the MBTA from entering into further management contracts without prior statutory authorization. However, the audit found that the MBTA continued to employ the private management company originally employed to run the facility after the allotted period had expired, without obtaining legislative authorization.
- In response to OSA recommendations, the MBTA indicated that it has implemented an annual audit on the financial operations at North Station, which has been the practice for the South Station facility, and is considering the performance of periodic internal audits of the facility management contracts. The MBTA, which continues to believe that it realizes cost savings from the use of a private management firm rather than in-house management for this facility, also plans to submit proposed legislation to amend Section 6 of Chapter 15, referenced above.

Massachusetts Port Authority (Massport) Property Leases

For the fiscal year ended June 30, 2001, Massport had revenue of \$326.9 million, of which approximately \$81 million came from rentals of leased property. The OSA conducted an audit of lease management within Massport's Business Development office, which manages 52 leases and handles about \$6 million in rent collections annually. Results of this review are detailed below.

- The OSA found problems with the billing or management of four of six leases reviewed. Lack of vigorous lease management and miscommunication between the Business Development Office and Massport's billing department cost Massport an estimated \$372,000 in lost revenue from 1986 to 1996.
- During the audit period, Massport was in the process of introducing an automated Common Lease Management System, which should improve its overall lease management. The OSA recommended that Massport management expedite the installation of this automated system in its three principal rent-collecting departments, consider installing the system at Hanscom Airport, increase the frequency of random revenue audits until the automated program has improved the processing and collection of rents, and identify and aggressively pursue any potential revenue resulting from expired leases or tenant breaches of contract.

Special License Plate Funds

The Registry of Motor Vehicles (RMV) is authorized by various Massachusetts General Laws to issue special license plates to benefit specific activities and citizens of the Commonwealth. The OSA reviewed seven special plates (Right Whale Plate, Fish and Wildlife Plate, Blackstone Valley Plate, Invest in Children Plate, United States Olympic Plate, Cape Cod and Islands Plate, and Veterans Plate) to determine whether entities receiving revenue from the sale of special license plates issued by RMV were expending those funds in accordance with applicable laws, regulations, and other requirements. More than \$19 million was received from the sale of special plates between 1995 and the end of fiscal year 2002. Revenue received from the sale of these plates, after RMV withholds a \$12 fee to manufacture the initial plate, is transferred to the following funds and entities: the Environmental Trust Fund; the Child Care Quality Fund; the Massachusetts United States Olympic Fund; the Barnstable, Dukes and Nantucket County Commissioners; the Chelsea Soldiers' Home; and the Holyoke Soldiers' Home. Results of this review were positive, as noted below.

- The OSA audit covered fiscal year 2002 and encompassed revenue of approximately \$3 million and expenditures of approximately \$3.4 million. Results of this review indicated that adequate controls were in place to provide reasonable assurance that the special license plate fees were being expended for their intended purposes.

The Woods Hole, Martha's Vineyard and Nantucket Steamship Authority

The OSA conducted an audit of the Authority's operational and financial systems. The review found adequate controls over cash management systems but noted two areas in need of improvement, as summarized below.

- The Authority did not conduct required annual physical inventories, did not tag furniture and equipment, and did not maintain complete inventory records. As a result, the Authority's fixed assets were not adequately safeguarded or accurately reported on financial statements.
- The Authority, contrary to its own procurement policy, purchased contracted services without using a competitive bid process. In addition, in several instances, the Authority did not execute formal contracts stating the scope and duration of services to be provided or maintain contract information on file. As a result of these deficiencies, the Authority could not be assured that the highest quality services were obtained at the lowest price and did not have a mechanism for effectively monitoring contract performance.

INITIATIVES

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

Central Artery/Tunnel Project

The OSA is continuing its review of controls in place for monitoring project costs and identifying opportunities for savings; cost avoidance; and adherence to timing, scheduling, and performance requirements. The major project expenditures now under review are construction- and contract-related and include an examination of five construction contracts valued at approximately \$1.8 billion. These five contracts had experienced cost increases in excess of \$500 million at the time the review began. Audit activity is focused on Project Change Notifications with an emphasis on determining contractors' responsibility for cost overruns. The OSA's ongoing review of the Central Artery/Tunnel project has resulted in seventeen interim reports to date.

Massachusetts Bay Transportation Authority (MBTA) Parking Revenues

The OSA is conducting an audit of the MBTA's controls over parking revenues. The audit will include, but not be limited to, an examination of the process utilized to award parking contracts and leases; contract terms, conditions, operating expenses, and performance; and overall monitoring activities.

AUDIT SUMMARIES

Financial Administration and Other Special Audit Reports

During fiscal year 2003, the OSA issued audits pertaining to 26 various agencies, boards, commissions, and funds. Three of these reports, covering 146 entities, addressed statewide revenue issues and were completed in association with the Single Audit of the Commonwealth. Other major reports pertained to the state's Human Resources Compensation Management System, the Massachusetts State Treasury, the Lottery Commission, the Pension Reserves Investment Management Board, and a statewide review of fees charged for state services. A summary of findings from these reports follows.

Single Audit of the Commonwealth

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

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

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

During fiscal year 2003, the OSA released nine separate reports based on audit work for the Single Audit. Four revenue-related audits are summarized below. Other audits conducted in conjunction with the Single Audit are detailed as part of the education, health and human services, and judiciary and law enforcement sections of this report.

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

The OSA observed and reviewed procedures for handling cash receipts and reporting and depositing state revenue at 46 state agencies, seven lockbox locations, and nine retained revenue accounts. The audit found that the majority of entities reviewed, including lockboxes which are central locations within designated banks where receipts are deposited and recorded, complied with fiscal year 2002 Office of the State Comptroller's year-end closing instructions. However, two university campuses did not process and deposit year-end receipts within required time frames, and two courts needed to improve their overall timeliness in the transfer of cash receipts to the State Treasurer's Office. During the audit, the OSA provided the Office of the State Comptroller with pertinent information so that appropriate final adjustments could be made to the Commonwealth's records.

- The University of Massachusetts at Lowell did not properly transfer tuition receipts of \$46,840 collected from June 24, 2002 through June 28, 2002. As a result, these funds, when deposited, were included and reported as fiscal year 2003 revenue.
- The University of Massachusetts at Amherst was late in transferring tuition receipts of \$9,096 collected during the period June 21, 2002 through June 28, 2002. As a result, these funds were improperly included and reported as fiscal year 2003 revenue.
- The Middlesex and Hampden Sheriff's Departments did not transfer their cash receipts to the Office of the State Treasurer's designated account on a regular and timely basis over the course of the year. As a result of untimely transfers, the Commonwealth lost potential interest income earnings. In addition, untimely transfers of revenue increase the risk of a possible loss, theft, or misuse of funds.

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

The OSA reviewed encumbrance transactions at 90 state agencies to determine compliance with the requirement that goods and services purchased with fiscal year 2002 funds be received by June 30 and properly entered into the Massachusetts Management Accounting and Reporting System. The audit also examined advance-fund management in order to evaluate documentation supporting open encumbrance balances. Agency compliance was very high, with approximately 99%, or 204 of 206 transactions reviewed, in compliance with closing instructions for encumbrances. The few issues noted below were reported to the Office of the State Comptroller during the audit so that corrective action could be taken in a timely manner.

- Two transactions totaling \$14,923, of 206 encumbrances totaling \$36,344,886, tested, utilized fiscal year 2002 funds or goods and services received after the June 30 cut-off date. In addition, one agency processed a payment for computer equipment totaling \$6,000 prior to receiving the goods.

Agency Compliance with Laws, Regulations, and Office of the State Comptroller Policies for Selected Transactions

The OSA, in conjunction with the Single Audit of the Commonwealth, conducted a review of selected transactions at eight state agencies for the purpose of determining agency compliance with applicable laws, rules, and regulations. Except for the issue noted below, no reportable conditions were disclosed.

- The Department of Mental Retardation (DMR) needed to improve the collection of its accounts receivable. In response to the OSA's identification of a DMR resident who owed an outstanding balance of \$49,331 for room and board charges, officials indicated that, for various reasons, it was not feasible or cost effective to actively pursue all cases of nonpayment. However, they did plan to step up efforts to reduce outstanding receivables by arranging for certain clients' Social Security checks to be sent directly to DMR.

Chapter 62F: Tax Cap Determination

Pursuant to Chapter 62F of the Massachusetts General Laws, the State Auditor is charged with annually determining whether the net state tax revenues of a particular year exceeded allowable state tax revenues for that year. The most recent review determined that the net state tax revenues for the fiscal year ended June 30, 2002 of \$14,342,897,375.29 were below allowable state tax revenues of \$19,660,903,748.28 by the amount of \$5,318,006,372.99. Therefore, no excess tax revenues, as defined in Chapter 62F, MGLs, existed for fiscal year 2002.

Human Resources Compensation Management System (HR/CMS)

In 2000, the Commonwealth, under the direction of the Office of the State Comptroller (OSC), adopted a single, biweekly payroll system known as the Human Resources Compensation Management System (HR/CMS). HR/CMS consists of a combination of centralized and decentralized processes, with more than 150 executive, legislative, and judicial departments processing payrolls on the system. OSC has established payroll policies and procedures that address functions such as payroll approval, accounting and recordkeeping, time and attendance records, deductions, and wage reporting. In addition, each department is required to develop specific internal controls for payroll processing. The OSA conducted an audit of HR/CMS to evaluate whether there were adequate internal controls within the system and at the agency level to safeguard state payrolls. Results of this review are summarized below.

- The centralized HR/CMS system did not contain internal control features that would prevent unauthorized adjustments to employee leave records. As a result, the payrolls of agencies lacking strict segregation of duties, proper supervision, or biweekly reconciliation activities were vulnerable to theft and leave record irregularities. During the audit period, in fact, two agencies reported thefts by employees who made unauthorized adjustments to their own payroll records. The reports detailed altered pay rates and sick and vacation balances. In these cases, the thefts were discovered by the employer agencies. However, similar irregularities could occur and go undetected for a long period of time.
- Five of six agencies tested by the OSA (Military Division, Commission for the Blind, Department of Mental Health – Central Massachusetts Area Office, Worcester District Court, and Department of Mental Retardation – Templeton Developmental Center) had implemented adequate control procedures for payroll processing. However, one agency, the Department of Fire Services, did not have procedures in place to ensure that leave time was properly posted or that all new employees' mandatory and voluntary deductions were correct.
- The OSA recommended that security features be added to the HR/CMS centralized payroll system. One such enhancement would require supervisory approval of adjustments made to an employee pay rate or time and attendance records. In addition, a report should be generated that details all adjustments made during a payroll cycle. Finally, it is essential that agencies adhere to a strict separation of payroll duties and ensure that all adjustments made to payroll staff's rate of pay and time and attendance records are properly monitored and approved.

Massachusetts State Lottery Commission

The OSA conducted a follow-up audit, which assessed management and security controls, compliance with state and federal laws and regulations, and revenue maximization opportunities at the Massachusetts State Lottery Commission. The audit found that Lottery officials had taken some measures to address deficiencies noted in the prior audit report. However, in many important areas, control and compliance deficiencies continued to contribute to lost tax revenues and improper prize payouts. Results of the current audit, along with recommendations for improvement, are detailed below.

- The Massachusetts State Lottery Commission had taken some recommended steps to prevent tax evasion. The Lottery is now providing to the Internal Revenue Service and the Massachusetts Department of Revenue a list of multiple prizewinners who have claimed 20 or more prizes totaling \$20,000 or more in a calendar year. However, since taxes on lottery winnings were withheld only when individual prizes exceeded \$5,000, many multi-prize claimants, including professional check cashers, continued to avoid paying taxes owed. The OSA recommended that, to the extent allowable under law, the Lottery should aggregate claimant information and withhold taxes on an accumulating basis. Taking this further step to close loopholes that foster tax avoidance would generate additional tax revenues, help to curb fraudulent activities such as money laundering and check cashing schemes, and make the Lottery payout system more equitable for all players.
- The Massachusetts State Lottery System still needed to address several issues involving its agreements with and management of its sales agents.
 - The OSA questioned the practice of allowing one sales agent, the Massasoit Greyhound Association, to pay claims up to \$50,000, in cash, even though its agreement with the Lottery allowed for payment of claims only up to \$600, as is the case for all other sales agents. In addition to the inequity inherent in this arrangement, considerable evidence emerged that it fostered claims activity abuse, including tax evasion. The audit noted instances of individuals making as many as 17 claims in one day for amounts totaling \$35,906, with no taxes withheld. A private accounting firm hired by the Lottery also noted this issue, stating that “our concern is heightened by the high level of prize cashing activity that takes place there, particularly at night and on weekends when Braintree oversight functions are not operating.” In response to this finding, Lottery officials informed the Massasoit Greyhound Association that as of October 15, 2003, the track would only be allowed to cash winning tickets of \$600 or less.

- Although the Lottery has made some progress in addressing a longstanding issue involving untimely collections of cash receipts from sales agents, significant problems persisted. As of August 15, 2001, the Lottery was owed over \$10 million from 1,232 terminated or suspended agents and \$8.9 million from 1,051 sales agents that was outstanding for over 90 days. Moreover, the Lottery was not following its own policies and procedures for collecting revenues from sales agents, was not referring delinquent accounts for debt collection in a timely manner, and was not ensuring that sales agents were adequately bonded. As a result of untimely collections, cities and towns lost local aid, and risks were increased that millions of dollars in receivables owed to the Lottery and the Commonwealth could eventually be written off as bad debt.
- Controls over sales agents' ticket scanning activities needed to be improved in order to ensure that sales agents could not scan unsold instant game tickets to identify and collect on winning tickets. The audit noted that sales agents cited for numerous procedural and other errors did not lose their ability to cash instant game tickets, nor were there formal policies and procedures for dealing with habitual offenders. This deficiency contributed to conditions in which a small number of agents abused the Lottery system. The audit noted, for example, three instances of \$1 million grand prizes claimed by two sales agents and a family member. All tickets were purchased at the respective sales agents' locations. Another two grand prize tickets, purchased at one of these agent's stores, were cashed by two individuals residing at the same address. The OSA recommended more stringent monitoring of ticket scanning and the imposition of consistent, documented disciplinary measures for violators. The Lottery should also consider prohibiting sales agents and their families from purchasing tickets from the sales agents' own stores, similar to the prohibitions set for Lottery employees.

Office of the State Treasurer: Transition Report

At the request of the newly elected State Treasurer, the OSA conducted a transition review to determine the state of the Treasurer's Office at the time of transition, including the status of corrective actions recommended in prior audits. The audit found that substantial unresolved problems remained in the areas of abandoned property, contract management, internal audit, and cash controls. Major findings from this review are detailed below:

- Prior audit recommendations concerning the security and accountability of abandoned property had not been adequately addressed. The audit noted numerous control deficiencies, including inadequate segregation of duties, incomplete recordkeeping, inadequate security and access controls, and inadequate inventory records, which placed abandoned property at risk of loss, misuse, or theft. The OSA recommended that management move expeditiously to implement improved procedures and rules for the intake, recordkeeping, and safeguarding of abandoned property, as well as the return of property, where possible, to its rightful owners. The audit noted that when the new Treasurer took office, he found thousands of unanswered email and voice mail messages, a backlog that delayed the return of some abandoned property, and complicated efforts to address inventory and recordkeeping issues. Finally, the former administration had scheduled for destruction certain stocks, life insurance policies, and deeds that it deemed not valuable. In light of serious inventory and recordkeeping problems, the current administration concurred with the OSA recommendation to indefinitely postpone the planned destruction of abandoned property until adequate controls were in place.
- The Office of the State Treasurer paid more than \$2 million in excess interest on abandoned savings accounts from 1999 to 2002 because it paid 5%, while state law requires payment of the lesser of 5% or the rate being earned when the property was abandoned.
- The Office of the State Treasurer had conducted no internal audits in spite of the fact that this function was identified in 1999 as a critical element in improving internal controls after a major theft took place. Since an effective internal audit function is critical to the integrity of the Treasurer's Office, which handles billions of dollars, the OSA recommended immediate action be taken to schedule reviews that test accounting and administrative systems and help mitigate risks.
- The Office of the State Treasurer had continued its policy of renewing and extending its banking service contracts, despite its stated intent to competitively award these contracts. The audit also found other noncompetitively bid contracts and contracts for services that did not appear to be relevant to the missions of the Treasurer's Office. As a result, there was insufficient assurance that the Treasurer's Office received the highest quality services at the lowest cost or that all of its contracted services were necessary and appropriate. The new administration moved promptly to competitively award all major contracts.

- Many segments of the Office of the State Treasurer's electronic information system, including its record of accounting transactions, were not properly associated with and integrated into the Commonwealth's central accounting and official financial data system. As a result, the Treasurer's Office was not able to fully resolve cash reconciliation issues noted in prior audits. Furthermore, in-house reconciliation procedures concerning the Treasurer's Office's central disbursement account (Float Fund) needed to be improved to eliminate continuing variances in the fund.
- Information technology-related controls needed to be strengthened, particularly with respect to developing and implementing a business continuity plan to ensure the availability of automated processing and electronic data, should automated systems be unavailable for an extended period.

Pension Reserves Investment Management Board

The OSA conducted an audit of the Pension Reserves Investment Management (PRIM) Board, whose nine members serve as trustees for the State Employees' Retirement System, the Teachers' Retirement System, and other Massachusetts public pension systems that choose to participate in the Pension Reserves Investment Trust, a pooled investment fund. The audit, which focused on management controls and financial activities, determined that the PRIM Board complied, for contracts tested, with Massachusetts's procurement laws in awarding contracts to investment managers and consultants. The Board also paid fees to contracted investment managers in compliance with contractual terms. However, the audit did identify some issues, the most important of which involved governance issues and Enron stock losses, as described below.

- Although an initial disclosure of Enron stock transactions indicated losses of \$16,883,308, the OSA review determined that this accounting was incomplete. Further information provided by PRIM staff showed that losses on Enron transactions were actually \$22,705,685, or \$5,822,377 more than initially reported. Furthermore, the PRIM Board did not actively pursue the recovery of these losses at a time when serious problems at Enron were known to the investment community. The OSA recommended that the PRIM Board explore all legal options in seeking reimbursement for these losses, including a determination as to whether its investment managers were negligent in their handling of Enron stock. Moreover, in light of accounting irregularities recently revealed at other major corporations, the PRIM Board needed to have a mechanism in place to detect and immediately notify members of these kinds of problems so that risk can be more accurately assessed and preventive action can be taken. PRIM officials responded that they will participate in a class action suit filed against Enron. However, as of the date of completion of the audit, minutes of PRIM Board meetings did not include discussion of this matter.
- The PRIM Board's Executive Director received a \$50,000 salary increase, to \$200,000, after three months of employment and without the formal approval of the Board. In addition, the Board did not comply with the Open Meeting Law in that it did not file public notices of advisory committee meetings.
- In comparison to the other Massachusetts public pension systems, PRIM's investment performance ranked 86th of 107 systems that reported in 2001 and ranked 45th of 107 systems over the last five years.

Office of the Chief Medical Examiner

The OSA reviewed and analyzed the Office of the Chief Medical Examiner's controls over the collection, deposit, and accounting for fees paid under the provisions of Section 14 of Chapter 38, MGLs, the law governing authorizations for cremation and for burial at sea. Results of this audit, which focused on compliance and accounting issues relative to cremation fees, are summarized below.

- The Office of the Chief Medical Examiner did not maintain records pertaining to cremation or burial at sea authorizations and could not account for fees paid to medical examiners who conducted required viewings and inquiries as part of the authorization process. OSA staff determined that, since 1996, over \$3.7 million in cremation viewing fees were collected by medical examiners and should have been accounted for, recorded, and reported as income to the Commonwealth and deposited in an account with the Office of the State Treasurer.
- The OSA recommended that the Office of the Chief Medical Examiner establish a proper accounting system for the collection of cremation fees, including the establishment of a retained revenue account into which the fees could be deposited and payments disbursed to medical examiners.

Metropolitan District Commission (MDC): Ponkapoag Golf Course

The OSA performed an audit of the MDC's management of Ponkapoag Golf Course to determine the adequacy of internal controls over receipts and expenditures. Ponkapoag's fiscal year 2001 appropriation, based on retained revenue, was \$900,000. However, near the end of the fiscal year, more than \$250,000 remained in the account, with no plans for golf course improvements. Furthermore, although capital funds were also appropriated over many years, drainage problems they were meant to address were not corrected. Continuing and newly identified internal control issues are summarized below.

- As noted in a prior audit, MDC employees responsible for collecting revenues were not bonded. As a result, there was inadequate assurance that receipts were properly protected or that the Commonwealth would be adequately indemnified against losses.
- The MDC and Ponkapoag needed to improve management and accounting controls over the golf course's receipts and expenditures. Specifically, MDC and Ponkapoag did not have procedures in place to control the use of membership cards or revenue collection activities for tournaments and playing fees and did not adequately monitor golf course expenditures so that spending for maintenance and improvements would proceed in accordance with Ponkapoag's approved budget plan. As a result, there was inadequate assurance that Ponkapoag was properly receiving, recording, and depositing all revenues due and most of the funds budgeted for improvements were not expended.
- The MDC did not update its fee structure to help defray maintenance, operation, and administrative costs. As a result, fees charged at Ponkapoag were considerably lower than those charged by other public golf courses in the area and revenues generated were insufficient to support proper maintenance and needed improvements.
- In response to the audit, MDC officials indicated that they would pursue "blanket" bond coverage for all individuals collecting cash receipts and that they would make several recommended improvements in the areas of cash management and fee structure adjustment. They stated, for example, that a new ID Express System had been purchased to track the play of members and control revenue and that fee increases of \$5 per round, as well as season pass increases, would be filed. These steps should increase resources available for upkeep and improvements. The OSA also emphasized the importance of developing a detailed maintenance plan and needs assessment in order to prioritize and plan for costs associated with work on areas, such as drainage, that are in need of upgrades.

Registry of Deeds Offices

During the OSA's review of Registries of Deeds in the Commonwealth, tests of internal controls were conducted at ten registries at thirteen locations with revenues of \$179.4 million. Six of the registries tested were under the jurisdiction of the Office of the Secretary of State; the remaining four registries were county-controlled. In general, these registries were properly collecting, reporting, and depositing fees and were disbursing funds in compliance with applicable laws, rules, and regulations. However, certain internal control deficiencies, as described below, needed to be corrected in order to properly safeguard assets and maximize operational efficiency.

- Nine of the ten registries tested did not have written internal control plans, which are needed to identify areas of financial and operational risk and to maintain an adequate system of accounting and administrative controls. The Secretary of the Commonwealth took immediate corrective action by filing internal control plans for the registries under his jurisdiction.
- Several registries needed to improve controls over daily transactions by discontinuing the practice of cashing personal checks and by depositing all receipts daily and intact. The audit also made several recommendations for more adequately segregating cash transaction duties for both manual and online services so that the work of one employee can act as a check on the work of another.
- Six registries, with combined revenues of \$107.7 million, did not have adequate bonding coverage for employees who handle cash receipts. As a result, these registries' receipts were not sufficiently safeguarded against potential loss, theft, or misuse.

Review of the Adequacy of Fees Charged for Services by Certain State Agencies

The OSA conducted an audit of the adequacy of fees charged by state agencies for various services, permits, licenses, and inspections. Fee structures and policies were examined at 43 state agencies for which the Executive Office for Administration and Finance (EOAF) has fee-setting responsibilities. In accordance with Chapter 7, Section 3B, MGLs, EOAF is required to annually review fees at these agencies to determine if they are sufficient to defray the cost of associated services provided. State agencies are also required to annually review fees and report instances of fee inadequacy to EOAF. The state agencies reviewed had revenue from fees of over \$637.5 million during fiscal year 2001. Results of this review are detailed below.

- EOAF and state agencies were not complying with requirements that they review fees and initiate action to adjust fees that are not sufficient to defray the costs of provided services. During the 11-year period ended June 30, 2001, only seven of the 43 agencies audited had performed annual reviews of their fees. Moreover, EOAF, contrary to statutory requirement, did not implement its own annual review procedures and did not monitor state agencies to ensure their compliance with review procedures. Because the appropriateness of fee structures was not regularly evaluated, many fees no longer covered the cost of the service provided, and a significant amount of potential non-tax revenue was lost to the Commonwealth. The audit noted, for example, that an increase of only 5% in the fee structure of the agencies included in the review would result in an additional \$32 million per year in non-tax revenue for the Commonwealth.
- Subsequent to the OSA audit, the Legislature increased fees at 12 of the 43 agencies audited.

INITIATIVES

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

Single Audit of the Commonwealth

During fiscal year 2004, the OSA will once again be a partner with the private auditing firm, Deloitte and Touche, in performing the Single Audit of the Commonwealth, a comprehensive annual audit of the Commonwealth as a whole that encompasses the accounts and activities of all state agencies. This audit satisfies the federal and state requirements to audit the Commonwealth of Massachusetts' financial operations consisting of its accounts, programs, activities, funds, and functions, as well as specified compliance issues.

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

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

- Federal student assistance programs at selected colleges, including Massasoit Community College, Quinsigamond Community College, Roxbury Community College, and Salem State College;
- Federal grant programs at the Committee on Criminal Justice;
- Federal programs at the Department of Housing and Community Development;
- Federal programs at the Department of Social Services; and
- Federal programs at the Massachusetts Rehabilitation Commission.

Elevator Inspections

The OSA is conducting an audit of the Bureau of Elevator Inspections in the Department of Public Safety to determine whether elevators are being inspected in a timely and thorough manner in accordance with state requirements.

Department of Food and Agriculture: Pesticide Bureau

The OSA is conducting an audit to determine whether the Commonwealth's Department of Food and Agriculture's Pesticide Bureau is efficiently and effectively administering and enforcing state and federal pesticide laws and regulations, including relevant provisions of the Children's Protection Act of 2000. The audit will include, but not be limited to, a review of the Bureau's (1) license and permit process, including the setting and collection of fees; (2) activities in response to allegations of pesticide misuse as well as substantiated violations; (3) inspection records for pesticide dealer and producer establishments; (4) policies and procedures regarding the protection of children from pesticides; and (5) policies and procedures for safeguarding ground water drinking supplies from pesticides.

Statewide Review of Consultant Use

The OSA is reviewing and analyzing controls over consultant contracts at selected agencies, as well as agency compliance with applicable laws, rules, and regulations. The audit will include, but not be limited to, an examination of contract payments, performance standards, and duration. Issues such as whether state agencies are paying more for services than necessary or are allowing consultants to supervise or replace state workers will also be addressed.

Statewide Review of Accounts Receivable

The OSA is conducting an audit to determine whether state agencies are effectively and efficiently managing their accounts receivable. Based on a preliminary analysis, certain agencies have been selected for detailed review. The major focus is on receivables that are over 90 days old and on policies and procedures for collecting funds owed and for writing off uncollectible bills.

AUDIT SUMMARIES

Information Technology

During the report period, the OSA's Information Technology (IT) Audit Division issued 21 audit reports detailing strengths and weaknesses of internal controls within IT-related areas.

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

Audit objectives for information systems include determining whether adequate controls are in place to provide reasonable assurance that control objectives regarding security, integrity, and availability will be met. This Division may also examine financial-related controls, which are generally reported in integrated IT and financial audits. Due in part to heightened security concerns at all levels of government, audit work during this report period has continued to be largely focused on evaluating general security controls over and within the IT processing environment. Audit results during this report period that warrant management attention disclosed issues in a number of areas, including disaster recovery and business continuity planning, environmental protection and physical security, system access security, and administrative and inventory controls. The following section highlights areas of common or repeated audit findings.

Disaster Recovery and Business Continuity Planning

The overall objective of disaster recovery and business continuity planning is to provide reasonable assurance that mission-critical or essential computer operations can be restored within acceptable periods of time in the event of significant disruptions or loss of processing capabilities. Other contingency planning objectives are to ensure employee safety; to safeguard data, programmed software, and critical documentation; to minimize security exposures and system damage; and to reduce the time required to recover from system disruptions or failure.

- The Berkshire Probate and Family Court and the Westfield District Court did not have documented formal business recovery strategies or contingency plans to address the loss of mission-critical application systems residing on the Administrative Office of the Trial Court's (AOTC) file servers in Cambridge. The OSA recommended that both courts, in conjunction with AOTC, develop and implement a business continuity strategy that includes identification of an alternate operational site, plans for on-site and off-site storage of backup copies of computer media and hardcopy files, and periodic testing. Until business continuity plans are developed, reviewed, and tested, these courts are at risk of losing critical processing capabilities that support judicial functions, such as warrant management, case tracking, and fee collections.
- Bunker Hill Community College did not have a formal, tested business continuity plan for the timely restoration of critical data processing operations should automated systems be rendered inoperable or inaccessible. Without adequate recovery strategies, including a viable alternative processing site, the College's administrative and academic activities would be seriously disrupted should automated systems be lost for an extended time. The OSA recommended that Bunker Hill Community College perform a risk analysis and criticality assessment, and then develop and implement appropriate recovery policies.
- The Department of Youth Services did not have a documented and tested disaster recovery and business continuity plan for the timely restoration of mission-critical and essential business functions should its automated systems be rendered inoperable or inaccessible. The OSA recommended that the Department assess the criticality of its computer systems to identify application priorities, conduct a risk analysis, and then develop, review, test, and implement plans and procedures for the timely restoration of business functions.

Environmental Protection Controls and Physical Security

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

- The University of Massachusetts-Boston needed to improve certain environmental protection and security controls. Specifically, the location of the University's computer center, below four greenhouses, created a significant risk of water damage to automated systems. The OSA recommended the installation of water detectors and elevation of the file servers in the computer center. In addition, physical security controls over the computer center and hub networking closets needed to be strengthened.
- The Plymouth Superior Court needed to improve door and window security. Court officials were unable to provide a current list of holders of keys to exterior doors or provide evidence that formal policies and monitoring procedures existed regarding key management. As a result, it could not be determined whether issued keys were assigned only to active employees, or if prior employees had returned their keys. Furthermore, only five of twenty doors and none of the windows at the courthouse had sensors connected to the burglar alarm system; and some windows could not be locked.

Inventory Controls: IT-Related Assets

All state entities are required to keep complete inventories of IT resources, such as computer equipment and software, to ensure that these fixed assets are properly safeguarded, accounted for, and only used for authorized and intended purposes. In addition, with respect to software, inventory records and periodic tests should be used to help prevent unnecessary software expenditures, software copyright infringement, and loss or theft of software products. Prevention of the unauthorized installation and use of software also decreases the risk of importing viruses, helps to ensure the integrity of data files, and protects agencies and individuals from the risk of legal action for copyright infringement.

- Northern Essex Community College needed to complete and update fixed-asset records so that they include accurate information regarding value, location, tag number, and status for each inventory item. Although the audit found no items missing, 69 items valued at \$47,336 could not be found on College inventory records, and 28 items, valued at \$25,589, had not been properly retired to the approved surplus listing. Comprehensive inventory records help to safeguard fixed assets and to ensure that they are accurately reported on financial statements.
- The Quincy Mental Health Center had not tagged all computer equipment or updated the location designation for all IT-related items on its inventory record. In addition, the inventory record had incomplete historical cost data and acquisition dates, information necessary for the preparation of accurate financial reports. Finally, the Center did not maintain an inventory record of software. As a result, the Center could not adequately account for software products residing on its computers and lacked information needed to determine whether only authorized software was installed on its systems.
- The Plymouth County Superior Court did not maintain a current, accurate, and complete inventory record to properly account for IT-related assets. Although the Administrative Office of the Trial Court had initiated a statewide inventory of IT resources and provided the Court with an informal list of its computer equipment, the Court had not performed a required physical inventory and did not maintain data regarding the cost and acquisition dates of equipment items. As a result, the Court could not be assured that its fixed assets were adequately safeguarded or accurately recorded on the inventory system of record and on financial reports.

System Access Security

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

- The Boston Housing Authority needed to strengthen procedures for deactivation of user IDs and passwords. The OSA found active user accounts existed for nineteen individuals no longer employed by the Authority. In addition, passwords were not periodically changed. When notified of these matters, the Authority took immediate action to deactivate the nineteen identified user accounts. Authority officials also agreed with OSA recommendations that the Authority's Human Resources Department be responsible for notifying the MIS Department of changes in job status that necessitate deactivation of user IDs and passwords and that passwords be changed on a scheduled basis.
- The Plymouth County Superior Court needed to take steps to assure that access privileges no longer authorized or needed would be deactivated in a timely manner. During the audit period, user IDs and passwords were still active for eight out of 28 individuals who were no longer employed by the Court. Furthermore, there were no procedures for the regular change of passwords, and passwords had not been changed for a significant period of time. The OSA recommended that the Court, in conjunction with the Administrative Office of the Trial Court, establish a formal procedure for the appropriate deactivation of, or changes to, user privileges. Procedures should also be implemented for creating, assigning, monitoring, and deleting passwords.
- The Hampshire Probate and Family Court did not have procedures in place to ensure that levels of computer access privileges would be appropriate and that timely action would be taken to close user accounts for those no longer employed by the Court or requiring access to its systems. The audit particularly noted that twelve out of eighteen employees, including staff of varied positions, had access to sensitive adoption information. The OSA recommended that Court management strengthen system access security by assuring that multi-level user access to applications containing sensitive information be commensurate with job classifications and be on a need-to-know basis. In addition, passwords were not changed on a regular basis, and there was no minimum or maximum number of characters for passwords. Password administration guidelines were needed to address password composition, length, and frequency of change.

INITIATIVES

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

Computer Data Security

The OSA will obtain and review enterprise security policies and procedures established by the state's Information Technology Division to identify key control areas and mechanisms across various state agencies. The scope of the audit will include reviewing state agencies' overall compliance with the Commonwealth of Massachusetts Information Technology (IT) Architecture and Enterprise Standards. The audit will initially survey selected state agencies to obtain information regarding: (1) their awareness of the Commonwealth's IT standards, guidelines, and policies; (2) the existence of policies and procedures for compliance; (3) the filing of relevant information with state information repositories; and (4) the extent of an agency's reliance on contract employees in complying with state regulations. Based on the results of the audit survey, certain state agencies will be selected for an on-site review including interviews with key security and management staff.

Court Initiatives

During fiscal year 2003, the IT Audit Division completed a variety of court-based audits including Probate and Family Courts, Housing Courts, and Superior Courts. The Division's continuing court initiative for fiscal year 2004 will include completion of an audit of the oversight agency for all courts, the Administrative Office of the Trial Court. The audit will encompass a comprehensive review of IT organization management, including organizational structure, IT strategies and tactical plans, the degree of documented IT policies and procedures, and quality assurance function. In addition, the audit will review physical security and environmental protection over IT resources, system access security, and inventory control.

College and University Controls over Computer Equipment

The OSA will conduct a review at state colleges to determine whether appropriate internal controls are in place to provide reasonable assurance that computer equipment is properly accounted for and safeguarded. The review will include an evaluation of procedures to properly identify and report on lost or stolen equipment. In addition, relevant aspects of the institution's internal control structure will be assessed to determine whether internal controls have been suitably designed and implemented to safeguard Commonwealth assets and are in compliance with the Comptroller's Internal Control Guides and Chapter 647 of the Acts of 1989.

DIVISION ACTIVITIES

The Bureau of Special Investigations

The Bureau of Special Investigations (BSI) was made a division of the Office of the State Auditor under provisions of Section 12 of Chapter 184 of the Acts of 2002. Previously, BSI operated as an office under the Department of Revenue.

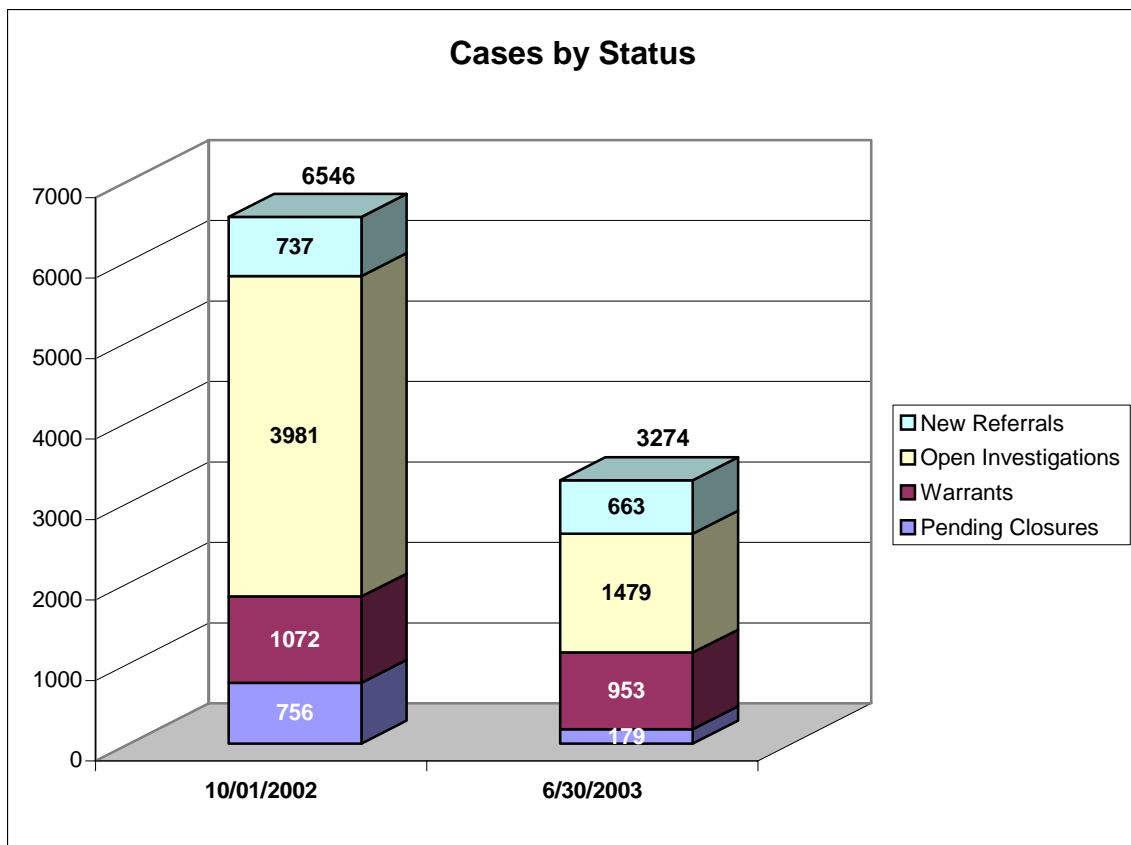
BSI is charged with investigating potentially fraudulent claims for or wrongful receipt of payment or services under public assistance programs. The division receives complaints and allegations of fraud from various state agencies, as well as from the State Police, the general public, and recipients.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

Highlights of BSI activities and accomplishments are detailed below. BSI, in compliance with statutory requirements, has also issued an Annual Report, which can be obtained by calling the OSA.

- During its first four months as an OSA division, BSI completed work on 35% of the 6,654 cases that were pending at the start of the transition. The caseload, as of February 1, 2003, had been reduced to 4,353 and more than \$1.6 million in fraud had been identified and properly referred for prosecution or recoupment. Monthly reports from February through June indicate a further, consistent reduction in caseload backlog and a continuing increase in recovered revenue.
- BSI receives approximately 80 new referrals regarding potential fraud each month, about half of which relate to alleged Medicaid fraud. With respect to potential Medicaid fraud, BSI focuses a considerable portion of available resources on drug diversion investigations. These investigations involve MassHealth recipients who use their benefits to fraudulently obtain certain prescription drugs, which are then either abused by the recipient or sold on the street at a substantial profit. In many instances, recipients conspire with providers in obtaining these drugs and both need to be appropriately investigated and referred for criminal prosecution. These investigations are often conducted jointly with the Federal Drug Enforcement Administration, the Food and Drug Administration, the State Police, and local police departments.

Division Activities

- Another area in which a high incidence of Medicaid fraud has been identified is the Personal Care Attendant Program, where falsified timesheet submissions have enabled certain caregivers to receive payment for services that were not provided.
- BSI also investigates about 40 referrals per month relative to Department of Transitional Assistance programs, as well as occasional referrals from the Department of Social Services and the Office of Childcare Services. The majority of referrals involve eligibility issues such as unreported assets and income and false identities. With respect to food stamp issues, efforts have been focused on eligibility fraud and allegations of food stamp trafficking. Food stamp trafficking is a particularly serious offense whereby a recipient and a retailer conspire to convert food stamps into currency. Typically, the recipient receives a cash equivalent of about 50% of the amount that could have been used to purchase food. The retailer debits the recipient's account for the full amount, keeps 50% of the cash, and retains his entire inventory since no food was bought. This criminal activity, which appears to be an increasing problem, not only defrauds and undermines the food stamp program, but also deprives needy children of food and increases their vulnerability to malnutrition and illness.
- BSI plans an increased emphasis on fraud prevention. To that end, BSI will seek to utilize focused sampling and testing techniques to identify areas of particular vulnerability to fraud, which may involve departmental procedures and regulations, agency oversight of providers, and patterns of fraud. BSI managers are currently working with the OSA/MIS Division to develop a database application that will further support fraud prevention activities.



Division of Local Mandates

The Division of Local Mandates (DLM) was established by Proposition 2½ to determine the financial impact on cities and towns of proposed or existing state laws and regulations. Section 27C of Chapter 29 of the General Laws generally provides that any post-1980 law or regulation imposing service or cost obligations on cities, towns, regional school districts, or educational collaboratives shall be effective only if locally accepted or fully funded by the Commonwealth. Any protected party aggrieved by such a law or regulation may petition Superior Court to be exempted from compliance until the necessary state funding is provided. DLM's determination of the cost imposed may be offered as prima facie evidence of the state funding necessary to sustain the mandate.

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

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

Through these functions, DLM works to ensure that state policy is responsive to local fiscal realities, so that cities and towns can maintain autonomy in setting municipal budget priorities.

The following section highlights examples of this work during the reporting period.

Mandate Determinations and Legislative Studies

Teacher Induction Programs

The Worcester School Committee requested an opinion as to whether the Local Mandate Law applies to the Department of Education regulation (603 CMR 7.12) that sets standards for induction programs for teachers, effective October 1, 2001. Among other things, these regulations require an orientation program, assignment of a mentor and support team for teachers in their first year of practice, and annual reporting requirements. DLM issued an opinion that the Local Mandate Law would not apply in this case, because the regulation was promulgated pursuant to provisions of the Education Reform Act, a statute enacted “notwithstanding section twenty-seven C of chapter twenty-nine.”

Even though Proposition 2½ established a general rule that the state must pay for mandated costs, the State Supreme Judicial Court has ruled that the Legislature can supercede or override its provisions, including mandate reimbursement provisions. “Proposition 2½ is not a constitutional amendment, and although its genesis was in initiative and referendum, its legal status is no different from any other statute.” *Lexington v. Commissioner of Education* 393 Mass. 693, 696 (1985).

Chapter 385 of the Acts of 2002: Criminal Offender Record Information Checks (CORI)

DLM responded to a request from Senator Richard Moore as to whether the expense of CORI background checks mandated by Chapter 385 of the Acts of 2002 would come under the provisions of the Local Mandate Law. Chapter 385 requires that all schools conduct criminal background checks on current and prospective employees, volunteers, school transportation providers, and others who may have direct and unmonitored contact with children. This background information must be obtained from the Criminal History Systems Board, the state agency authorized to provide CORI to certified agencies, at least once in every three years during an individual’s term of employment or service.

The DLM review noted that school departments and other government entities are not required to pay a fee to the Criminal History Systems Board in order to obtain CORI data. Although there are incidental administrative costs related to Chapter 385 implementation, the potential impact of fees was the central issue. Since fees will not be charged, DLM determined that the Local Mandate Law does not apply to Chapter 385 of the Acts of 2002.

Solid Waste Management Regulation

The Massachusetts Municipal Association (MMA) requested that DLM evaluate the Department of Environmental Protection's (DEP) longstanding practice of using "guidance documents" to update regulatory requirements for solid waste disposal. According to MMA, the guidance process imposes significant costs on cities and towns that contract for waste disposal services without sufficient environmental justification, cost benefit, or fiscal effect analysis. DEP defended its use of guidance, a procedure by which it can communicate new interpretations of existing statutes and regulations, and contended that it does receive sufficient municipal and industry input through various means, including advisory committees. Although the guidance process does not fall under the Local Mandate Law, the State Auditor did record his support, with one reservation, for Senate 1213, An Act Relative to Certain Municipal Costs. This legislation would subject DEP policies established through "guidance documents" to the same administrative procedures required of DEP draft regulations, and also require DEP to file a "Regulatory Impact Statement" when proposing guidance policies.

The Office of the State Auditor supported the intent of Senate 1213, which is to give municipal officials additional environmental and cost-benefit review of mandates implemented through guidance. However, the OSA would recommend that minor agency guidance that is cost-neutral be exempted from the legislation. This would enable DEP to continue to communicate minor changes in agency interpretation of existing statutes and regulations through guidance. The OSA also suggested that the Local Government Advisory Committee be designated to establish the criteria for determining when guidance proposals would be subject to Senate 1213 provisions.

Municipal Relief

In February 2003, the Division of Local Mandates offered recommendations to the Special Committee to Recommend Mitigation for Local Aid Cuts, which was created by a Senate Order adopted on January 16, 2003. These recommendations, summarized below, would provide opportunities for cost recovery, targeted state funding, or relaxation of state mandates for the duration of the current fiscal crisis.

1. Special Education/Medicaid Funding

- Cities and towns are eligible for Medicaid reimbursements for medically necessary services provided to Medicaid insured students as part of their special education programs. Currently, most cities and towns participate in this program and collectively receive over \$90 million in federal Medicaid reimbursement. However, research conducted by DLM indicates that many communities have not maximized funding under this program. To promote greater utilization of this source of federal money, DLM recommended that the reimbursement be earmarked for the school budget rather than the general municipal budget. Such earmarking would serve as an incentive and reward for the extra effort required to capture this revenue.

2. English Immersion

- Our initial research, based on a municipal request, indicated that the English Immersion Law passed by citizens' initiative will result in significant start-up costs for affected communities. The mandated costs would be incurred in the areas of books, materials, and teacher training. Communities would be required to meet these costs early in fiscal year 2004 based on the Act's September 2003 implementation schedule. Consideration should be given to providing targeted state assistance to these communities.

Follow Up: The federal No Child Left Behind Act of 2001 authorizes \$6.3 million for Massachusetts English acquisition programs. The Massachusetts Department of Education distributed this funding to 47 municipalities in September, 2003.

3. Suspension of Solid Waste Disposal Restrictions: 310 CMR 19.00

- Department of Environmental Protection (DEP) regulations adopted in 1993 mandate that solid waste facilities reject deliveries containing recyclable paper, plastic, metal, glass, and yard waste. These "waste bans" effectively mandate that all cities and towns initiate or expand municipal recycling programs. Since 1992, the State Auditor's Office has:
 - Documented that curbside recycling can impose costs on cities and towns;
 - Issued a determination that the waste ban regulations are an unfunded state mandate;
 - Repeatedly recommended that the major share of Clean Environment Fund (CEF) revenue (\$37 million in fiscal year 2003) support state recycling mandates on cities and towns, as intended by 1989 Bottle Bill amendments;
 - Documented that DEP's Hazardous Waste Oversight Program has consumed the largest share of CEF revenue over the life of the fund.
- If increased funding cannot be provided, a temporary relaxation of waste bans for non-hazardous materials would provide municipalities with the flexibility they need to make decisions based on the economic and environmental impact of recycling programs. The full waste ban program could be reinstated when CEF funding incentives can be offered to cities and towns.

Follow Up: The FY 2004 Budget repealed the Clean Environment Fund provisions of the bottle bill and reduced municipal recycling grants without relaxing waste restrictions.

4. Gun Control Act of 1998: Retained Municipal License Fee Revenue (Chapter 180 of the Acts of 1998)

- In August 1999, the OSA issued an opinion that the Gun Control Act of 1998 would impose additional costs that are subject to the provisions of the Local Mandate Law. Consequently, DLM recommended consideration of several amendments to the law. After conducting a 30-municipality survey, DLM found that the average municipal unit cost of processing license renewals was \$29. Every municipality surveyed had unit costs above the \$12.50 share of the uniform \$25 fee set by the law. Therefore, DLM recommended that the law be amended to, at minimum, authorize municipalities to retain the entire \$25 fee or to increase the \$25 fee to reflect the true cost of local and state gun license programs.

Follow Up: The FY 2004 Budget (Sections 428 & 429) raised gun license fees from \$25 to \$100, and authorized municipalities to retain \$25 per license issued.

5. The Beaches Act: Chapter 248 of the Acts of 2000

- DLM's December, 2000 report on the Beaches Act presents a comprehensive review of Sections 1 and 2 of Chapter 248 of the Acts of 2000, as required by that statute. The report also concludes that the Local Mandate Law requires state assumption of the incremental cost to be imposed on cities and towns by Chapter 248. It also provides a preliminary estimate of the cost of increased testing. We estimated that it would cost \$389,070 to finance nine additional water quality tests mandated by Chapter 248 during the 2001 swimming season. This figure is based on our estimate of 585 municipal beaches, and does not include the cost of semi-public beach oversight by boards of health. The law provided for grants to cities and towns sufficient to assume local implementation costs. However, the grant program was never funded. We recommended that the legislature fund this grant program in the FY 2004 budget. No funding was appropriated for municipal beach testing.

INITIATIVES

Medicaid Reimbursements for Special Education Medical Services

During this reporting period, DLM completed research, data collection, and analysis relative to the Municipal Medicaid Program. The primary purpose of this work was to follow up on recommendations this office has made to ease the local financial burden of supporting special education services. Among other things, the 1991 *State Auditor's Report on Special Education in Massachusetts* offered a number of suggestions relative to federal Medicaid reimbursement for medically related special education services. This upcoming report will chronicle the financial benefit to cities, towns, and regional school districts since program inception and make recommendations projected to increase this source of federal aid by up to \$50 million annually.

Pilot

DLM is providing technical assistance to an organization of cities and towns formed to promote full state funding of payments in lieu of taxes for state owned land as provided by Chapter 53, Sections 13-17, MGLs.

Lottery distribution formula

During this period, DLM reviewed the statutory formula used to distribute Lottery aid to cities and towns. Based on this review, DLM will develop recommendations for possible amendments to the formula, as provided in Chapter 11, Section 6B, MGLs.

PROGRAM ACTIVITIES

Private Occupational Schools: Financial Evaluations

Chapters 75D, 93, and 75C of the Massachusetts General Laws require the Department of Education to license all post-secondary, non-degree-granting business, trade, and correspondence schools operating within the Commonwealth. As part of the licensure process, the Office of the State Auditor is required to annually evaluate each school's financial eligibility for licensure. This consumer protection program was established to ensure that private occupational schools are both academically and financially qualified to operate in Massachusetts.

Prior to licensure by the Department of Education, each applicant is required to submit financial statements to the OSA, which are reviewed to establish the school's overall solvency. Schools determined to be financially sound must then secure and submit to the Department of Education tuition protection in the amount recommended by the OSA.

The OSA is required to annually assess the appropriate tuition protection level for each school. This protection may take the form of surety bond, an irrevocable letter of credit, or a term deposit account payable to the Commonwealth. Each school's coverage is intended to address potential refunds to students resulting from fraud, deceptive student recruitment practices, or a breach of contract by the school.

During fiscal year 2003, the OSA performed financial evaluations of the 159 active private occupational schools financially certified for Massachusetts licensure or registration. The active file consisted of 106 private business schools, 41 private trade schools, 8 private correspondence schools, and 4 registered schools as of June 30, 2003.

Programs of study offered by private occupational schools include appliance repair, bartending, broadcasting, business administration, computer technology, commercial art, fashion design, floral design, holistic health care, home health aide/certified nurses' assistant training, HVAC/industrial technology, massage therapy, modeling, photography, plumbing, sign painting, tractor trailer training, travel, and ultrasound technology.

Appendix

AUDIT REPORTS ISSUED

EDUCATION AUDITS

	<i>Audit</i>	<i>Audit Number</i>	<i>Issue Date</i>
1.	Berkshire Community College/ Berkshire Community College Foundation, Inc.	2001-0190-3	7/11/2002
2.	Bunker Hill Community College: Information Technology-Related Controls	2002-0192-4T	7/11/2002
3.	Cape Cod Community College	2003-0193-3S	4/8/2003
4.	Financial Interrelationship Between: <i>University of Massachusetts/Dartmouth</i> <i>University of Massachusetts/Dartmouth</i> <i>Foundation, Inc.</i> <i>Southern New England School of Law</i>	2002-0210-2O	9/18/2002
5.	Fitchburg State College	2002-0178-12S	11/15/2002
6.	Massachusetts Public Universities' and State and Community Colleges' Recordkeeping Concerning Foreign Non-Immigrant Students <i>University of Massachusetts</i> <i>Mass. Bay Community College</i> <i>Framingham State College</i> <i>Bridgewater State College</i> <i>Worcester State College</i> <i>UMass/Medical School</i> <i>Massasoit Community College</i> <i>Mass. Maritime Academy</i>	2002-5095-10S	10/8/2002
7.	Massasoit Community College-Federal Student Financial Assistance Programs	2003-0197-2S	2/24/2003
8.	North Shore Community College	2003-0202-3S	5/30/2003
9.	Northern Essex Community College: Information Technology and Financial-Related Controls	2001-0201-4C	8/12/2002
10.	Roxbury Community College-Federal Student Financial Assistance Programs	2003-0204-2S	2/24/2003
11.	Salem State College-Federal Student Financial Assistance Programs	2003-0184-2S	2/24/2003
12.	University of Massachusetts/Boston: Information Technology-Related Controls	2002-0214-4T	12/20/2002

HEALTH AND HUMAN SERVICES AUDITS

	<i>Audit</i>	<i>Audit Number</i>	<i>Issue Date</i>
1.	Bass River, Inc.	2002-4464-3C	2/7/2003
2.	Children's Trust Fund and Child Abuse Prevention Board	2001-0082-3S	3/28/2003
3.	Community Group, Inc.	2001-4428-3	2/3/2003
4.	Department of Mental Health-Metro Boston Area Office: Information Technology-Related Controls	2002-0242-4T2	12/23/2002
5.	Department of Mental Health-Metro Suburban Area Office (4 Entities) <i>Medfield State Hospital</i> <i>Westborough State Hospital</i> <i>Quincy Mental Health Center</i> <i>East Suburban Site</i>	2001-0241-3	8/20/2002
6.	Department of Mental Health-Northeast Area- Greater Lawrence Site Office- Chapter 647 Review	2003-0240-12S	6/11/2003
7.	Department of Public Health- Enhanced School Health Services Program	2002-5094-3S	3/25/2003
8.	Division of Medical Assistance- Administration of the MassHealth Program	2002-1374-3S	8/9/2002
9.	Erich Lindemann Mental Health Center- Information Technology-Related Controls	2002-0242-4T1	12/20/2002
10.	Executive Office of Elder Affairs	2003-5014-2S	2/24/2003
11.	Friendly House, Inc.	2002-4450-3C	7/24/2002
12.	Friends of the Shattuck Shelter	2002-4376-3C	6/30/2003
13.	Human Service Providers' Compliance with the State's Salary Reserve Program (16 Entities)	2002-5086-3C	10/29/2002
14.	Irving A. Glavin Regional Center- Chapter 647 Review	2002-0863-12S	10/9/2002
15.	Massachusetts Housing & Shelter Alliance	2002-4451-3C	9/11/2002
16.	Nauset, Inc.	2003-4300-3C	5/23/2003
17.	Quincy Mental Health Center: Information Technology-Related Controls	2002-0265-4T	9/16/2002

HEALTH AND HUMAN SERVICES AUDITS

	<i>Audit</i>	<i>Audit Number</i>	<i>Issue Date</i>
18.	Soldiers' Home in Holyoke- Privatization of X-Ray and EKG Departments	2003-0064-13O	3/3/2003
19.	State Agencies' Compliance with the Operational Services Division's Audit Resolution Policy (38 Entities)	2002-5088-15C	8/20/2002
20.	State Funded Child Care Services (36 Entities)	2001-5083-3	11/13/2002
21.	The Thorndike Street School	2002-4452-3C	12/12/2002
22.	Turning Point, Inc.	2001-4429-3	12/12/2002
23.	Western Massachusetts Hospital	2003-0305-3S	1/22/2003
24.	Wrentham Developmental Center: Information Technology and Financial-Related Controls	2002-0270-4T	10/10/2002

INDEPENDENT AND HOUSING AUTHORITY AUDITS

	<i>Audit</i>	<i>Audit Number</i>	<i>Issue Date</i>
1.	Amesbury Housing Authority	2003-0596-3A	10/17/2002
2.	Arlington Housing Authority	2003-0599-3A	5/9/2003
3.	Ashland Housing Authority	2002-0601-3A	8/1/2002
4.	Athol Housing Authority	2003-0602-3A	3/20/2003
5.	Attleboro Housing Authority	2003-0603-3A	3/28/2003
6.	Barre Housing Authority	2002-0607-3A	7/31/2002
7.	Bedford Housing Authority	2003-0608-3A	9/18/2002
8.	Bellingham Housing Authority	2003-0610-3A	12/20/2002
9.	Boston Housing Authority: Information Technology-Related Controls	2001-0616-4	8/23/2002
10.	Bourne Recreation Authority	2002-0844-2A	7/19/2002
11.	Charlton Housing Authority	2003-1279-3A	8/27/2002
12.	Chelmsford Housing Authority	2003-0630-3A	3/20/2003
13.	Cohasset Housing Authority	2003-0636-3A	2/7/2003
14.	Dennis Housing Authority	2003-0642-3A	6/30/2003
15.	Essex Housing Authority	2003-0649-3A	4/3/2003
16.	Fitchburg Redevelopment Authority	2002-0656-3A	7/26/2002
17.	Georgetown Housing Authority	2003-0664-3A	1/28/2003
18.	Grafton Housing Authority	2003-0666-3A	11/20/2002
19.	Greater Lawrence Sanitary District	2003-0582-3A	3/6/2003
20.	Groveland Housing Authority	2003-0929-3A	2/27/2003
21.	Halifax Housing Authority	2003-1287-3A	12/18/2002
22.	Hanson Housing Authority	2003-0902-3A	5/30/2003
23.	Holden Housing Authority	2003-0676-3A	6/6/2003
24.	Hopkinton Housing Authority	2003-0681-3A	2/26/2003
25.	Hull Redevelopment Authority	2002-0684-2A	9/6/2002

INDEPENDENT AND HOUSING AUTHORITY AUDITS

	<i>Audit</i>	<i>Audit Number</i>	<i>Issue Date</i>
26.	Kingston Housing Authority	2003-0686-3A	9/30/2002
27.	Lancaster Housing Authority	2003-0687-3A	1/10/2003
28.	Lawrence Housing Authority	2003-0688-3A	10/4/2002
29.	Lee Housing Authority	2002-0690-3A	8/12/2002
30.	Leicester Housing Authority	2003-0691-3A	5/30/2003
31.	Littleton Housing Authority	2002-0833-3A	7/9/2002
32.	Lunenburg Housing Authority	2002-0698-3A	1/13/2003
33.	Lynn Housing Authority	2003-0699-3A	12/17/2002
34.	Lynnfield Housing Authority	2002-0860-3A	7/17/2002
35.	Manchester Housing Authority	2003-0703-3A	5/30/2003
36.	Marshfield Housing Authority	2002-0708-3A	9/6/2002
37.	Medfield Housing Authority	2003-0711-3A	1/10/2003
38.	Medford Housing Authority	2002-0712-3A	8/23/2002
39.	Medway Housing Authority	2003-0714-3A	11/26/2002
40.	Merrimac Housing Authority	2003-0717-3A	11/22/2002
41.	Middleton Housing Authority	2003-0721-3A	6/30/2003
42.	Millbury Housing Authority	2003-0724-3A	8/20/2002
43.	Newburyport Housing Authority	2003-0734-3A	2/26/2003
44.	Norfolk Housing Authority	2003-0841-3A	5/12/2003
45.	Northbridge Housing Authority	2003-0745-3A	12/18/2002
46.	Norwood Housing Authority	2003-0748-3A	6/19/2003
47.	Plainville Housing Authority	2003-0759-3A	4/22/2003
48.	Sandwich Housing Authority	2002-0771-3A	9/6/2002
49.	Saugus Housing Authority	2003-0772-3A	5/7/2003
50.	South Shore Tri-Town Development Corporation	2003-1452-6A	3/31/2003

INDEPENDENT AND HOUSING AUTHORITY AUDITS

	<i>Audit</i>	<i>Audit Number</i>	<i>Issue Date</i>
51.	Southborough Housing Authority	2003-0875-3A	3/24/2003
52.	Southbridge Housing Authority	2003-0780-3A	3/20/2003
53.	Sutton Housing Authority	2003-0791-3A	8/13/2002
54.	Swampscott Housing Authority	2003-0792-3A	6/19/2003
55.	Tewksbury Housing Authority	2003-0796-3A	12/17/2002
56.	Topsfield Housing Authority	2003-0859-3A	3/28/2003
57.	Tyngsborough Housing Authority	2003-1072-9A	4/29/2003
58.	University of Massachusetts Building Authority	2001-0215-3	8/12/2002
59.	Upton Housing Authority	2003-0797-3A	8/23/2002
60.	Uxbridge Housing Authority	2003-0798-3A	6/30/2003
61.	Wakefield Housing Authority	2003-0799-3A	3/10/2003
62.	Warren Housing Authority	2003-0905-3A	6/6/2003
63.	Webster Housing Authority	2003-0807-3A	1/24/2003
64.	Wenham Housing Authority	2003-0832-3A	5/30/2003
65.	West Brookfield Housing Authority	2003-1294-3A	1/10/2003
66.	West Newbury Housing Authority	2003-1295-3A	11/20/2002
67.	Weymouth Housing Authority	2003-0815-3A	12/18/2002
68.	Wilmington Housing Authority	2003-0819-3A	11/20/2002
69.	Winchendon Housing Authority	2003-0855-3A	2/26/2003
70.	Wrentham Housing Authority	2003-0827-3A	4/7/2003

SINGLE AUDITS OF LOCAL HOUSING AUTHORITIES

	<i>Audit</i>	<i>Audit Number</i>	<i>Issue Date</i>
1.	Acton Housing Authority	2002-1011-8F	7/19/2002
2.	Adams Housing Authority	2002-0593-8F2	6/20/2003
3.	Adams Housing Authority	2002-0593-8F1	6/20/2003
4.	Avon Housing Authority	2002-0600-8F	7/9/2002
5.	Barnstable Housing Authority	2002-0606-8F	12/23/2002
6.	Brockton Redevelopment Authority	2003-0622-8F	6/3/2003
7.	Brookline Housing Authority	2003-0623-8F	2/24/2003
8.	Burlington Housing Authority	2002-0625-8F2	7/2/2002
9.	Chelsea Housing Authority	2002-0631-8F	12/6/2002
10.	Danvers Housing Authority	2003-0639-8F	5/29/2003
11.	Dedham Housing Authority	2003-0641-8F	5/30/2003
12.	Holbrook Housing Authority	2002-0675-8F1	6/25/2003
13.	Holbrook Housing Authority	2002-0675-8F3	6/25/2003
14.	Holbrook Housing Authority	2002-0675-8F2	6/25/2003
15.	Leominster Housing Authority	2002-0693-8F2	5/14/2003
16.	Malden Housing Authority	2002-0701-8F	7/25/2002
17.	Mansfield Housing Authority	2002-0704-8F	7/19/2002
18.	Melrose Housing Authority	2002-0715-8F	5/6/2003
19.	Milford Housing Authority	2003-0722-8F	3/28/2003
20.	Milton Housing Authority	2002-1044-8F	5/6/2003
21.	New Bedford Housing Authority	2002-0732-8F	12/6/2002
22.	Newton Housing Authority	2002-0736-8F	12/10/2002
23.	Revere Housing Authority	2003-0765-8F	2/28/2003
24.	Salem Housing Authority	2002-0769-8F	10/30/2002
25.	Salisbury Housing Authority	2002-0834-8F	8/23/2002

SINGLE AUDITS OF LOCAL HOUSING AUTHORITIES

	<i>Audit</i>	<i>Audit Number</i>	<i>Issue Date</i>
26.	Springfield Housing Authority	2003-0785-8F	3/25/2003
27.	Taunton Housing Authority	2002-0794-8F	12/23/2002
28.	Waltham Housing Authority	2002-0801-8F	12/6/2002
29.	Watertown Housing Authority	2002-0804-8F	12/6/2002
30.	West Springfield Housing Authority	2003-0814-8F	5/29/2003
31.	Westfield Housing Authority	2002-0811-8F	5/13/2003
32.	Winchester Housing Authority	2002-0821-8F	7/2/2002
33.	Woburn Housing Authority	2003-0823-8F	6/3/2003
34.	Worcester Housing Authority	2002-0825-8F2	2/26/2003

JUDICIARY/LAW ENFORCEMENT AUDITS

	<i>Audit</i>	<i>Audit Number</i>	<i>Issue Date</i>
1.	Bail Funds and Abandoned Property At Certain Superior and Probate and Family Court Divisions <i>Essex Probate and Family Court</i> <i>Middlesex Probate and Family Court</i> <i>Suffolk Probate and Family Court</i> <i>Essex Superior Court</i> <i>Middlesex Superior Court</i> <i>Suffolk Superior Court</i> <i>Barnstable Superior Court</i> <i>Bristol Superior Court</i> <i>Norfolk Superior Court</i> <i>Plymouth Superior Court</i>	2002-5090-10S	11/4/2002
2.	Berkshire Probate & Family Court: Information Technology-Related Controls	2003-1227-4T	6/2/2003
3.	Berkshire Sheriff's Department	2002-1437-3S	1/24/2003
4.	Berkshire Superior Court: Information Technology-Related Controls	2003-1115-4T	6/19/2003
5.	Cape and Islands District Attorney's Office- Transition Review	2003-1263-3S	3/12/2003
6.	Committee on Criminal Justice	2003-5015-2S	2/24/2003
7.	Department of Correction	2001-0145-3	2/28/2003
8.	Department of Correction Facility and Program Closings: <i>Department of Correction</i> <i>Mass Correctional Institution - Lancaster</i> <i>Mass Correctional Institution - Shirley</i> <i>Southeastern Correctional Center</i> <i>Mass Correctional Industries -</i> <i>Concord Dairy Farm</i> <i>Massachusetts Correctional Industries -</i> <i>Shirley Meat Plant</i>	2002-5096-2S	6/11/2003
9.	Department of Public Safety	2001-0306-3	11/25/2002
10.	Essex County District Attorney's Office- Payroll Review	2003-1257-11S1	5/21/2003
11.	Essex County District Attorney's Office- Transition Audit	2003-1257-11S2	5/21/2003
12.	Hampshire County Probate and Family Court: Information Technology-Related Controls	2002-1226-4T	2/5/2003

JUDICIARY/LAW ENFORCEMENT AUDITS

	<i>Audit</i>	<i>Audit Number</i>	<i>Issue Date</i>
13.	Hampshire Sheriff's Department	2002-1436-3S	11/8/2002
14.	Massachusetts Correctional Institution-Framingham	2002-0148-3S	2/28/2003
15.	Massachusetts Criminal Justice Training Council: Information Technology- Related Controls	2002-0053-4T	12/20/2002
16.	Newburyport District Court: Information Technology-Related Controls	2002-1158-4T	3/31/2003
17.	Newton District Court: Information Technology-Related Controls	2003-1143-4T	6/25/2003
18.	Norfolk County Superior Court: Information Technology-Related Controls	2003-1112-4T	2/5/2003
19.	Norfolk District Attorney's Office: Information Technology-Related Controls	2003-1258-4T	6/25/2003
20.	Plymouth Superior Court: Information Technology-Related Controls	2003-1122-4T	5/12/2003
21.	Suffolk County District Attorney's Office-Transition Review	2002-1255-11S	3/24/2003
22.	Technical Assistance Provided to the Worcester County District Attorney's Office Pertaining to Arson Investigation	2002-6020-9O	10/17/2002
23.	Technical Assistance Provided to the Worcester County District Attorney's Office-Case Involving Personal Check Forgery	2002-6023-9O	4/17/2003
24.	Technical Assistance Provided to the Worcester County District Attorney's Office-Case Involving the Center for Health & Development, Inc.	2002-6025-9O	4/17/2003
25.	Technical Assistance Provided to the Worcester County District Attorney's Office-Case Involving the Former Bookkeeper of a Bellingham-Based Business	2002-6021-9O	4/17/2003
26.	Technical Assistance Provided to the Worcester County District Attorney's Office-Investigation at the Berlin-Boylston School District	2003-6026-9O	1/7/2003

JUDICIARY/LAW ENFORCEMENT AUDITS

	<i>Audit</i>	<i>Audit Number</i>	<i>Issue Date</i>
27.	Technical Assistance Provided to the Worcester County District Attorney's Office-Investigation of a Former City of Worcester Treasurer's Office Employee	2003-6028-9O	1/7/2003
28.	Technical Assistance Provided to the Worcester County District Attorney's Office-Investigation of Former Tax Collector	2001-6012-9	7/29/2002
29.	Technical Assistance Provided to the Worcester County District Attorney's Office-Investigation of the Former Bookkeeper for an Equine Clinic	2002-6019-9O	7/29/2002
30.	Technical Assistance Provided to the Worcester County District Attorney's Office-Investigation of the Former Bookkeeper of a Welding Company	2002-6015-9O	7/29/2002
31.	Technical Assistance Provided to the Worcester County District Attorney's Office-Investigation of the Former Treasurer of the Uxbridge American Legion Post	2002-6024-9O	1/7/2003
32.	Technical Assistance Provided to the Worcester County District Attorney's Office Investigation Involving-Shrewsbury Internal Medicine Clinic	2002-6022-9O	6/5/2003
33.	Westfield District Court: Information Technology-Related Controls	2003-1170-4T	6/30/2003

TRANSPORTATION AUDITS

	<i>Audit</i>	<i>Audit Number</i>	<i>Issue Date</i>
1.	Central Artery/Third Harbor Tunnel Project- Force Accounts	2002-0510-3C4	5/23/2003
2.	Central Artery/Third Harbor Tunnel Project- Management Contingency	2002-0510-3C1	7/22/2002
3.	Central Artery/Third Harbor Tunnel Project- Summary Report	2003-0510-3C5	4/2/2003
4.	Massachusetts Bay Transportation Authority- North and South Station Parking Garage Contracts	2002-0583-3A2	3/28/2003
5.	Massachusetts Bay Transportation Authority- Purchase of Green Line Cars	2002-0583-3A1	9/26/2002
6.	Massachusetts Highway Department- Chapter 647 Review	2001-0506-12	1/22/2003
7.	Massachusetts Highway Department Highway Maintenance Program	2002-0506-3C2	11/4/2002
8.	Massachusetts Port Authority-Review of Lease and Rental Income	2002-0508-2A	10/31/2002
9.	Massachusetts Turnpike Authority- Electronic Toll Collection System	2002-0509-3A	10/31/2002
10.	Merrimack Valley Regional Transit Authority	2003-0496-3A	6/19/2003
11.	Woods Hole, Martha's Vineyard, & Nantucket Steamship Authority	2002-0587-3A	10/18/2002

OTHER AUDIT REPORTS

	<i>Audit</i>	<i>Audit Number</i>	<i>Issue Date</i>
1.	Agency Compliance With State Comptroller's Year-End Closing Instructions for Cash and Revenue Management: Fiscal Year 2002 (48 Entities)	2002-5002-2S	11/22/2002
2.	Agency Compliance with State Comptroller's Year-End Closing/Opening Instruction for Encumbrance Management-Fiscal Year 2002 (90 Entities)	2002-5001-2S	12/23/2002
3.	Agency Compliance with the Office of the State Comptroller's Policies and Massachusetts General Laws and Regulations: Selected Transaction Testing Fiscal Year 2002 <i>Department of Mental Retardation Division of Health Care Finance & Policy Group Insurance Commission Massachusetts State Lottery Commission Northern Essex Community College Board of Higher Education Teachers' Retirement Board Executive Office of Transportation & Construction</i>	2003-5007-2S	2/24/2003
4.	Board of State Examiners of Electricians and Division of Professional Licensure	2002-0111-3C	6/20/2003
5.	Center for Advanced Fiberoptic Applications	2003-4469-3O	10/23/2002
6.	Controls Over Special License Plate Funds <i>Registry of Motor Vehicles Environmental Trust Fund Child Care Quality Fund Massachusetts United States Olympic Fund Barnstable County Commissioners Duke County Commissioners Nantucket County Commissioners Chelsea Soldiers' Home</i>	2003-5101-3O	10/23/2002
7.	Devens Enterprise Commission	2003-1450-3O	5/9/2003
8.	Division of Apprentice Training: Information Technology-Related Controls	2003-1324-4T	5/6/2003
9.	Division of Employment & Training	2003-5016-2S	2/24/2003
10.	Division of Standards: Information Technology-Related Activities	2003-0226-4T	3/24/2003

OTHER AUDIT REPORTS

	<i>Audit</i>	<i>Audit Number</i>	<i>Issue Date</i>
11.	Human Resources Compensation Management System	2001-5082-3S	5/19/2003
12.	Joint Labor Management Committee	2002-1018-2S	7/22/2002
13.	Massachusetts Emergency Management Agency	2002-0016-3	2/11/2003
14.	Massachusetts State Lottery Commission	2002-0089-3S	8/28/2002
15.	Metropolitan Area Planning Council	2002-0056-3O	2/7/2003
16.	Metropolitan District Commission- Ponkapoag Golf Course	2002-0271-2S	5/6/2003
17.	Office of the Chief Medical Examiner	2001-1309-3	7/10/2002
18.	Office of the State Treasurer And Receiver General-Transition Assistance Advisory Report	2003-0085-11S	4/29/2003
19.	Operational Services Division: Selected Information Technology-Related Controls	2002-1414-4F	10/22/2002
20.	Operational Services Division- Statewide Office Supply Contract	2003-1414-17O	4/14/2003
21.	Pension Reserves Investment Management Board (44 Entities)	2002-1333-3	7/15/2002
22.	Processing of Revenue by the Commonwealth of Massachusetts Registries of Deeds 10 Registries of Deeds: <i>Berkshire, Essex, Hampden, Middlesex, Suffolk, Worcester, Barnstable, Bristol, Norfolk, Plymouth</i>	2000-5077-3	8/14/2002
23.	Review of the Adequacy of Fees Charged for Services by Certain State Agencies (43 Entities)	2000-5075-3	10/3/2002
24.	State Auditor's Determination of Whether Net State Tax Revenues Exceeded Allowable State Tax Revenues for the Fiscal Year Ended June 30, 2002 <i>Department of Revenue State Racing Commission State Lottery Commission State Boxing Commission Division of Insurance Office of the Secretary of State Division of Employment & Training</i>	2003-5555-2S	9/17/2002

OTHER AUDIT REPORTS

	<i>Audit</i>	<i>Audit Number</i>	<i>Issue Date</i>
25.	State Racing Commission-Transition Audit	2002-0068-11S	11/6/2002
26.	United States Naval Shipbuilding Museum/ USS Salem	2003-1371-2A	4/8/2003