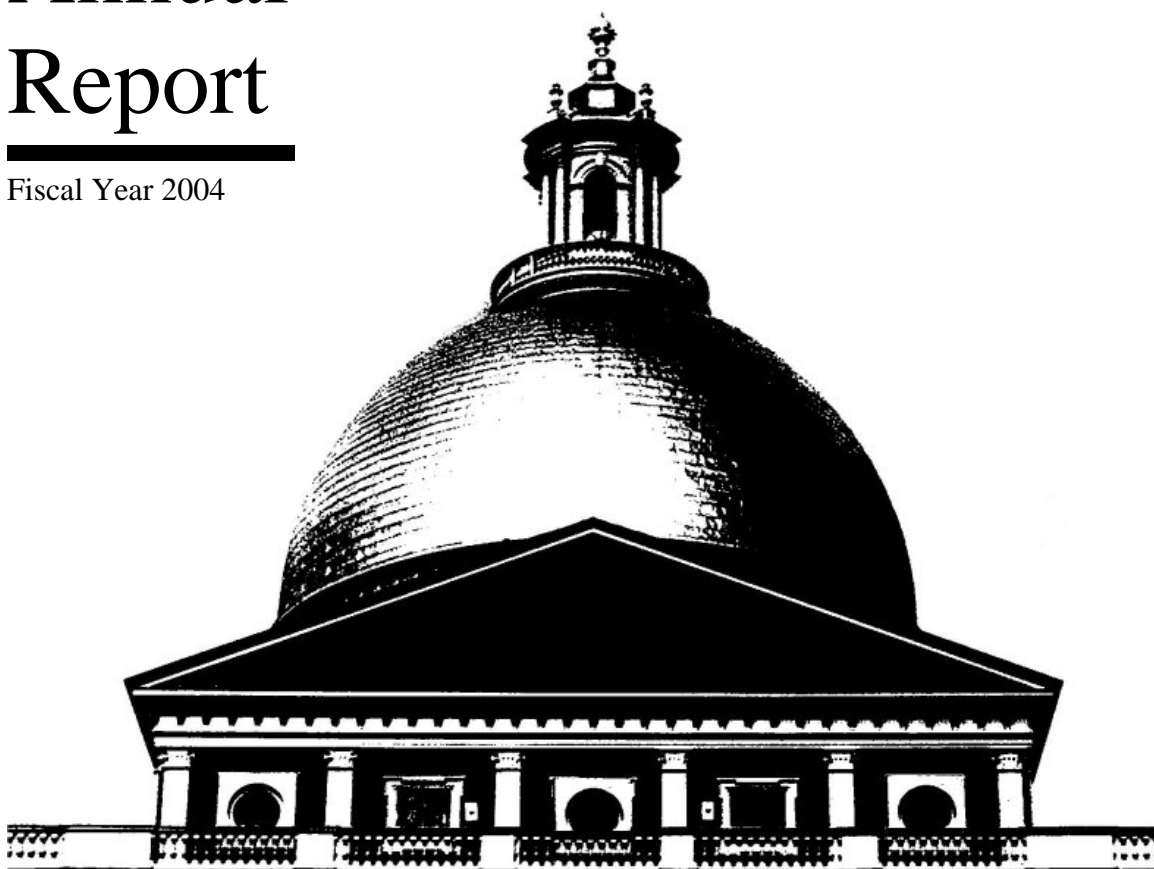


Office of the State Auditor

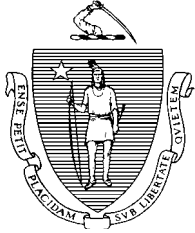
Annual Report

Fiscal Year 2004



Commonwealth of Massachusetts

A. Joseph DeNucci, Auditor



The Commonwealth of Massachusetts

AUDITOR OF THE COMMONWEALTH

STATE HOUSE, BOSTON 02133

A. JOSEPH DeNUCCI
AUDITOR

TEL. (617) 727-2075
FAX. (617) 727-2383

November 2004

His Excellency Mitt Romney, Governor
Honorable Kerry Healey, Lt. Governor
Honorable Robert E. Travaglini, President of the Senate
Honorable Salvatore F. DiMasi, 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, 2003 through June 30, 2004.

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 with recommendations for improving state financial operations and program performance. Of particular interest during this report period, the OSA's Division of Local Mandates (DLM) issued a review of the Municipal Medicaid Program that makes recommendations for maximizing federal funding for health-related special education costs. Among statewide audit activities, the OSA completed reviews of pharmacy operations at state agencies, elevator inspections, Pesticide Bureau operations, and information technology-related controls at the Trial Courts.

Copies of individual audit reports are available by calling (617) 727-2075 or (617) 727-6200. Recent audits, DLM 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 to improve 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 carries out mandated responsibilities relative to privatization initiatives. Furthermore, the Auditor is responsible, under MGL Chapter 11, Section 6B 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 provisions 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;
- Evaluating internal controls to help ensure integrity in financial management systems;
- 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, 2003 through June 30, 2004 the Office of the State Auditor issued 206 reports covering 486 agencies, authorities, institutions of public higher education, human service entities, judiciary/law enforcement entities, vendors, 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 60 education entities. Among these audits were comprehensive reviews of financial operations and a special review of the University of Massachusetts at Boston's Parking and Transportation Trust Fund. In addition, as part of the Single Audit of the Commonwealth, the OSA issued audits of federal student assistance programs at selected colleges, which are also detailed in the section that follows. Also included in this section are a summary of OSA oversight activities relative to charter school compliance with financial reporting requirements and a separate analysis of the audited financial statements that charter schools are required to submit.

Massachusetts Bay Community College

At the request of Massachusetts Bay Community College (MassBay) officials, the OSA conducted a review of the College's accounting methodology and procedures for tuition remission to the Commonwealth. Although public institutions of higher education are allowed to retain fees, as well as tuition collected for continuing education courses, other state tuition must be remitted to the Commonwealth in the fiscal year in which it is received. This audit reviewed the process for determining the amount of state tuition to be remitted and the actual remittance process to determine whether they were sufficient and met the requirements of Section 2 of Chapter 29 of the General Laws. A summary of findings follows.

- MassBay did not have adequate procedures for calculating the correct amount of state tuition collected from students, principally because the software utilized to make calculations did not segregate tuition from fees, and also because written records of student receivables combined tuitions and fees. As a result, MassBay used estimates to determine the amount of tuition money to be remitted to the Commonwealth and, in fiscal year 2003, remitted \$72,430 more than the amount of state tuition collected.
- In reviewing MassBay's accounting records and audited financial statements for fiscal years 1999 through 2003, OSA auditors found a series of accounting errors that compounded the problems of using estimates to determine remission amounts and failing to perform subsequent reconciliations. The analysis found that the balance of \$729,053 in the College's cumulative liability account, titled "Due to State," was understated by \$574,030 as of June 30, 2003. The actual amount owed to the Commonwealth for the five years reviewed was \$1,303,083. At the close of the audit period, MassBay officials were in the process of correcting the identified errors, enhancing their software capacity, and restating the amount due the Commonwealth.

Mount Wachusett Community College

The OSA conducted an audit of financial operations at Mount Wachusett Community College, including internal controls over revenues, expenditures, and contracts. Major findings are summarized below.

- Mount Wachusett Community College did not adequately monitor the contract under which a private firm runs its cafeteria operations. Specifically, College officials did not reconcile cafeteria commission revenue with cash register tapes or internal daily sales reports, and did not require that the contractor's monthly commission remittances provide a breakdown between tax exempt and taxable meal sales. As a result, the College did not have adequate assurance that reported sale amounts were accurate and did not realize that the contractor was not charging and submitting required sales tax on meals sold to non-students. The audit estimated that there was a loss of over \$9,000 in sales tax revenue to the Commonwealth over a seventeen-month period. The College responded that corrective action has been taken on these matters.

- The College had not performed a physical inventory in at least two years, did not properly tag all equipment items, and did not maintain complete inventory records. Of 213 items tested, including computers, office furniture and equipment, vehicles, and athletic equipment, 114 items were in places other than their assigned locations and nine items could not be located. Because of inventory deficiencies, the College could not be assured that its fixed assets were adequately safeguarded or accurately reported on financial statements. College officials responded that a physical inventory was completed in August 2003 and that procedures had been initiated to assure full compliance with inventory control regulations.

Roxbury Community College

The OSA conducted an audit of administrative operations at Roxbury Community College, including contract procurement and controls, cash management, federal grant and trust fund expenditures, and controls over credit card use. The audit reported on activities that took place during the administration of the College's former President and former Chief Financial Officer. The current administration has indicated general agreement with the audit's findings, which are summarized below, and has stated that they are being used to address cited financial management issues.

- Roxbury Community College did not obtain competitive bids for the procurement of consultant services as required by state laws and regulations, as well as by its own guidelines and policies. In addition, the College did not document its rationale for the selection of consultants; sign contracts prior to the provision of services; establish clear compensation rates; or monitor invoices, deliverables, or performance. As a result, there was inadequate assurance that the College contracted for only necessary services, received the highest quality services at the lowest cost, or had an effective mechanism for monitoring contract performance. In addition, the College made overpayments that should be recovered from certain consultants who were reimbursed for undocumented and questionable costs or paid when services had not been delivered.
- The College made improper cash transfers of over \$1 million from federal, state, and trust fund accounts to cover Division of Continuing Education expenses. Most of the transfers were made to meet payroll expenditures. Additionally, in one instance, transferred funds paid for interest and penalties totaling \$26,311 for failure to file payroll tax returns and remit withholding taxes on a timely basis. As a result, the College violated specific prohibitions for the use of federal funds and trust money and potentially jeopardized the purposes for which the funds were provided. The new College administration responded that the transferred funds have been restored to their proper accounts. In addition, initiatives have been implemented, including intensive monitoring of student financial aid payment plans, to help prevent future cash management problems.
- The College did not withhold taxes for, or issue an Internal Revenue Service (IRS) Form W-2 income information statement reflecting fringe benefits received by, the College's former President, such as a housing allowance and a leased automobile. As a result, the College could be assessed penalties by the IRS and the Massachusetts Department of Revenue for failure to report income and properly withhold taxes.

- The College did not have written procedures for the use of credit cards and did not adequately control credit card usage. For example, 40% or \$3,925 of credit card charges from October 2001 through December 2001 were not supported by receipts. In addition, the College incurred \$631 in avoidable late fees and finance charges. College officials responded that the use of institutional credit cards, except for a gasoline credit card, had been discontinued after the departure of the former president.

The University of Massachusetts at Boston: Parking and Transportation Trust Fund

The OSA reviewed the University of Massachusetts at Boston's Parking and Transportation Trust Fund, which provides operating and maintenance monies for the University's parking garage and also funds a shuttle bus service linking the campus and the nearest MBTA station. The audit examined controls over receipts and disbursements, and also reviewed expenditures to determine whether funds were being utilized in accordance with Trust Fund purposes and applicable laws, rules, and regulations. The review disclosed that the University expended some of the revenues for purposes not related to the operation of either the garage or the shuttle bus service, as summarized below.

- During fiscal year 2002, the University expended over \$200,000 (approximately 6% of total expenditures) from the Parking and Transportation Trust Fund for salaries, fees, administrative charges, and electricity billings unrelated to parking and transportation operations. As a result of this revenue diversion, needed garage maintenance and repairs were deferred, and the garage's deteriorated physical condition created a potential safety hazard. In fact, while the audit was in progress, a portion of the upper level floor of the garage collapsed. Following this incident, an area that had provided parking for 131 vehicles had to be roped off. This area had not been repaired as of the close of the audit period, resulting in a significant loss of revenue in addition to ongoing safety concerns.
- The University concurred with the OSA's recommendation that Parking and Transportation Trust Fund expenditures be restricted to the purposes for which the Trust was established, and that revenues that had previously been diverted be dedicated to garage maintenance. University officials also stated that they were taking immediate steps to improve the condition of the garage and were continuing to pursue longer range plans to totally rehabilitate the facility.

Audits of Federal Student Assistance Programs

The OSA, in conjunction with the Single Audit of the Commonwealth, completed four reviews of student financial assistance programs funded through the United States Department of Education (DOE). Except for the few deficiencies noted below, all of the schools had satisfactorily addressed issues noted in prior audits and were in compliance with federal student financial assistance laws and regulations.

- *Massasoit Community College* had taken corrective actions to resolve all previously noted findings by improving its student verification process, by properly notifying the National Student Loan Data System when students receiving financial aid graduate or withdraw by accurately calculating refunds, and by documenting loans provided under special circumstances.
- *Roxbury Community College* took corrective action to resolve most of the issues identified in prior student financial assistance audits. College officials had established procedures to identify students who leave school without notification and to review the academic progress of each student receiving financial aid, prior to the beginning of every semester. The College is also distributing required information to students through a student financial aid handbook and both website and hard copies of its College catalog. In addition, the College returned to the federal government \$3,901 that had been awarded to students later deemed by DOE to have been ineligible for student financial aid.

However, certain areas of student financial aid administration still needed improvement, such as the verification process for assuring that Pell Grant funds are awarded only to students who have a high school diploma or its equivalent. In addition, the College was still not entering its student assistance funding on the Massachusetts Management Accounting and Reporting System (MMARS) on a monthly basis and properly reconciling information on MMARS with its internal records. As a result, the College was unable to verify that financial reports required under state and federal regulations were complete and accurate.

- *Quinsigamond Community College* needed to improve its procedures for handling outstanding or returned checks. As of the close of the audit period, the College had 102 checks totaling \$30,921 that had been outstanding from one to three years and should have been transferred to the State Treasurer's Abandoned Property Fund. The College, which was transferring checks that were more than three years old, responded that it would comply with state requirements that checks unclaimed for more than one year be transferred.
- *Salem State College* had satisfactorily resolved all issues identified in its prior student financial assistance audit. The College was properly calculating and returning refunds for students who left school without notification, was refunding credit balances due to students within the required fourteen-day period, and was properly reconciling its cash accounts to appropriate bank statements. Officials had also updated the College's Internal Control Plan, as required, and improved the accuracy of fiscal reports submitted to state and federal oversight agencies.

Charter Schools: Review of Financial Reports

Charter schools are public schools that receive most of their funding from the state, but operate generally independent of local school districts. The OSA performed an analysis of the financial reports that charter schools are required to submit under provisions of Section 89 of Chapter 71 of the Massachusetts General Laws. One school, the New Leadership Charter School, had not filed a copy of its financial statements with the OSA before audit fieldwork was completed and, therefore, was not included in this review. The purpose of the financial analysis was to obtain an understanding of the overall financial strength of each charter school in terms of its ability to continue to operate and adequately meet its financial obligations. Results of this review are discussed below.

- Based on net income and asset amounts, as well as other financial measures, such as a school's ability to meet its cash obligations, most charter schools were found to be in a fiscally sound condition. For fiscal year 2003, 38 of the 48 charter schools had net income ranging from \$4,159 to \$1,037,799, with an average of \$254,239. Further, in fiscal year 2003, 24 charter schools reported net income equal or greater than 5% of their total revenue, ranging from 5% to 24%, with the average being 11.3%.
- Although the majority of charter schools had surplus revenue in fiscal year 2003, nine charter schools had net losses. The losses ranged from \$1,785 to \$307,442, with an average of \$116,394. One school, the Sabis Foxborough Regional Charter School, had operating losses for both fiscal year 2002 and fiscal year 2003. However, a related-party organization subsequently reduced its management fee by the amount of the losses, thus allowing the school to operate on a break-even basis.
- Cumulative net assets of the charter schools reviewed were \$54,975,231 as of June 30, 2003.

Charter School 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 2003, the OSA sent all charter schools a notice reminding them that they are required to have an annual independent audit report performed and to send a copy to the OSA and the Department of Education.

The OSA received independent audit reports for 49 charter schools during fiscal year 2004. Desk reviews were conducted on each report, and schools were notified of any areas of concern and requested to take corrective action.

INITIATIVES

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

Review of Tuition Remission Policies at State Colleges and Universities

The OSA will review and evaluate the tuition remission policies for colleges and universities in the Commonwealth. The audit will include a determination of how tuition is accounted for and remitted to the Commonwealth, what systems and controls are in place to account for all tuition, what methods are used to classify tuition charges, and whether all financial records relating to tuition remission are complete, accurate, and up-to-date. Spending estimates, as opposed to actual tuition remittances, and the software used by the colleges to track tuition remissions will also be reviewed.

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 2004, the OSA issued 29 audits pertaining to health and human service agencies, contractors, and activities. Audit work in this area covers activities administered under the Executive Office of Health and Human Services and the Executive Office of Elder Affairs . 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 the Department of Public Health's Nursing Home Complaint System and Pharmacy Operations at State Agencies.

Department of Social Services

The OSA, in conjunction with the Single Audit of the Commonwealth for the fiscal year ended June 30, 2003, conducted a review of the financial activities of the Department of Social Services (DSS). The audit reviewed prior findings, assessed internal controls, and evaluated compliance with laws, regulations, and requirements governing federally funded DSS programs. The audit found that DSS had resolved an issue involving the monitoring of subrecipients of its Block Grant federal funding. However, certain unresolved and subsequent issues relative to criminal background checks and home licensing of foster care providers were disclosed, as summarized below.

- DSS did not perform timely re-evaluations of Criminal Offense Record Information (CORI) checks for persons providing foster care services. Twenty percent of cases tested were not in compliance with federal requirements. Moreover, instances were noted where CORI checks were overdue by more than a year after a child was placed in a home, and still had not been performed at the time of the audit. In addition, as of July 2003, 641 children were placed in foster homes prior to the home being licensed, of which 370 exceeded the 40 days emergency placement allowed. These deficiencies could affect the safety of children in state care and jeopardize DSS's eligibility for certain federal Block Grant reimbursements.
- The monthly DSS report issued to area agency personnel to monitor foster care provider licensing and criminal background checks had a 67% error rate. The OSA review of more than 4,000 foster care case records in the agency's computerized Family Net system found missing and inaccurate information, including missing criminal background checks, and overdue annual provider reassessments. In one instance, a home approval had been issued although a required criminal background check had never been completed. The high error rate in the database system DSS used to make home approval decisions created an increased risk that children could be placed or allowed to remain in unsafe homes. The OSA recommended that DSS develop and implement a central office oversight control process that includes periodic reviews of monthly reports and case information entered on the Family Net system to ensure that information related to foster care cases and licenses is properly recorded and current.

Massachusetts Rehabilitation Commission

The OSA, in conjunction with the Single Audit of the Commonwealth for the fiscal year ended June 30, 2003, conducted a review of the Massachusetts Rehabilitation Commission (MassRehab). The audit reviewed prior findings, assessed internal controls, and evaluated compliance with laws, regulations, and requirements governing agency programs funded by the United States Department of Education and the Social Security Administration. During fiscal year 2003, MassRehab received \$123 million in appropriations, \$78 million of which was provided by the federal government.

- MassRehab had taken steps to address prior audit findings relative to reporting the value of its fixed assets and developing a business continuity plan for restoring mission-critical and essential functions should its automated systems be rendered inoperable. However, the audit noted that reconciliations between physical inventories and in-house records needed to be made at the close of the fiscal year in order to assure the accuracy of fixed-asset values reported on financial statements. The audit also found that although MassRehab had developed and documented a disaster-recovery plan, it had not yet fully tested or implemented it. MassRehab officials responded that they were in the process of fully addressing both issues.

Department of Public Health: Review of Nursing Home Complaint System

The OSA conducted an audit of the Department of Public Health (DPH)'s procedures for addressing complaints involving patient abuse and neglect in long-term care facilities. The audit also examined relevant policies and activities of DPH's Division of Health Care Quality, which is responsible for evaluating, investigating, resolving, and reporting on individual complaints. During the period under review, the Division handled approximately 600 complaints of patient abuse. The audit found that both DPH and its Division of Health Care Quality were performing their duties appropriately and were in general compliance with applicable laws and regulations, as summarized below.

- The audit determined that the Division of Health Care Quality, in all material respects, was in compliance with Chapter III of the Massachusetts General Laws and with DPH procedures relative to evaluating, investigating, resolving, and reporting abuse. The only issue raised in the audit involved response times for investigating cases where a resident was not believed to be in immediate danger. DPH has interpreted the statutory time frame of "seven days" for investigation of this category of report to mean seven business days or nine calendar days. Since the statute does not refer to "business" days, the OSA recommended that DPH revisit this issue and, at minimum, seek a legal opinion as to whether the nine-calendar day policy is consistent with statutory language.

The Soldiers' Home in Chelsea

The OSA conducted an audit of financial operations at the Soldiers' Home in Chelsea, a state-funded agency that provides long-term care and medical services to Massachusetts veterans who served during a period of war. This review disclosed certain weaknesses within the agency's internal control system, as summarized below.

- The Soldiers' Home in Chelsea did not reconcile the actual amounts in its Resident/Patient Investment Account with investment account records maintained by its Treasurer. This resulted in a discrepancy that, at the time of the audit, had grown to \$360,000. Until this issue is addressed, the Soldiers' Home is limited in its ability to monitor and accurately report its financial activity. Related findings disclosed errors in reporting Assets Held in Trust, inadequate documentation for \$218,340 listed under Accounts Receivable, and an improper transfer of \$95,574 in unclaimed patient funds to the facility's Donation Fund.

- The Soldiers' Home did not perform physical inventories of fixed assets, tag equipment items, or maintain a complete and accurate inventory listing. As a result, its officials could not be assured that the facility's property and equipment were adequately safeguarded and accurately reported on financial statements.

The Soldiers' Home in Holyoke

The OSA conducted an audit of internal controls, financial operations, and fiscal reporting at the Soldiers' Home in Holyoke, a health care facility that operates under the Executive Office of Health and Human Services to provide medical services to eligible Massachusetts veterans. The audit found that the Soldiers' Home had taken corrective action to improve computer hardware and software management and controls. However, several accounting and administrative control deficiencies persisted, as summarized below.

- The Soldiers' Home in Holyoke had not fully developed and implemented written policies and procedures to help ensure the accuracy of its financial transactions, recordkeeping, and reports. Consequently, the facility could not ensure proper accounting and reporting in several operational areas. Specifically, the facility did not prepare monthly trial balances of accounts receivable; post billings, collections, and a monthly accounts receivable balance to the Commonwealth Billing and Accounts Receivable Subsystem; or reconcile its accounts receivable balance monthly. As a result, the Soldiers' Home had a variance of \$587,816 between its in-house records and the Commonwealth's automated records. The audit also noted errors and omissions on required financial reports, expenditures from fiscal year 2002's appropriation for supplies and services received during fiscal years 2001 and 2003, and untimely remittances to the Commonwealth of unclaimed patient funds and sales tax returns.
- In certain areas where the Soldiers' Home had developed appropriate policies, management did not comply with its own procedures. Specifically, the facility did not issue receipts for prescription drug co-payments totaling \$262,909, properly segregate duties relative to cash receipts, or maintain copies of all outpatient client receipts. The facility also did not maintain complete inventory records, which resulted in a substantial understatement of its fixed assets on financial reports.
- Required information was not on file for two out of ten tested procurements. As a result, for these two procurements, which totaled \$42,362, the facility could not document that responses were solicited from qualified bidders, as required, or that the highest quality goods and services were obtained at the lowest price.

The Soldiers' Home in Holyoke: Privatization Proposal

Chapter 7, Sections 52-55 of the Massachusetts General Laws, 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, which apply to contracts of \$200,000 or more, 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 re-submitted a proposal to privatize its X-Ray and EKG departments. The original proposal had been rejected, primarily because Soldiers' Home officials had not solicited competitive bids for the contract. The following is a summary of the State Auditor's determination.

- The State Auditor determined that the one-year contract submitted falls below the privatization law's \$200,000 threshold for contracts to be reviewed. Although the Auditor rendered no opinion on the underlying substantive proposal, he determined that the law was not applicable to this contract. However, the OSA did express concern about the four one-year extension options contained in the contract that, if exercised, would raise the value of the contract well beyond the \$200,000 threshold. Subsequent to the issuance of his determination, the State Auditor requested an opinion from the Office of the Attorney General regarding issues of computing the value of proposed privatization contracts.

East Middlesex Association for Retarded Citizens, Inc.

The OSA conducted an audit of administrative and operational activities at the East Middlesex Association for Retarded Citizens (East Middlesex ARC), a nonprofit organization that provides services to individuals with mental retardation and their families. During its review of the East Middlesex ARC's activities under state contracts, the OSA found that the Department of Mental Retardation (DMR), in violation of state law, used one of these contracts as a fiscal conduit for paying DMR expenses. This issue and findings of certain questionable and unallowable expenditures are delineated below.

- DMR, contrary to Chapter 29, Section 29B, of the General Laws, used a Family Support Contract with the East Middlesex ARC to pay as much as \$355,297 of DMR's expenses from July 1, 1996 through January 31, 2003. These expenditures included more than \$115,000 for food and space rental for conferences, weekend meetings, and staff training. DMR also directed the ARC to process \$38,063 in DMR payroll expenses. In return for processing DMR bills, the East Middlesex ARC received \$18,553 in administrative fees. By processing certain of its expenses through another entity, DMR violated state law and various regulations. Furthermore, the practice resulted in inaccurate financial reporting by both DMR and the East Middlesex ARC, inadequate documentation of expenditures, and increased risk that funds could be misused. Finally, since DMR has its own business office, the \$18,553 in administrative fees was an unnecessary and duplicative expense. As a result of the OSA's audit, DMR officials stated that they have ceased processing DMR expenditures through the East Middlesex ARC.

- The East Middlesex ARC charged to its state contracts \$5,615 in such non-program expenses as flowers and gifts to employees. ARC officials stated that they had considered the small gifts given to employees to boost morale a legitimate business expense. As charged, however, these were not allowable contract expenditures. East Middlesex ARC also paid \$89,770 in bonuses without prior approval from DMR and without having formal procedures in place for providing fringe benefits. In response to these findings, ARC officials issued a procedures manual entitled “Employee Morale, Health and Welfare Activities Policy.” The policy manual, which established procedures for the distribution of tokens of recognition, as well as the awarding of bonuses and other fringe benefits, was accepted by DMR in March 2003.

The George H. and Irene L. Walker Home for Children

The OSA reviewed administrative and operational activities of the George H. and Irene L. Walker Home for Children, a nonprofit organization that provides residential services and day school programs for children with serious learning and behavioral challenges. The audit, which focused on contract compliance issues and administrative controls, identified certain areas in which the documentation and supervision of expenditures could be improved.

- During fiscal year 2002, fourteen staff members used the Home’s corporate credit cards to pay expenditures totaling \$78,038. The OSA examined 611 charges, totaling \$51,955, which were paid through state contracts. Although the Home had established controls over staff use of credit cards, including a requirement that a Payment Request Form, signed by the purchaser and approved by a supervisor, be completed for each item purchased, staff members did not always follow proper procedures. Of the 611 credit card purchases reviewed, 272 (approximately 45%) were not accompanied by the required form and therefore did not have supervisory approval. The audit also determined that 233 charges (approximately 38%) totaling \$17,135 were undocumented, and 17 charges (approximately 3%) totaling \$2,817 were questionable in that the documentation provided no clear indication that the expenses were program-related.
- The Walker Home for Children did not require its salaried employees to complete weekly payroll records documenting their hours worked and the allocation of their time among various programs. As a result, there was inadequate assurance that all of the approximately \$3,872,992 in salaries and related expenses that the Home charged to state contracts for its salaried employees during the audit period was accurate.

NFI Massachusetts, Inc.

The OSA conducted an audit of NFI Massachusetts, Inc. (formerly Northeast Family Institute), a private nonprofit corporation that operates programs under contracts with the Department of Social Services, the Department of Youth Services, the Department of Mental Health, the Department of Mental Retardation, and the Executive Office of Public Safety. The audit examined administrative and operational activities, as well as compliance with applicable laws, regulations, and requirements under state contracts. The audit identified substantial charges that were questionable or unallowable under state contracts. In addition, the audit indicated that contrary to state law and regulations, the Department of Social Services (DSS) used NFI as a conduit to pay at least \$395,287 in DSS expenses that were not related to NFI's contracted activities.

- DSS, contrary to Chapter 29, Section 29B, of the General Laws, used a contract with NFI to pay its own bills and, over a five-year period, paid NFI \$43,445 to administer these payments. During the audit period, DSS expended money through this conduit for gift certificates, office supplies, refreshments for various DSS meetings, and services and activities to assist DSS clients. As a result, DSS was out of compliance with state law and regulations, did not adequately safeguard these funds against misuse, and misrepresented both its and NFI's total operating expenses on financial reports.
- Contrary to state regulations, during fiscal years 2002 and 2003, NFI charged nonreimbursable building facility expenses totaling \$613,708 to its state contracts. These expenses were for occupancy and other costs associated with an NFI building where state-funded programs were no longer operating and, as such, were unallowable.
- NFI paid a management fee to its parent company, a related party, which was \$11,378 greater than the parent company's actual costs for providing the service. According to state regulations, any fee paid to a related party that is greater than the related party's actual costs is unallowable and nonreimbursable. Other nonreimbursable expenditures included \$10,058 in loans to staff and \$5,523 in inadequately documented payroll expenses.
- During fiscal years 2001 and 2002, NFI incorrectly allocated as much as \$480,667 of direct payroll expenses as indirect expenses. As a result, NFI misreported those payroll expenses. The audit also questioned the reasonableness of some of those expenses because the individuals receiving payment were purportedly providing Program Director services to programs that already had Program Directors. Consequently, at least a portion of these expenses were likely duplicative and unnecessary.

Spectrum Health Systems, Inc.

The OSA conducted an audit of certain administrative and fiscal activities of Spectrum Health Systems, Inc., a nonprofit corporation that provides mental health and substance abuse services to adolescents, adults, and criminal justice populations. The audit, which covered a ten-year period, identified \$13,689,206 in highly questionable payments to related parties; \$995,000 in unallowable compensation paid to the Chairman of its Board of Trustees; \$1,151,540 in out-of-state program expenses funded with state program revenues; and \$1,593,139 in unallowable travel and other nonreimbursable expenses. The audit noted that Spectrum's current administration had improved contract compliance and overall operational efficiency. However, the OSA recommended that the Commonwealth recover the overcharges detailed below.

- Spectrum paid excessive management fees to its related party, CiviGenics, through a series of noncompetitively awarded contracts. Spectrum's stated intention was to reduce operating costs through the sharing of rental and other expenses and to gain day-to-day management services. However, from the outset of the arrangement, Spectrum's Board of Directors allowed the CiviGenics management fee to escalate beyond allowed limits. In addition, Spectrum did not require CiviGenics to provide detailed documentation supporting the costs it incurred in managing Spectrum's operations or justifying its annual fee increases. The OSA, which applied a 10% annual growth factor to CiviGenics' adjusted base management fee, estimated that Spectrum had overcharged the Commonwealth \$10,238,334 for management agency fees. In fiscal year 2003, Spectrum resumed managing its own day-to-day operations, which significantly reduced its operating costs.
- In May 2000 Spectrum purchased a mental health facility from its related party, CiviGenics. In examining this transaction, the OSA determined that Spectrum overcharged the Commonwealth \$688,000 for "goodwill" and related interest charges. These were judged to be a device for inflating the purchase price, since they provided no tangible assets. In addition, although Spectrum did not provide state contracted services at this clinic, it utilized over \$2.6 million in state funds to cover the clinic's operating losses.
- The Chairman of Spectrum's Board of Trustees received \$995,000 over an eleven-year period, under what was termed a transition agreement, for consulting services. However, Spectrum was not able to document that the Chairman provided any services that directly benefited state-funded programs. In addition, the Chairman received the majority of this compensation while residing in Alaska and Florida. After examining this issue, the OSA determined that it represented a flagrant violation of state regulations and an abuse of position by an individual who had served as Spectrum's President before he became Chairman of its Board.

- Spectrum charged against its state contracts a number of other payments that were unallowable and nonreimbursable under state laws and regulations. For example, during the three-year period ended June 30, 2002, Spectrum made lease payments to a related party, Spectrum Development Corporation, Inc., that exceeded the state's allowable limit by \$151,532. Additionally, Spectrum improperly used \$1,550,444 in state revenues over a five-year period to fund nonreimbursable program costs, including bad debt expenses, depreciation expenses, excessive salary payments, fund raising costs, and free care. Finally, over a two-year period, Spectrum improperly utilized state program revenues totaling \$1,151,540 to fund out-of-state program losses and spent \$42,695 in state funds for unreasonable and undocumented travel expenses. Over \$20,000 was paid to the Board Chairman for travel to Board of Trustee meetings from his residence in either Alaska or Florida.

Pharmacy Operations at State Agencies

The OSA conducted an audit of pharmacy operations and expenditures, which exceed \$50 million annually, at various state agencies. The review focused on the activities of the State Office for Pharmacy Services, which provides comprehensive pharmacy services to Executive Office of Health and Human Services inpatient facilities, and the Department of Correction Pharmacy. Auditors also reviewed pharmacy-related activities at ten state facilities. Results of this review are summarized below.

- State Pharmacies were maintaining adequate inventory records for prescription drugs with a high potential for abuse, such as Oxycontin, steroids, Percodan, Ritalin, and Valium. However, all of the pharmacies reviewed needed to improve internal controls over less dangerous prescription drugs, known as Schedule VI controlled substances, as well as over-the-counter medications. State Pharmacies generally did not have adequate systems or procedures in place to accurately track inventories or reconcile variances between inventory records and actual counts of medications on hand. Test counts during the audit showed variances of as much as 2,611 doses from inventories. As a result, there was inadequate assurance that \$23,385,664 of Schedule VI controlled substances and over-the-counter medications were adequately protected from loss or unauthorized use.
- Most pharmacies visited purchased only those medicines immediately needed for patients. However, test samples taken at the State Office of Pharmacy Services and the Department of Correction Pharmacy indicated excess spending of \$729,276 at the end of the fiscal year on prescription drugs that were stockpiled for use well into the subsequent fiscal year. This pattern of purchase violates state law and Office of the State Comptroller regulations that require appropriations to be spent for current year obligations, and that funds left over at fiscal year's end be returned to the state's general fund.
- Six of the pharmacies visited needed to improve safeguards over medications. Two sites, for example, did not adequately segregate pharmacy employees' duties, which could interfere with the timely detection of intentional or unintentional errors, and several pharmacies did not properly record and handle returned medicines. In addition, the audit identified two physical security breaches, a disarmed pharmacy alarm system at one site and insufficient controls over accessibility to filled prescriptions at another.
- The State Office for Pharmacy Services, responding on behalf of all of the audited entities, stated that steps were being taken to address the inventory, record keeping, and security issues identified in the audit. The response also specifically noted that prompt action had been taken to install a new security system at the site that did not have a working alarm when visited by audit staff.

INITIATIVES

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

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 is examining 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.

Review of Mortgage Interest Rates for Certain Vendor-Owned Residential Properties

The OSA is conducting an audit to determine whether human service providers have refinanced residential properties at lower interest rates in order to reduce the interest rate charges billed to the Commonwealth through state contracts, and whether providers' interest charges, paid through state contracts, are reasonable.

AUDIT SUMMARIES

Housing Authorities

Massachusetts public housing is built and managed under the direction of the Department of Housing and Community Development (DHCD). Its Bureau of Housing Management oversees the operation of 254 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 eligibility, rents, inspections, tenant selection, and unit turnover.

During fiscal year 2004, the OSA issued 101 housing authority reports, of which 36 were federally mandated Single Audits that local housing authorities receiving federal funds are required to obtain. The OSA also issued a Single Audit of DHCD, a review of certain DHCD Block Grant programs, and a review of Local Housing Authority subsidy calculation procedures. In general, both DHCD and housing authorities complied with state and federal management, internal control, and program requirements. However, DHCD's audit of subsidy calculations disclosed inconsistencies and overpayments, and audits of certain housing authorities revealed administrative and financial control deficiencies. These findings are summarized in the section that follows.

Audits Under The Single Audit Act

During the report period, the OSA issued 36 Single Audits of housing authorities and reviewed additional Single Audits completed by private accounting firms. Except for the issues noted below, the housing authorities reviewed under the Single Audit Act were in compliance with federal and state regulations and requirements.

- Billerica, Natick, and Reading housing authorities did not convert their basis of accounting for their state and federal programs to require generally accepted accounting principles or electronically submit the required financial information to the U.S. Department of Housing and Urban Development's (HUD) Real Estate Assessment Center. In their responses to our audit reports, these authorities indicated that they had already or were in the process of converting their basis of accounting to comply with HUD requirements, as well as electronically submitting required financial information.
- Abington, Avon, Belmont, Bridgewater, Braintree, Easton, Everett, Gardner, Greenfield, Haverhill, Ipswich, Milton, Reading, Salisbury, Stoughton, and Winchester housing authorities used the correct basis for reporting, but did not electronically submit required financial information to HUD.

In addition, audits of the Chicopee and Stoughton housing authorities disclosed serious internal control and compliance issues, which are summarized below.

Chicopee Housing Authority

- Chicopee Housing Authority's Section 8 Housing Choice Voucher Program was not in compliance with federal regulations requiring that housing authorities inspect leased units at least annually. U.S. Department of Housing and Urban Development (HUD) standards also require the owner to correct any life-threatening deficiencies within 24 hours after the inspection and all other deficiencies within 30 calendar days. Authority records indicated that 179 units (42%) had failed their initial inspection and 55 of the 179 (30%) failed their re-inspection. In 70% of units tested, deficiencies were not corrected within the allowed 30-day period, and the Authority did not stop Housing Assistance Payments to noncomplying owners as required by HUD regulations.
- The Authority did not meet federal standards for performance indicators pertaining to reasonable rent, utility allowance schedules, and Housing Quality Standards enforcement.

Stoughton Housing Authority

- Stoughton Housing Authority did not properly handle its Section 8 Voucher Program mobility receivable or maintain adequate records for several years. As of June 30, 2002, the Section 8 Voucher Program mobility receivable totaled \$94,652.

- The Authority did not properly test for tenant eligibility. Of 17 files requested, 14 had errors or omissions. These included seven of ten files tested in which there was no documentation that a Criminal Offender Record Information check had been performed and three of four files tested that had inadequate third-party verification of tenant income testing.
- The Authority did not properly maintain waiting lists for individual programs, had not updated its master list since November 10, 2002, and did not have an emergency case plan. As a result, certain tenants were not selected in the appropriate order of application, and at least one of five applicants categorized as emergency did not have an emergency situation.

Internal Control and Compliance Audits

The OSA conducted audits of various activities, including internal controls and compliance with laws and regulations at 65 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, inadequate inventory controls, and inaccurate rent determinations were identified as issues that needed to be addressed. Certain audit reports, however, disclosed more serious conditions. Findings from these reports are summarized below.

Sandwich Housing Authority

On February 21, 2003 the Sandwich Housing Authority's Board of Commissioners met in Executive Session to discuss the contents of a letter from DHCD, which found several substantially credible harassment complaints filed by tenants against the Authority's Executive Director. These findings, along with an \$80,000 award that was paid as a result of a discrimination complaint filed against the Executive Director, caused the Board to terminate the Executive Director's employment and file a "no trespassing order" against him with the Sandwich Police Department. After reviewing the facts surrounding the dismissal, the Sandwich Police Department seized the former Executive Director's computer to preserve files that could be used in any future legal actions against him. On March 11, 2003, the Board voted to contract with the Barnstable Housing Authority for management services for a term of six months.

Following these events, at the request of the Board of Commissioners, the OSA initiated a comprehensive audit of the Authority. However, as noted in the audit, the OSA's ability to perform certain tests or to review certain documents was impaired by the following scope limitations:

- Certain financial information requested was either not available or not current because the computer containing financial information crashed when the former Executive Director attempted to install a firewall. The Authority's new management team is in the process of recreating this electronic data from data that was backed up.

- The Sandwich Police Department seized the hard drive from the computer used by the former Executive Director to preserve all data contained therein. A copy of the data on the hard drive was not available for our review.
- Upon his termination, the former Executive Director took all of his personnel records and payroll records with him.
- Supporting documentation was not available for the following areas: disbursements, financial reports, purchase and disposal of equipment, tenant selection, and rent determination.

The OSA found the following:

- The Authority's Board of Commissioners authorized a payment of \$6,394 for 41 unused vacation days that the former Executive Director claimed was owed to him, without requiring documentation to substantiate this claim.
- The Authority's telephone, cell phone, and pager expenses amounted to \$6,434, or \$536 per month, during the fiscal year ending June 30, 2003, which was excessive given that the Authority's staff consisted only of a full-time Executive Director, a full-time maintenance person, a part-time administrative staff person, and a part-time volunteer receptionist.
- The Authority did not maintain an adequate system to control its inventory of furniture and equipment. Several large equipment purchases, including telephone equipment costing \$1,872 and a new copier costing \$5,700, were not tagged and entered into the Authority's inventory system. Moreover, several other items of furniture and equipment could not be traced to Authority inventory cards. In addition, disposed items were not removed from the general ledger, and discrepancies existed between the purchase amounts listed on the inventory cards and the amounts listed as paid on the purchase invoice.
- The Authority violated Chapter 30B of the General Laws, the Uniform Procurement Act, by failing to maintain a procurement log for all purchases of \$5,000 or more, purchasing a new copier for \$5,700 without obtaining written price quotations, and improperly disposing of its old copier.
- The Authority did not issue Internal Revenue Service (IRS) 1099-MISC income information forms to four contractors who were paid \$18,174 for their services in calendar year 2002.
- The Authority lost the opportunity to earn \$2,799 in potential rental income because it did not prepare and fill vacated units in accordance with DHCD guidelines. Specifically, during the period January 1, 2002 to March 1, 2003, eight units were vacated, and it took the Authority an average of 60 days to prepare the vacant units for occupancy. DHCD considers 21 days to be a reasonable time frame for turning around vacant units.

Brookfield Housing Authority

A prior audit of Brookfield Housing Authority disclosed that it held nine outstanding unmailed checks totaling \$7,207 for up to one year because of the Executive Director's concern that sufficient funds did not exist in the Authority's checking account to cover those expenses. Although Brookfield Housing Authority took corrective action to improve procedures for generating checks and paying bills, certain control and administrative issues still needed to be addressed.

- Subsidy checks received from the Department of Housing and Community Development were not deposited in a timely manner, including some checks that went undeposited for several months, and one that had to be returned because it had been held too long.
- The Authority was unable to produce the bank statements, canceled checks, and invoices that were requested in order to test cash disbursements.
- Prolonged unit vacancies resulted in an estimated loss of over \$5,600 in potential rental income.
- The Authority did not maintain a tenant accounts receivable ledger, one tenant had no income verification in his file, and another tenant's file was missing.

North Brookfield Housing Authority

- In addition to an increase of 138% in the Authority's receivable balance since the last OSA audit, the Authority maintained neither a monthly rent roll to control receivable balances nor a tenant accounts receivable ledger. As a result, the Authority could not determine the validity of tenant receivable balances or initiate effective collection procedures.
- The Authority did not comply with Department of Housing and Community Development requirements that annual rent redeterminations be performed for each tenant and that signed lease addendums be obtained. These conditions could result in overcharges to tenants or lost rental income.
- The Authority lost an estimated \$19,924 in potential rental income during the audit period because vacated units were not reoccupied within established time frames. Specifically, eighteen units had been vacant from 45 to 398 days, with the potential rental-income losses ranging from \$302 to \$2,671 for each unit.

Wellesley Housing Authority

- Wellesley Housing Authority did not maintain adequate management controls or comply with certain laws and regulations. Deficiencies in the Authority's general administrative procedures included: extremely high tenant accounts receivable; payroll discrepancies and shortcomings; deficiencies in the tenant selection process, including insufficient documentation and questionable prioritization of tenants; failure to conduct required rent determinations; inventory deficiencies; and improper criminal record checks.

Westborough Housing Authority

- Two previous audits of the Westborough Housing Authority found that improvements were needed in the Authority's annual rent determination process. This follow-up review revealed that the Authority was still not in compliance with state regulations. Specifically, some rents had not been redetermined annually; incorrect deductions were provided to tenants; there was a lack of supporting documentation for income and deductions; and a number of files had no signed lease addendum. As a result of these deficiencies, the Authority could not ensure that tenants were being charged correct rents. Also, some files did not have documentation indicating that the units had been inspected during the current fiscal year as required.
- This review also revealed excessive tenant accounts receivable balances, loss of potential rental income from units that had not been reoccupied within established timeframes, and instances in which state tenant selection regulations were not followed. These conditions could result in overcharges to tenants, loss of income to the Authority, and inappropriate placement of tenants.

Special Audit Section

Department of Housing and Community Development: Subsidy Calculations for Local Housing Authorities

The OSA conducted a statewide review of subsidy calculations for local housing authorities for the period July 1, 2000 to March 31, 2003. The objectives of the audit were to determine whether subsidy calculations submitted by local housing authorities to DHCD were proper and accurate, whether subsidy amounts owed to and due from DHCD were accurate, and whether DHCD's monitoring and oversight activities relating to these subsidy calculations were adequate. Results of this review are summarized below.

- A review of the subsidy-earned calculation forms submitted by housing authorities indicated that many authorities were using outdated versions of the form, modifying the form by including additional information, using different methodologies for completing the form, calculating subsidy amounts improperly, and not fully completing the form. As a result, more than half of the housing authorities tested submitted forms containing inconsistencies and errors. DHCD responded that it will revise its subsidy calculation form, as well as applicable policies and instructions, and that it will seek repayment of \$336,201 in overpayments.

INITIATIVES

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

Review of Housing Authorities

The OSA will continue to conduct reviews to determine whether local housing authorities are properly verifying tenant income, properly maintaining and administering tenant waiting lists, and complying with laws and regulations regarding rent redeterminations, vacancy turnarounds, site inspections, and subsidy calculations. The audits will also examine controls over procurements and cash management.

Statewide Review of Site Inspections by Local Housing Authorities

The OSA is conducting a statewide audit to determine whether local housing authorities are conducting housing unit site inspections, as required, and maintaining housing units in proper condition and in accordance with public health and safety standards. The audit will review and examine authorities' site inspection procedures and records to assess whether they are complete, accurate, up-to-date, and in compliance with laws, rules, and regulations. A sample of housing projects and units will be inspected and observations made on their condition.

AUDIT SUMMARIES

Independent Authorities

Independent entities, including the Massachusetts Bay Transportation Authority (MBTA), the Massachusetts Convention Center Authority, the Massachusetts Water Resources Authority, and the Massachusetts Health and Education Facilities Authority, provide and oversee essential services, such as public transit, public building management and construction, the maintenance and management of public water resources, and the encouragement and support of affordable housing and educational opportunities. During the report period, the OSA issued seventeen audit reports regarding independent entities, including reviews of contract management at the MBTA, the New Bedford Oceanarium Corporation, and the Massachusetts Convention Center Authority.

MBTA Award of Outdoor Advertising License

The OSA conducted a review of the MBTA Real Estate Department's award of an outdoor advertising license to Clear Channel Outdoor, Inc. This license was the indirect result of an unsuccessful Request for Qualifications and Bids (RFQ/B) issued by the MBTA on July 23, 2002, to place advertisements on approximately 197 billboard sign faces located on MBTA property. Additionally, the OSA reviewed various compliance issues.

- The review indicated that the MBTA acted within its legal rights when it rejected two bids for a new license and negotiated with Clear Channel, the existing licensee. However, the MBTA misjudged the effect flawed terms within the 1998 license agreement would have on its attempt to conduct an open and competitive RFQ/B process for the advertising rights on these billboard structures in 2002. During negotiation of the 1998 license agreement, the MBTA did not establish presumptive ownership rights or provide for the transfer of ownership of the billboards located on MBTA property, and did not properly ascertain its reconstruction rights under the federal Highway Beautification Act. Therefore, Clear Channel was able to disrupt the bid process by threatening to tear down the billboards and by filing a lawsuit challenging the rights of the MBTA or any other bidders to replace existing structures. Consequently, although the new contract with Clear Channel will generate an additional \$7.4 million over its 15-year term, the 2002 RFQ/B negotiation was unsuccessful in that an opportunity to earn up to \$16.3 million in potential guaranteed license fees was missed.
- In the 2003 license, the MBTA waived a provision of the 2002 RFQ/B that required each prospective bidder to erect all new billboards as a condition to secure a lease, the cost of which the current licensee estimated at \$5.8 million, without securing additional license fees in return. The MBTA also granted the current licensee a questionable 15-year right of first refusal to match any competing bids solicited and received by the MBTA before the lease expiration in March 2018. Additionally, the MBTA did not secure outright ownership rights to these billboards until after the license expires and did not negotiate the minimum annual guaranteed fee of at least \$2 million, contrary to its RFQ/B.
- The OSA recommended that the MBTA aggressively pursue its legal options to secure the permits and approvals needed to regain control of these advertising sites. The MBTA should then solicit competitive bids to manage its billboard property sites, a process that may result in millions of dollars in additional advertising revenues.

New Bedford Oceanarium Corporation

The OSA conducted a review of the New Bedford Oceanarium Corporation, which found that the Oceanarium expended the monies it received under its state contract in accordance with the contract's terms and conditions. No improper or questionable use of agency funds was found in the areas reviewed. However, improvements were needed in contract administration controls, human resource management, and conflict-of-interest policy, as summarized below.

- There were a number of deficiencies in the Oceanarium's contract administration activities. Specifically, there were no formal written policies and procedures relative to the administration of contracts; consultant contracts had been awarded without competitive procurement procedures; formal written contracts with some consultants were lacking; some contract files were incomplete; there was inadequate monitoring of consultant performance; and documentation relating to some consultant invoices was inadequate.
- The Oceanarium had not established job descriptions and performance goals for the majority of its staff positions and was not conducting all staff evaluations in the manner prescribed by its own internal policies and procedures. Moreover, some fringe benefits provided to staff, such as the agency's retirement plan, seemed generous when compared to the benefits provided by similar organizations.
- Although Oceanarium officials had established a conflict-of-interest policy that incorporates almost all guidelines issued by the state's Office of the Attorney General, they did not address those instances where agency staff, Board members, and/or Trustees acquire investments that may affect or be affected by the Oceanarium's investment decisions. The OSA recommended that the policy require prior disclosure of investment activities to the Board and include other safeguards to ensure that staff, Board members, and Trustees do not derive, or appear to derive, excessive benefits from such activities.

Massachusetts Convention Center Authority

The OSA conducted a review of the Massachusetts Convention Center Authority that addressed prior audit findings and reviewed internal controls over administrative costs and expenses, reserving and leasing of convention center facilities, employee compensation, inventory control systems for supplies and equipment, and the collection and depositing of revenue. The audit found that corrective action had been taken on issues identified in the prior audit relative to bidding procedures for certain service contracts and fixed asset management. However, the following new contract issue was identified.

- Although the Authority adopted policies and procedures for procuring contracts in excess of \$25,000 in accordance with Chapter 30B of the Massachusetts General Laws (the Uniform Procurement Act), which requires formal advertised competition, it did not always comply with its own procurement policies and procedures. Specifically, the Authority entered into consulting contracts with five individuals to manage major Authority construction projects at the Boston Convention and Exhibition Center and the Springfield Civic Center without conducting a formal search for the individuals retained under these contracts, and without employing any formal competitive process to ensure that the best possible contractors were retained at the most reasonable cost. The total cost of the combined contracts, approximately \$3.2 million for a four-year period, was determined through negotiations between the Authority and the consultants. The OSA recommended that the Authority adhere to sound business practices and its own procurement policies and procedures by conducting a competitive process for the procurement of all consultants.

Massachusetts Technology Park Corporation

The OSA conducted an audit of the Massachusetts Technology Park Corporation, a quasi-public agency that administers the Renewable Energy Trust Fund, which supports efforts to increase the use and generation of renewable energy products. This review found that the entity was maintaining its accounting records and internal control systems in accordance with prescribed requirements and was complying with applicable laws, rules, and regulations. In addition to examining financial and management controls, the report reviewed prior audit findings of questionable payments to consultants and employees, undocumented expenditures, and a failure to maximize the return on investments of more than \$84 million from the Trust Fund. Audit findings cover three fiscal years, during which time the entity took in revenues totaling \$150.3 million, mostly from surcharges on utility bills, and made expenditures totaling \$82.5 million.

- The current audit found that the Massachusetts Technology Park Corporation had corrected problems cited in the prior review. Specifically, the agency had improved controls over its procurement and payment process for consultants by competitively awarding contracts and ensuring that they describe in detail payment terms and scope of services. Also, the agency had established policies to ensure that employee bonuses were awarded properly, and had discontinued the use of holiday bonuses and earned time buy-backs. In addition, the agency had improved controls over travel expenses by requiring appropriate documentation for all travel and business expenditures and discontinuing the use of multiple corporate credit cards. Finally, the agency had taken action to maximize interest income on its investment funds, which totaled over \$145 million as of June 30, 2003.

Massachusetts Health and Educational Facilities Authority

The OSA conducted an audit of the Massachusetts Health and Educational Facilities Authority, a self-supporting independent authority established to assist nonprofit organizations by providing low-cost loans, bond issues, and other financial services. It receives no state appropriations or tax revenue but derives revenue by assessing initial and annual administrative fees to the various institutions it assists. Except for the findings noted below, the OSA found that the Authority's internal controls over administrative and operating costs and program oversight were satisfactory, and that its activities were conducted in accordance with applicable laws and regulations.

- The Authority expended excessive sums on its 2000 and 2001 holiday parties (\$39,101 and \$38,030 respectively), but a lesser amount, \$14,047, on its 2002 holiday and dinner party.
- Although the Authority created a ten-year irrevocable trust totaling \$10,882,000 to assist charitable organizations and governmental entities such as public colleges and universities, it made only seven loans to seven institutions totaling \$312,000, or less than 3% of the trust fund principal. The trust allows for the payment of all investment income and annual payments of up to 10% of the principal to the Authority for carrying out its work.

Wood's Hole, Martha's Vineyard and Nantucket Steamship Authority: Privatization Proposal

Chapter 7, Sections 52-55, MGLs, the state's Privatization Statute, establishes the 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 Wood's Hole, Martha's Vineyard and Nantucket Steamship Authority proposed the privatization of its passenger ferry service between New Bedford and Martha's Vineyard. The Authority's first privatization proposal, submitted on February 5, 2004, was rejected, primarily because the Steamship Authority provided one bidder with significant procurement information that was not made available to all potential bidders through the Request for Proposals process. On April 9, 2004 the Steamship Authority resubmitted its privatization proposal, which included the completed rebidding process. The following is a summary of the State Auditor's determination regarding this second submission.

- The State Auditor determined that the Steamship Authority had complied with the requirements of the State's Privatization Statute in reaching its decision to award a privatization contract to provide passenger service between New Bedford and Martha's Vineyard. The Steamship Authority certified and demonstrated that the quality of services to be provided by the contractor is equal to or greater than that which had been provided by Steamship Authority employees, that cost savings will be realized by having the work performed under contract, and that the contract addressed all other statutory provisions. Therefore, the State Auditor approved the contract.

INITIATIVES

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

Central Artery Tunnel Project (CA/T)

OSA activity relative to the CA/T project is currently focusing on evaluating the effectiveness of its security systems. An audit in progress will analyze various interrelated project security activities to determine their effectiveness in safeguarding project property, such as bridges, tunnels, construction and office equipment, and communication networks. Massachusetts Turnpike Authority oversight of these activities will also be reviewed to determine its adequacy. The OSA's ongoing review of the CA/T project has resulted in seventeen 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.

Massachusetts Water Resources Authority (MWRA)

The OSA will review and evaluate the effectiveness of the MWRA's security systems, including its procedures for safeguarding drinking water storage facilities, reservoirs, sewer treatment plants, and docking facilities. The audit will assess the adequacy the MWRA's written security policies and procedures as well as management's oversight and monitoring of security activities. The audit will also review the MWRA's progress in developing a combined sewer overflow system to prevent wastewater and sewerage discharges into Boston harbor during heavy rainfalls or melting snows. A court mandate has been issued requiring the MWRA to stop these overflows as soon as possible.

AUDIT SUMMARIES

Judiciary/Law Enforcement

During fiscal year 2004, the OSA issued 19 audit reports covering 29 judiciary, law enforcement, and public safety entities. These reviews included three letter reports related to technical assistance provided to District Attorneys in connection with ongoing investigations and eight audits that reviewed Information Technology activities. These reports cover a variety of issues, including a review of forfeited funds received by District Attorneys and issues identified at sheriff's departments. Findings from selected reports are summarized in the section that follows and in the IT Audit Section that begins on page 54.

The Committee on Criminal Justice

The OSA, in conjunction with the Single Audit of the Commonwealth for the fiscal year ended June 30, 2003, conducted a review of the financial activities of the Committee on Criminal Justice. This agency, which is within the Executive Office for Public Safety, is responsible for applying for and administering federal and state criminal justice grants. In fiscal year 2003, the Committee administered approximately \$70.4 million, of which \$29.8 million represented federal funds.

The audit reviewed prior findings, assessed internal controls, and evaluated compliance with state and federal laws, regulations, and requirements. The audit found that the Committee had taken corrective action with regard to strengthening internal controls over fixed assets, classifying transactions properly, and drawing down federal funds against the proper grant. However, the audit also identified unresolved prior audit results and significant new issues that, if not addressed, could potentially jeopardize eligibility for important federal grants. Most of the noted deficiencies involved the Byrne Formula Grant Program, which provides federal funding for combating violent crime, with an emphasis on drug control and serious offenders. Results of this review are summarized below.

- Byrne Formula Grant funding totaling approximately \$11 million, which was received by the Committee on Criminal Justice in fiscal year 2003, was under federal investigation. The Executive Office of Public Safety, under a new Secretary, was also conducting a complete review of grant activities. Preliminary findings from this review indicated inadequate internal controls over grant awards, as well as compliance issues. The OSA review disclosed serious deficiencies in the administration of the Byrne Formula Grant Program, including advance payments made to subrecipients, inadequate monitoring of subrecipients, and payments made for work begun and completed prior to the execution of a contract. With respect to this last issue, the dates of services on a payment voucher had been falsified because the Office of the State Comptroller would not have accepted payment transactions with service dates prior to the effective date of the contract.
- The Committee on Criminal Justice did not maintain adequate documentation for salaries charged to federal awards and did not have a process for determining whether salaries charged to a particular program reflected the employee's actual hours spent on that program. The Committee also reimbursed subrecipients for program and administrative expenses without sufficient documentation supporting the expenditures. Specifically, audit tests disclosed that \$2,073,565 in grant payments under the Byrne Formula Grant Program and the Juvenile Accountability Incentive Block Grant Program was inadequately supported. As a result, the Committee could not be assured that all federal award funds were disbursed for authorized purposes.
- The Committee did not perform regular reconciliations between its in-house records and information maintained on federal and state automated cash management systems. As a result, at least one incorrect entry was made to the Commonwealth's automated system, and the accuracy of financial reports detailing federal funds received and disbursed could not be ensured.

The Criminal History Systems Board

Pursuant to the requirements of Chapter 647 of the Acts of 1989, the state's Internal Control Statute, the Executive Office of Public Safety filed two reports with the OSA, both involving misuse of the Commonwealth's payroll system. The first report stated that unauthorized and unsupported leave adjustments had been made to the payroll records of an administrator at the Criminal History Systems Board, the entity that maintains the Commonwealth's criminal justice information system. The Board had also taken administrative action in this case, resulting in the dismissal of the employee in question. The second Chapter 647 report involved a Criminal History Systems Board employee who remained on the payroll, receiving state compensation, for two months after leaving state service. The Board has initiated payroll-recovery proceedings against this former employee. The completed OSA review identified internal control policies and procedures in need of modification and made recommendations to correct control weaknesses.

- The OSA found that inadequate separation of duties, insufficient oversight, and failure to enforce established policies and procedures allowed the Criminal History Systems Board's Director of Administration and Finance to make and conceal adjustments to her leave-benefit balances, which resulted in \$3,000 in employee benefit overpayments. In a related matter, this former Director applied for and received unemployment compensation of \$10,215. The Criminal History Systems Board appealed this award, citing the former employee's misconduct, and prevailed. The decision was reversed and the benefits disqualified.
- The internal control weaknesses identified above, along with a lack of formalized employee termination policies and procedures, allowed a Criminal History Systems Board employee to remain on the payroll and improperly receive \$9,671.76 after the individual's effective date of resignation. The OSA also identified \$4,818 in questionable employee termination benefits paid to four other Board employees.
- The Criminal History Systems Board took certain corrective actions, including the transfer of responsibility to the State Police for entering and maintaining payroll data, and the establishing of standard termination procedures. However, the Board still needed to improve documentation of supervisor approvals of timesheets; sick, vacation, and personal leave forms; and compensatory time.

Review of Forfeited Properties

Federal and state assets forfeiture laws involving trafficking in illegal drugs are intended to punish and deter criminal activity, enhance cooperation among various law enforcement agencies through the equitable sharing of seized assets, and generate additional revenues with which to investigate and prosecute drug-related crime. For the period July 1, 2000 through December 31, 2001, \$1,672,829 in federal forfeiture funds were received by the District Attorneys. The OSA conducted an audit of internal controls over these forfeited funds, which also updated the status of prior audit results. Although the audit found that the District Attorneys' Offices had made administrative improvements in accounting for and reporting forfeited funds, several control and management oversight issues still needed to be addressed. A summary of audit findings follows.

- Internal control deficiencies were identified at five District Attorneys' (DA) Offices. One Office had not implemented required written internal control policies and procedures, which may have contributed to inadequacies that were noted in tracking forfeiture cases and monitoring and collecting forfeited funds. Three other Offices also needed to improve case tracking, especially with regard to federal forfeiture cases, which were not included in the computerized pending case files. Finally, two DA's Offices assigned one individual the sole responsibility for receiving, depositing, recording, and reporting forfeited funds. Because adequate segregation of duties is a key internal control principle for safeguarding funds against misuse, the OSA recommended that at least two people be involved in the various aspects of forfeited funds transactions.
- Expenditure issues were identified at two DA's Offices. One Office did not comply with the provision of Chapter 94C of the General Laws, which limits expenditures for drug rehabilitation and other anti-drug programs to 10% of forfeited funds. This Office received \$503,112 in forfeited fund revenues and expended \$69,544, or 14%, on drug-related programs. Officials concurred with the finding and indicated that the 10% cap would be adhered to in the next fiscal year. Another DA's Office inappropriately spent forfeited funds to cover expenses resulting from unexpected lease amendments. When budgeted funds were not available, forfeited fund revenues were used to make two quarterly payments. Subsequent lease payments were made from the general appropriation.
- Three DA's Offices maintained seized funds held for possible forfeiture in safe deposit boxes. The audit found insufficient oversight and inadequate segregation of duties with respect to these funds and recommended that they be deposited in local bank accounts.

Plymouth County Sheriff's Department

At the request of the Plymouth County Sheriff and several legislators, the OSA conducted an audit of accounting and management controls at the Plymouth County Sheriff's Department. The officials who had contacted the OSA were particularly concerned that the revenue sources available to the Sheriff's Department for fiscal year 2003 had been insufficient to pay expenses and that similar budget shortfalls would continue in subsequent years. The audit noted that a fiscal year 2003 budget shortfall did occur and was largely resolved by utilizing close to \$1 million dollars in canteen account revenues and \$2.67 million in funds carried forward from the prior year. In addition, the Sheriff's Department implemented a hiring freeze and three-day furloughs; and three administrators, including the Sheriff, took cuts of half their salaries for the last six weeks of the year. The appropriation for fiscal year 2004 reflected an increase of less than 1%, and included the use of the entire remaining \$115,953 fiscal year 2003 ending fund balance. As a result, no prior year fund balances will be available for subsequent year operating deficits. Results of the OSA review, which focused on an examination of fiscal accounting, monitoring, and reporting systems, and made recommendations for controlling costs and protecting assets, follow:

- The Plymouth County Sheriff's Department had not established an accounting system that tracks, monitors, and reports the costs of each of its services, programs, and activities. In addition, audits performed by the County's outside private auditors were not completed for long periods after the close of the fiscal year. As a result of these conditions, officials did not have the information or budgetary controls necessary to adequately assess and manage the Sheriff Department's limited resources. For example, the Department was unable to determine which of its services were adequately funded and which were not. The audit also noted inadequate segregation of financial duties with respect to certain cash receipts and inadequate and decentralized inventory records.
- The OSA recommended that the Sheriff's Department develop a comprehensive, activity-based accounting system that will capture and allocate the cost of each of its many services and activities. Officials will then be better able to advocate for more funding for certain programs and, where necessary, to reduce program spending rather than having to make across-the-board cuts. In addition, the Sheriff's Department needed to monitor monthly spending in order to make adjustments necessary to avoid deficits. With respect to internal controls, the OSA recommended that the duties of the employee responsible for handling funds generated for the Canteen Fund be separated so that one person does not receive, record, deposit, and reconcile these cash receipts. The Sheriff's Department also needed to maintain complete inventory records at its various offices in addition to its master inventory list.

Special Audit Section

Local Fraud Audits

Two provisions of the 2003 Municipal Relief Act (Chapter 46 of the Acts of 2003) authorize the OSA to conduct specialized audits in cities, towns, counties, districts, and regional school districts.

The first provision, Section 7, effectively enacts an OSA sponsored legislative proposal, House 5, An Act Relative to Certain Requests for Local Audits. House 5 had been filed by Auditor DeNucci in response to an increasing number of requests from municipalities for the OSA to conduct reviews of municipal finances. Prior to passage of this provision, such requests were turned down because OSA audit authority did not extend to the general review of local entities. Under the new law, the governing body in a city, town, county, or regional school district can vote to petition the OSA to conduct any such audit and must also appropriate sufficient funds to pay for the audit services.

The second provision, Section 35, creates a two-year pilot program that gives the State Auditor authority to investigate suspected fraud in any city, town, county, district, or regional school district. This authority was granted to the State Auditor out of concern that a lack of strong oversight in local government has increased the vulnerability of municipal funds to theft and misuse.

The following section details findings from selected completed audits relative to suspected irregularities or illegal acts in local entities covered by Section 35 of Chapter 46 of the Acts of 2003.

Town of Lunenburg

In conjunction with the Worcester County District Attorney's Office, the OSA conducted an investigation of allegations of misconduct concerning the former Superintendent of Schools in Lunenburg. The investigation disclosed a complex scheme for defrauding the School District, as well as additional fraudulent billings. Major findings and the results of the criminal prosecution that followed are summarized below.

- The former Superintendent of Schools established a dummy corporation, which billed the school district for \$366,677 in school supplies and equipment that were never provided. Instead, the funds were diverted to the former Superintendent's personal accounts. In addition, the former Superintendent was paid \$53,986 for falsely claimed reimbursable expenses.
- The former Superintendent was subsequently found guilty on several charges and was sentenced to four to five years in prison and required to make full restitution.

Town of Auburn

In conjunction with the Worcester County District Attorney's Office, the OSA conducted an investigation of a former school department employee alleged to have misused school funds. The investigation uncovered irregularities, which resulted in criminal prosecution, as detailed below.

- The former employee, who controlled the processing of purchase orders, was able to divert school funds for personal use.
- The former employee pled guilty to larceny charges, was sentenced to two years in prison, and was ordered to pay restitution of \$18,175.

Town of Milton

The OSA reviewed allegations of procurement fraud and contract mismanagement received from a former school committee member in the Town of Milton. These allegations, which were extensive, were also reviewed by the Office of the Attorney General and the Office of the Inspector General. Staff reviewed documentation received from the Milton complainant and from other investigating agencies and met with staff from each of these agencies.

- The OSA concluded that the material provided and reviewed did not disclose sufficient or specific evidence of fraud as required by Chapter 46 of the Acts of 2003. Likewise, the offices identified above concluded their reviews without taking any further action.

INITIATIVES

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

Review of the Operations and Activities of Sheriff's Departments within the State System

The OSA is conducting an audit of the Sheriff's Departments within the state system to determine whether the seven Sheriff's Departments that were transferred from county government to the state system are complying with applicable laws, rules, and regulations relating to their fiscal and operational activities. The audit will focus on issues that were identified in the prior audit of each of these Sheriff's Departments. The OSA will review controls over all receipts and expenditures, the reimbursement rate for housing federal prisoners, contracts for providing medical and dental services to inmates, purchasing practices, the status of union contracts, and compliance with laws and regulations regarding internal control plans and risk assessments, inventory controls, financial reporting, and year-end closing policies. The audit will also determine whether unaccounted for variances, losses, and thefts of funds and property have been reported to the OSA as required by Chapter 647 of the Acts of 1989.

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

Financial Administration and Other Special Audits

During fiscal year 2004, the OSA issued audits pertaining to 24 various agencies, boards, commissions, and funds. Three of these reports, covering 150 entities, addressed statewide revenue issues and were completed in association with the Single Audit of the Commonwealth. Other major reports pertained to the Department of Environmental Protection, the State Lottery Commission, and the Alcoholic Beverages Control Commission.

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 State Comptroller's Official Year-End Closing Instructions for Cash Revenue Management, and (3) reporting on agency compliance with the Office of the State 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 2004, the OSA released thirteen 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, housing authority, and judiciary/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 50 state agencies, eight lockbox locations, and one contracted debt collection agency. 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 2003 Office of the State Comptroller's year-end closing instructions. Moreover, the two university campuses previously cited for not processing and depositing year-end receipts within required time frames, and the two courts that needed to improve their overall timeliness in the transfer of cash receipts to the State Treasurer's Office, had taken all necessary corrective action. 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 Springfield District Court and the Worcester District Court did not include \$2,840 and \$4,272, respectively, in cash received on June 30, 2003 as fiscal year 2003 revenue. Consequently, these funds were improperly accounted for as fiscal year 2004 revenue.
- The Berkshire Sheriff's Department did not transfer all of its cash receipts to the Office of the State Treasurer's designated account on a timely basis. As a result, 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 91 state agencies to determine compliance with the requirement that goods and services purchased with fiscal year 2003 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 98% of 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.

- Eight transactions totaling \$33,214 utilized fiscal year 2003 funds for goods or services received after the June 30 cut-off date. Moreover, contrary to state finance law, two of the eight transactions totaling \$8,796 represented payments made to vendors even though vendor invoices for goods had not been received.

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 nine state agencies for the purpose of determining agency compliance with applicable laws, rules, and regulations. Issues noted are summarized below.

- Salem State College did not perform monthly reconciliations between its in-house records and the Commonwealth's automated Billing and Accounts Receivable System (BARS). This contributed to end-of-year variances, which the College tried to address by making adjustments totaling more than \$10.5 million in BARS balances for tuition and fees. However, because the College was unable to provide adequate documentation to support the processing of these adjustments, neither its officials nor the Office of the State Comptroller could be assured that the adjustments were appropriate.
- Massasoit Community College did not enter accounts receivable information into the Commonwealth's Billing and Accounts Receivable Subsystem (BARS) in a timely manner and did not perform monthly reconciliations between its records and BARS. The OSA tracked a receivable entry of \$1,830,542, which represented fees due from students. As of January 23, 2003, the in-house and automated accounts balanced. However, no entries were made to BARS from that date through March 31, 2003, and, as of June 30, a substantial discrepancy existed between the College's records and the Commonwealth's accounting system.

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, 2003 of \$15,030,503,267.33 were below allowable state tax revenues of \$20,398,592,000.32 by the amount of \$5,368,088,732.99. Therefore, no excess tax revenues, as defined in Chapter 62F, MGLs, existed for fiscal year 2003.

Massachusetts State Lottery Commission

The OSA conducted an audit of the Massachusetts State Lottery Commission in response to a request from the State Treasurer for a transition assistance review. The audit examined the status of corrective action on recommendations from prior OSA audits, as well as from outside auditors and an internal transition report. In addition, the audit assessed management and security controls, and compliance with state and federal laws. The audit found that Lottery officials had begun to implement improvements in response to all issues identified in prior audits. The following is a summary of major findings and recommendations.

- As detailed in previous reports, professional cashers continued to claim hundreds of thousands of dollars in prizes. As a result, actual winners were able to evade state and federal tax obligations. Furthermore, because the Lottery only withheld taxes on individual prizes of \$5,000 or more, professional check cashers could also avoid paying taxes owed. The OSA recommended, as it has in prior audits, that to the extent allowable under law, the Lottery should consolidate claimant information and withhold taxes on an accumulating basis. Withholding at the point of claim would close loopholes that foster tax evasion and would, potentially, generate additional tax revenues. It would also help to curb fraudulent activities such as money laundering and check cashing schemes, and make the Lottery payout system more equitable for all players. Lottery officials stated that they are meeting with Department of Revenue and Internal Revenue Service representatives to develop policies that deter tax avoidance, including authorizing the Lottery to withhold prizes claimed by individuals who have tax liens.
- The Lottery has continued to make some progress in addressing untimely collections of cash receipts from sales agents. As of August 15, 2001, the Lottery was owed over \$10 million from 1,232 terminated or suspended agents and \$9 million from 1,051 then current sales agents that was outstanding for over 90 days. The Lottery eventually wrote off most of the bad debt and, as of February 28, 2003, had reduced the balance owed by sales agents from \$9 million to \$6.8 million. The prior audit also found that the Lottery was not following its own collection policies and procedures and was not charging agents a sufficient fee to cover non-performance. Consistent with the OSA's recommendation, the new Lottery administration is in the process of implementing a revised sliding-scale fee bonding structure that will take into consideration the payment performance history of each agent.
- To address concerns raised in prior audits about the ability of sales agents to scan unsold instant game tickets in order to identify and collect on winning tickets, the new administration has established consistent disciplinary measures, along with agency monitoring guidelines. The OSA also recommended that the Lottery reduce the number of infractions that result in shutting an agent down and charge agents a fee for turning terminals back on. Furthermore, consideration should be given to prohibiting agents and immediate family members from purchasing tickets in their own stores.

- In order to strengthen internal controls at the Lottery, the OSA recommended that the agency fill its internal control position, which had been vacant for more than a year, and complete a required risk assessment and formal internal control plan. Lottery officials responded that both recommendations would be fully implemented during the current fiscal year.

The Alcoholic Beverages Control Commission

The OSA reviewed internal controls over receipts and expenditures; contract administration; financial reporting; and program activities, such as investigations, appeals, and hearing procedures, at the Alcoholic Beverages Control Commission (ABCC). The audit also examined agency compliance with applicable laws, rules, and regulations. A summary of major findings follows.

- ABCC needed to develop and improve its internal control plan, which did not meet the requirements of Chapter 647 of the Acts of 1989, the statute that sets internal control standards for state entities. The Commission also lacked written policies and procedures for processing complaints and carrying out investigations. ABCC officials indicated that, although they performed diversified and often complicated investigatory functions, policies and procedures were not documented because staffing levels were not adequate to do so. The audit also noted that in March 2003, eleven of fourteen special investigators were laid off due to budget cuts. These staff reductions and an absence of adequate policies and procedures resulted in internal control weaknesses, as described below, and raised concerns about ABCC's ability to carry out its duties in an efficient and effective manner.
- ABCC was not depositing its cash receipts on a daily basis. During November and December, which are high-volume license renewal periods, deposits were made on Mondays, Wednesdays, and Fridays. Otherwise, deposits were made once a week. ABCC officials stated that inadequate staffing prevented the making of daily deposits. However, daily deposits are required under state law and internal control regulations to safeguard funds and maximize interest income.
- ABCC needed to improve procedures for performing certain financial reconciliations. While bank statements were regularly reconciled to in-house cash records, there were delays of up to eight months in performing reconciliations to the Massachusetts Management Accounting and Reporting System. As a result, ABCC could not be assured that its automated records were correct or that information submitted on financial statements was complete and accurate.

- ABCC needed to improve controls over the inventory, preparation, and distribution of non-retail licenses. Most of this licensing activity was performed manually and did not have the effective tracking mechanisms of a computerized system. In addition, deficiencies were noted in the areas of segregation of duties, physical security, inventory procedures, and management oversight. Specifically, the same employee was responsible for ordering and receiving blank forms, maintaining the inventory of blank forms, and issuing completed licenses; access to unissued licenses was unrestricted; license inventories and reconciliations were not performed; and no supervisory procedures were in place to review or monitor the process for issuing licenses.
- ABCC did not file a report with the OSA relative to the loss of four laptop computers. The Internal Control Statute requires that losses, shortages, and thefts be immediately reported so that the OSA can examine the agency's control structure and make recommendations to strengthen any weaknesses identified.

Department of Agricultural Resources: Pesticide Bureau

The OSA reviewed managerial and operational activities of the Pesticide Bureau, which is charged with administering and enforcing state and federal pesticide laws and regulations. The Bureau licenses and monitors individuals and companies that sell or apply pesticides and oversees pesticide application activities at schools, day care centers, and child care program facilities. The Bureau also protects the public drinking water supply, registers chemicals used in the Commonwealth, and investigates allegations of pesticide misuse. With the exception of the two issues summarized below, the audit found that the Bureau was satisfactorily performing its duties.

- The Pesticide Bureau was not adequately enforcing the state statute that requires schools and day care centers to submit a plan on pesticide use at their facilities and to notify parents and employees at least two days before any pesticides are applied. The audit found that more than 80 percent of Massachusetts schools and child care centers have not submitted the pesticide plans required under the Children's Protection Act of 2000. As a result, there was inadequate assurance that children and staff were being properly protected from exposure to unauthorized and potentially harmful pesticides. The audit also noted that the Pesticide Bureau's staff of four field inspectors was not adequate to monitor and enforce the provisions of the Children's Protection Act, including the imposition of penalties. Since 2000, only nine fines had been issued to schools and applicators for violations of the law.
- The Bureau's on-site inspection procedures for pesticide dealers and applicators did not include a review of documents supporting quantities of restricted-use pesticides purchased, sold, and on hand. Consequently, there was inadequate assurance that pesticide dealers and applicators were properly buying, selling, and accounting for restricted-use pesticides.

Department of Public Safety: Elevator Inspection

The OSA conducted an audit of the Elevator Inspection Division within the Department of Public Safety, which is responsible for the inspection of 32,800 elevators and escalators in the Commonwealth. The audit found that the Department had not developed systems to ensure that elevators were inspected annually, that elevators cited for safety violations or under repair were reinspected in a timely manner, or that appropriate fees and fines were imposed and collected. These issues are discussed below.

- The Department of Public Safety was not enforcing a law requiring annual inspections of all elevators and was not prioritizing the reinspection of elevators in service that did not pass inspection. During fiscal year 2002, the Elevator Inspection Division tested 19,139 elevators, of which 5,304 failed to pass inspection. Three months into the next fiscal year, 75% of the 5,304 elevators had not been reinspected to determine whether appropriate repairs had been made. In addition, 38% of locations visited by the OSA had expired elevator or escalator certificates, including nine of eighteen public schools. A substantial number of these certificates had been expired for over seven years. Finally, during fiscal year 2002, the owners of 13,661 elevators did not apply for inspection, for which their owners could have been, but were not, fined \$500. These deficiencies raise serious public safety concerns and have cost the Commonwealth millions of dollars in uncollected fees and fines. The Department of Public Safety responded that it lacked the funding and staffing necessary to conduct all required inspections and to impose and collect fines. However, officials did indicate that they were taking steps to reduce the number of elevators that had not been inspected for long periods of time.
- The Department of Public Safety had not reviewed its fee structure for eleven years prior to the start of the audit. During this time, the annual elevator inspection fee was \$100 and did not take into consideration the actual cost of an inspection. During the audit period, the Department filed for an increase from \$100 to \$400, which became effective in August 2003.
- The Department of Public Safety's elevator inspection database contained numerous errors and omissions. For example, the number of elevators listed in the database was 19,744 less than the listing of the number of locations with elevators; certificate expiration dates were missing for 1,252 elevators; and expired work orders and other outdated information needed to be removed from the system. The OSA noted that a reliable database upon which to base an inspection schedule would help to improve the efficiency of the Department's elevator inspection program, and Department officials responded that they were taking steps to improve inspection management by enhancing their database system.

The Executive Office of Environmental Affairs

The OSA conducted an audit of internal controls over revenue receipts and certain disbursements at the Executive Office of Environmental Affairs (EOEA), the results of which are summarized below.

- EOEА did not have formal written policies and procedures for the receipt and deposit of revenues; did not deposit revenues in a timely manner; did not properly secure mailboxes, even though they were equipped with key locks; and did not follow up on unpaid invoices, reconcile bank statements, or properly maintain deposit records. As a result, the agency could not be assured that its revenues were adequately protected or that its accounts receivable and interest income were maximized.
- EOEА was not in compliance with its own travel policies and, as a result, made over \$72,500 in improper expenditures. These included reimbursements to non-EOEA employees, reimbursements to travelers who had not obtained required prior approvals, and reimbursements for travel that was not supported by complete and accurate documentation. In addition, EOEА had not established controls to ensure that reimbursements did not duplicate payments made by the federal government or private parties.

The Department of Environmental Protection

The OSA conducted two audits of the Department of Environmental Protection (DEP), a subdivision of the Executive Office of Environmental Affairs. One audit was initiated as a result of a report of misappropriated funds filed by DEP's Bureau of Administrative Services, and was conducted in conjunction with the Office of the Attorney General. The second audit followed up on prior audit findings and examined internal controls over revenue and payroll, accounts receivable, and recovery of hazardous waste cleanup costs. With respect to this second audit, DEP had taken certain recommended corrective steps to safeguard revenues by performing monthly cash reconciliations and improving the accuracy of financial postings and reports. However, the audit also identified unresolved prior audit results and significant new issues, including restrictions placed by DEP on audit fieldwork that resulted in scope impairment and a delay in issuing the audit. Results of both reviews are summarized below.

- Pursuant to the requirements of Chapter 647 of the Acts of 1989, the state's Internal Control Law, DEP's Bureau of Administrative Services reported to the OSA that an employee, since fired, had input false information into the Massachusetts Management Accounting and Reporting System for six years and generated more than \$75,000 in payments to herself. The completed OSA review determined that the misappropriation totaled \$79,622. It also disclosed that DEP officials, contrary to the agency's own policies and procedures, did not provide sufficient staff supervision, and did not ensure that original documentation be retained to support processed transactions. Furthermore, DEP's Internal Audit division did not perform required data entry security checks and reviews. These internal control and oversight deficiencies required immediate attention. If segregating duties to an optimal level could not be promptly implemented, monitoring needed to be substantially increased. DEP officials agreed with OSA recommendations and indicated that prompt corrective action would be taken, including increased internal audit activities relative to employees' reimbursements.

- The OSA, in a prior audit report, had examined internal control conditions that contributed to a theft of equipment from the Bureau of Waste Site Cleanup's Microfab Treatment Site in Amesbury. The OSA investigation disclosed that DEP's property inventory listing for the Amesbury site did not include equipment costs, and that the shed containing DEP equipment was easily accessible to the public, not properly secured, and not protected by an alarm. For the follow-up audit, OSA staff planned to review conditions at the Amesbury site and the corrective action implemented by DEP. However, DEP refused to allow OSA auditors access to the site. As a result of this audit scope restriction, the OSA could not determine whether improvements had been made in the safeguarding of DEP assets entrusted to the Bureau of Waste Site Cleanup.
- DEP needed to better manage its billings for contractor waste-site cleanup and department oversight costs. DEP did not have guidelines for authorizing and monitoring billings for waste-site cleanup activities, and bills that were sent were not timely. In addition, case files requested by the OSA were not made available for nine months, and nearly half of those examined did not contain supporting documentation to corroborate DEP's Bureau of Waste Site Cleanup's decision not to bill potentially responsible parties for waste cleanup costs. As a result, DEP could not ensure that all potentially recoverable cleanup costs were being pursued. In addition, DEP's billings, where made, were two years or more in arrears, which deprived the Commonwealth of the timely use of revenues due from potentially responsible parties and increased the risk that costs would not be recovered.
- DEP needed to significantly strengthen its overall management and controls over funds due, principally from fines and penalties levied as part of its waste-site cleanup activities. DEP had an outstanding accounts receivable balance of \$18,973,922 as of May 16, 2001, of which \$12.9 million had been outstanding for more than two years. Only \$1.3 million had been referred to a debt collection agency or was part of an established payment plan. As of March 21, 2003, DEP's accounts receivable balance had increased to \$24,592,603. Without adequate collection procedures and controls, DEP is at increased risk of not recovering its outstanding accounts receivable, which had grown 30% over a 22-month period.
- During its audit of DEP, the OSA received and investigated allegations that DEP had made improper overtime payments to an employee who performed work for the Central Artery Project. The two primary allegations were that the employee was paid overtime for work performed during regular business hours and was paid \$1,800 in state funds for work that was supposed to be charged against a federal grant. Although DEP provided evidence of the employee's overtime eligibility and the appropriateness of the payment source, the OSA found general weaknesses in procedures for approving and supervising overtime assignments. DEP employees' weekly time sheets did not account for overtime hours worked; employees did not promptly complete overtime forms; and checks for overtime worked were not sent out within prescribed time frames.

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 2005, 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 Bridgewater State College, Bunker Hill Community College, Roxbury Community College, and Worcester State College;
- Federal grant programs at the Division of Employment and Training;
- Federal grant programs at the Executive Office of Public Safety and Homeland Security;
- Federal grant programs at the Department of Social Services; and
- Federal grant programs at the Office of Child Care Services.

Statewide Review of Accounts Receivable

The OSA has completed an audit undertaken to determine whether state agencies are effectively managing their accounts receivable. This report, which will be detailed in the next Annual Report, is available online or from the Office of the State Auditor at (617) 727-2075 or (617) 727-6200.

AUDIT SUMMARIES

Information Technology

During the report period, the OSA's Information Technology (IT) Audit Division issued nineteen 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 and facilities 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. The IT Audit 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. During this report period, audit results disclosed issues that warrant management attention in a number of areas, including disaster recovery and business continuity planning, inventory controls, organization and management controls, and system access security. The following section highlights findings from this report period.

The Trial Courts: Information Technology-Related Controls

The OSA's IT Audit Division issued a comprehensive audit of the management of computer systems and IT operations maintained by the Administrative Office of the Trial Court (AOTC), as well as individual reports on IT-related controls at six District or Probate courts. The AOTC audit identified serious administrative and control problems, which jeopardized the security, integrity, and availability of the courts' information technology resources. With respect to individual courts, the most frequently cited weaknesses were in the areas of IT-related organization and management controls and business continuity planning. The current Chief Justice of the AOTC, who was appointed subsequent to the completion of the statewide Trial Court audit, concurred with the audit recommendations and stated that he would take corrective action as soon as possible, including deactivating IT access for individuals no longer employed by the courts and initiating a physical inventory of computer equipment. Results of the OSA IT court audits are summarized below.

AOTC Information Technology Controls

- AOTC lacked written policies and procedures, including a risk assessment, for evaluating and monitoring IT controls, guiding IT activities, and establishing accountability. As a result of these deficiencies, information on the courts' automated systems was vulnerable to loss and misuse, and the successful and timely implementation of MassCourts, a \$75 million integrated application system, was placed at risk. The OSA recommended the strengthening of IT strategic and tactical planning and the development of a cohesive organizational structure, with clear points of accountability, for all court IT activities. In addition, IT plans, policies, standards, and management directives needed to be better documented, and management attention needed to be more focused on the security of systems and related issues.
- AOTC did not have a comprehensive business continuity plan for restoring processing functions in the event automated systems were rendered inoperable or inaccessible. The OSA recommended that AOTC, in conjunction with individual courts, develop and implement a business continuity strategy that includes identification of alternate operational sites, plans for on-site and off-site storage of backup copies of computer media, and periodic testing. Until business continuity plans are developed, tested, and implemented, AOTC and individual courts are at risk of losing critical processing capabilities that support judicial functions, such as warrant management, case tracking, and fee collection.
- AOTC did not have appropriate security controls necessary to prevent or detect unauthorized user access. For example, computer privileges had not been deactivated for hundreds of individuals no longer employed by the courts; passwords for court employees were often not changed for years; and passwords for certain applications consisted of as little as one character. As a result, sensitive information contained in various court applications was put at risk of unauthorized access and changes or disclosures of confidential data.

- AOTC did not maintain a complete and accurate master inventory of IT resources and did not ensure that individual courts maintained their own inventory lists. Annual physical inventories were not being conducted, and the IT inventory listing, which contained only computer hardware, was missing items as well as essential information regarding cost, date of purchase, tag number, and status. As a result, AOTC could not be assured that the courts' computer equipment, valued at \$17 million, was adequately recorded and accurately reported on financial statements.

Individual Court Audits

OSA audits of individual courts identified a range of issues that placed computer systems and the business operations they support at risk. A lack of disaster recovery and business continuity planning, for example, was noted at every court reviewed. This was a matter of particular concern because a loss of processing capabilities could result in significant delays in handling warrants, fines, and fees, and in determining criminal case dispositions.

- *Boston Municipal Court* needed to formally document its policies and procedures relating to IT activities and to develop and implement an appropriate business continuity strategy. At the time of the audit, the Court was unaware of any steps the Administrative Office of the Trial Court would take to recover IT processing capabilities or to provide network and system availability and did not have its own plans for restoring business operations in the event that automated systems were damaged or no longer accessible.
- *Brockton District Court* needed to strengthen controls pertaining to business continuity planning, physical security, system access security, and inventory control. Although the Court had a disaster recovery plan for restoring its Judicial Management System, the automated system used for processing and managing information on its criminal cases, the plan was not adequately detailed and did not designate an alternate processing site. With respect to other computer operations, sufficient recovery strategies had not been developed by the Court in conjunction with AOTC to restore computer functions in the event that automated systems were damaged or destroyed. The Court had certain physical security and system access security controls, but needed to improve its management of electronic keycards in order to ensure that cards are deactivated for former employees and that individuals are assigned only one access card. Similarly, password administration control procedures for computer users needed to be strengthened to ensure that user accounts no longer required would be deactivated in a timely manner. Finally, the Court had not performed a physical inventory of its computer equipment and did not maintain a complete and accurate list of IT assets.

- *Central Berkshire District Court (Pittsfield Division)* needed to strengthen IT-related controls pertaining to physical security, environmental protection, and business continuity planning. In addition, control practices would be strengthened by having IT-related policies and procedures readily available to guide staff in performing IT tasks and activities. Specifically, adequate controls were not in place to prevent or detect unauthorized access to various parts of the courthouse. In addition, the telecommunication room, which houses automated systems, was not in a secure area of the facility and did not have smoke, heat, or water detection devices. Finally, at the time of the audit, the Court did not have business continuity or user area plans to address the loss of automated processing should IT systems become inoperable or unavailable.
- *East Boston District Court* had not documented a formal business recovery strategy for restoring Court-based business operations in the event that automated systems were damaged or no longer accessible. The OSA recommended that the Court develop and implement an appropriate business continuity strategy, including identification of an alternate operational site, provision for on-site and off-site backup of hardcopy files, and the testing of recovery plans.
- *Suffolk Probate and Family Court* needed to document its IT-related policies and procedures in order to provide sufficient, formal guidance for IT-related tasks and activities and to help ensure that important operational and control objectives are met. In addition, the Court needed to develop an effective disaster recovery plan that details steps to be taken should automated systems become inoperable or unavailable.
- *Waltham District Court* needed to strengthen its overall IT organization and management controls in order to provide an appropriately documented internal control framework for IT functions and activities. In addition, IT-fixed-asset controls needed improvement in order to provide for the proper accounting of the Court's IT resources. The Court was unable to provide a current inventory list of IT resources and had not conducted an annual physical inventory. An up-to-date, accurate inventory can assist the Court in assuring that all resources are safeguarded and the total value is properly reflected in the Court's records. Finally, the Court had not developed adequate disaster recovery and contingency plans to address a potential loss of automated processing. As a result, the Court was at risk of not being able to perform essential functions should its automated systems be disrupted or lost.

Additional Findings Categorized by Issues

The following are examples of findings from selected IT audits.

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.

- *Bridgewater State College* had a documented disaster and business continuity plan, and had on-site and off-site storage of backup copies of computer media. However, the College needed to formally designate an alternate processing site for IT operations and to update and test its recovery plan.
- *Quincy Housing Authority* had not developed a formal, comprehensive disaster recovery and business continuity plan for restoring processing functions in the event that automated systems were rendered inoperable or inaccessible. Without sufficient recovery plans, Authority activities, such as processing tenant applications and accounting for rent monies, would be adversely affected should its automated capabilities be significantly disrupted or lost. The OSA recommended that the Authority perform a risk analysis and criticality assessment, and then develop, test, and implement a written disaster recovery and business continuity plan.

Inventory Controls: IT-Related Assets

All state entities are required to maintain complete inventories of IT resources, such as computer equipment and software, to ensure that these fixed assets are properly accounted for, safeguarded, 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.

- *The Executive Office of Health and Human Services* had not performed a periodic inventory and reconciliation, affixed state identification numbers on all computer equipment, or properly recorded costs of IT-related equipment on its inventory records. Further, a software inventory record had not been developed. As a result, the IT inventory record lacked integrity and IT-related resources could be exposed to an increased risk of loss, theft, and misuse. In addition, due to the lack of cost figures and because more than 30% of computer-related equipment was not listed on the inventory record, the total valuation for IT-related resources could not be readily determined or accurately reported on financial statements.

- *The Registry of Vital Records and Statistics*, a division of the Department of Public Health, did not maintain a complete and accurate IT inventory, including attributes of cost, date of purchase, and equipment serial numbers for individual items. The absence of a detailed and reconciled inventory record could hinder the entity's ability to manage IT resources, detect theft or unauthorized use of computer equipment, and accurately report valuations on financial records.

Organization and Management Controls

Effective controls need to be in place over the general operation and management of IT facilities. The organizational structure must provide staff with sufficient guidance and accountability for performing IT-related functions and help to ensure that resources are used in the most beneficial way, assets are safeguarded, and reliable information is produced in a timely manner.

- *The Office for Refugees and Immigrants*, which reports to and is funded by the Executive Office of Health and Human Services, did not have sufficiently documented policies and procedures to address all IT functions. Although the Office did maintain policies and procedures for physical and system access security, there were no such policies and procedures for the control of hardware or software inventory, on-site or off-site storage of backup copies of magnetic media, or business continuity and contingency planning.
- *Quincy Housing Authority* needed to strengthen IT-related general controls in order to provide staff with sufficient guidance for performing IT-related functions. The Authority did not have documented and approved policies and procedures in place to provide reasonable assurance that control and business objectives would be achieved for physical security, system access security, environmental protection, IT-related fixed assets, on-site and off-site stored magnetic media, and business continuity. The absence of formal standards and policies leads employees to rely on their individual interpretations of what is required to properly control IT-related activities and systems. In such circumstances, management does not have a sufficient basis for ensuring that desired actions will be taken and that undesired events will be prevented or detected.

System Access Security

Industry guidelines and baseline controls advocate that appropriate access security controls be in place for automated systems, especially mission-critical or high-risk applications, 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 Executive Office of Health and Human Services* needed to document its control procedures for authorization and activation of user access privileges. Policies and procedures should also include the process for deactivation and deletion of logon IDs and passwords, and for promptly notifying the agency's IT division of all changes in employee status that could impact access privileges.
- *Quincy Housing Authority* needed to strengthen system access security controls in order to ensure that only authorized users have access to its automated systems. Although the Authority had certain access security policies in place, there were no policies requiring users to have minimum composition length passwords. As a result, the audit found users with three letter passwords, far fewer than the recommended minimum of eight alpha/numeric characters. There were also no written IT policies and procedures for notifying the Authority's IT staff of changes in employee status or for monitoring user access.

Financial-Related Issues

The audit of Quincy Housing Authority disclosed serious financial issues, including administrative control deficiencies and costly delays in the leasing of vacant units. A summary of these findings follow.

- Quincy Housing Authority did not maintain the minimum operating reserve amounts required by the Department of Housing and Community Development (DHCD). For the 30 months between July 2001 and December 2003, the Authority underfunded its operating reserve account by an average monthly total of \$505,318. As a result, DHCD lowered the Authority's management rating from an "Acceptable Performance" status to "No Rating," a status that requires the Authority to present timetables and work plans to address financial deficiencies and management issues. Operating reserve deficits also hindered the Authority in making major capital improvements to maintain its housing units.

- Quincy Housing Authority lost the opportunity to earn approximately \$181,000 in potential rental income in fiscal year 2003 by not filling vacant units on a timely basis. Authority management was taking an average of 371 days over the DHCD time frame guideline of 21 days to re-rent apartments. As a result, the Authority did not maximize its rental income and may have deprived eligible applicants, at least temporarily, of needed housing. The audit also noted that the lack of available funds for renovations and maintenance due to the low operating reserve balance exacerbated the unit turnover problem, while the loss of \$181,000 in potential annual income negatively impacted the Authority's operating reserves.

INITIATIVES

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

Division of Transitional Assistance

The OSA is conducting an information technology (IT) general control examination of IT activities at the Department of Transitional Assistance (DTA). The audit scope includes an examination of internal controls related to the organization and management of IT activities and operations, logical access and physical security, and environmental protection over the systems and applications inclusive of the DTA network. Auditors will also perform an evaluation of IT-related contract management, program change control, disaster recovery and business continuity planning, and on-site and off-site backup of magnetic media storage. In addition, the audit will include an assessment of the adequacy and effectiveness of controls in place to ensure the integrity and confidentiality of the data used in the Benefit Eligibility and Control On-line Network (BEACON) system, specifically Transitional Aid to Families and Dependent Children (TAFDC). Consequently, we will perform an assessment of controls in place by DTA to ensure that benefits are only provided to eligible applicants.

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. In addition, we will perform an evaluation of prior audit recommendations at colleges we have audited in the past.

Review of the Commonwealth's Virus Protection Program

The OSA is conducting an audit to determine whether adequate policies and procedures are in effect for virus protection of computer assets at agencies of the Commonwealth. The audit will assess the extent to which agencies have been following appropriate preventive and detective controls to address virus protection and identifying the impact of instances of noncompliance with generally accepted virus protection policies and procedures on the Commonwealth's statewide Wide Area Network and on selected individual entities' automated systems.

Computer Data Security

The OSA is reviewing 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 includes reviewing state agencies' overall compliance with the Commonwealth of Massachusetts Information Technology (IT) and Enterprise Security Policies. We are surveying selected state agencies to obtain information regarding: (1) their awareness of the Commonwealth's IT security policies, standards, and guidelines; (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.

DIVISION ACTIVITIES

The Bureau of Special Investigations

The OSA's Bureau of Special Investigations (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.

To accomplish its mission, BSI works closely with law enforcement agencies at the federal, state, and local level. These agencies include the Federal Bureau of Investigation, the Food and Drug Administration, the federal Health and Human Services' Office of the Inspector General, the U.S. Attorney's Office, the state Attorney General's Medicaid Fraud Control Unit, the State Police, District Attorneys' Offices, and local police.

An Act Relative to the Authority of the Bureau of Special Investigations, an initiative developed and filed by the OSA for the 2003-2004 legislative session, was enacted and signed into law as Chapter 338 of the Acts of 2004. This new law, which makes technical corrections to BSI's enabling statute and assures access by BSI to certain tax records necessary for the investigation of Medicaid fraud cases, enables BSI to more effectively carry out its mandated investigative responsibilities.

Highlights of BSI activities and accomplishments are detailed below.

- During fiscal year 2004, BSI identified fraudulently obtained cash assistance, Food Stamps, and Medicaid benefits totaling over \$2.2 million. These completed cases were referred to the appropriate agency for prosecution or civil recovery.
- BSI, during this period, completed over 1,300 investigations into allegations of fraud in the Transitional Assistance, Emergency Assistance, and Food Stamp programs. The majority of these cases involved recipients who applied for benefits based on income deprivation from an absent parent when, in fact, this parent was living with the family and was employed. Other cases involved unreported income or assets or other eligibility violations.

- Over the past year, the OSA committed additional resources to pursuing “border fraud,” the illegal receipt of Massachusetts benefits by those living out-of-state. BSI completed investigations that resulted in the criminal prosecution of eight individuals who received over \$250,000 in Medicaid benefits while residing in another state. The ten completed cases resulted in orders of restitution in excess of \$275,000. In addition to these cases, 90 other investigations of border fraud were in progress.
- BSI is continuing its investigations of drug diversion, cases alleging the use of Medicaid benefits for drug-related criminal activities. Most of 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 an increasing number of cases, recipients conspire with providers to obtain these drugs and both need to be appropriately investigated and referred for criminal prosecution. For example, during the report period, BSI investigators and federal agents conducted several joint operations involving pharmacies and providers suspected of health-care fraud.
- The majority of BSI Food Stamp fraud referrals involve eligibility issues, such as unreported assets and income, and false identities. BSI efforts are also focused on allegations of Food Stamp trafficking in which a recipient and a retailer conspire to convert Food Stamps into currency. Typically, the retailer pays the recipient 50% of the value of the Food Stamp card in cash. The retailer then debits the full value of the Food Stamp card. No food leaves the store. This criminal activity not only defrauds the Food Stamp program, but also deprives needy children of food and increases their vulnerability to malnutrition and illness.
- BSI has also focused attention on Personal Care Attendant (PCA) fraud, where falsified timesheet submissions have enabled certain caregivers to receive payment for services that were not provided. During the report period, two investigations involving over \$15,000 in identified PCA fraud were successfully prosecuted and fifteen additional PCA cases were investigated, identifying an additional \$424,000 in fraud.
- An initiative undertaken by BSI investigators and OSA auditors in cooperation with the Massachusetts State Treasurer’s Lottery Division identified seven individuals who each cashed lottery winnings in excess of \$100,000 annually for calendar years 2000 through 2004 while in receipt of public assistance and MassHealth benefits. The cost to the Commonwealth for these fraudulently obtained benefits was determined to be \$173,574.
- BSI, over the past year, received allegations of fraud in publicly funded childcare programs. The Bureau completed two investigations involving \$122,000 in fraudulently obtained day care and other benefits. Another case involved identity theft that resulted in multiple payments to an ineligible recipient. These cases have been referred to the appropriate District Attorney for prosecution.

Division of Local Mandates

To ease some of the impact of property tax limits, Proposition 2 1/2 included provisions establishing the Local Mandate Law and the Division of Local Mandates (DLM) within the Office of the State Auditor. With limited financial resources, cities and towns would find it increasingly difficult to support unfunded state mandates. Accordingly, the Local Mandate Law sets the general standard that post-1980 state laws and regulations that impose new costs on cities, towns, regional school districts, or educational collaboratives must either be fully funded by the Commonwealth or subject to voluntary local acceptance. (See Chapter 29, Section 27C of the General Laws.) DLM is responsible for determining the local financial impact of proposed or existing state mandates. Any community aggrieved by a law or regulation that is contrary to the standards of the Local Mandate Law may request an exemption from compliance in Superior Court, and submit DLM's fiscal impact determination as prima facie evidence of the amount of 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 significant bills, prepares preliminary cost studies where applicable, 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, state agencies, and governmental associations.

Chapter 126 of the Acts of 1984 expanded the Division's mission 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 contributes to the development of state policy that is more sensitive to local revenue limits so that cities and towns can maintain more autonomy in setting municipal budget priorities.

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

Municipal Impact Studies

The Municipal Medicaid Program

During this period, DLM issued a report on the Municipal Medicaid Program, offering recommendations to increase this source of federal money to help support the cost of special education by up to \$50 million per year. The federal program, which is known as the School Based Health Services Program, has provided nearly \$460 million in federal financial assistance to cities, towns, and regional school districts in Massachusetts from its inception in fiscal year 1994 through fiscal year 2002. Fiscal year 2003 receipts exceeded \$100 million in reimbursements for certain administrative activities and for qualified services delivered to Medicaid-eligible children enrolled in special education programs. Qualified services may include medical evaluations; services of physicians and dentists; physical, speech, and occupational therapies; eyeglasses; and prescriptions, among others.

The Federal Financial Participation rate for Massachusetts is 50% so, as a general rule, about half of the expense rate allowed for these services provided to special needs students is reimbursable. State law provides that local expenditures serve as the required state match for federal aid, so there is no demand on state revenues or state Medicaid expenditures. Responsibility for state-level program development and administration lies with the Division of Medical Assistance (DMA) within the Executive Office of Health and Human Services.

This report had several objectives. One was to follow up on the OSA's prior recommendations to pursue this source of federal aid as one means to ease the cost of special education for local governments. Another was to evaluate the financial benefit to cities, towns, and regional school districts since program inception. The final objective was to learn whether there might be means to enhance this benefit, and to make recommendations to that effect.

Major findings and recommendations are highlighted below.

The overall finding of this report was that a combination of legislative and agency actions could increase federal assistance under this program by as much as \$50 million annually. Specifically, DLM recommended:

- The General Court should enact legislation to earmark Municipal Medicaid receipts for school purposes, at a minimum assuring that at least federal money realized as a result of new effort is returned directly to school departments. Our survey of special education administrators indicated that lack of earmarking is a significant obstacle to maximizing this source of federal aid.
- DMA should develop a fee-for-service rate structure/billing methodology for the program. DMA had failed to pursue earlier research conducted at the University of Massachusetts indicating that such a restructuring of the billing method could yield an annual increase in federal aid approaching \$50 million.

- DMA and the Department of Education should undertake specified administrative, regulatory, and technical assistance actions to increase the number of claims filed by participating districts. Data indicates that a significant number of districts are entitled to submit claims on account of many more pupils than they actually do. This amounts to a potential loss of federal aid of nearly \$10 million per year. Since districts have up to two years from the date of service to submit claims, they may seek reimbursement for pupils served up to two years earlier. In theory, the sum of these retroactive entitlements could approach \$20 million.
- DMA should implement oversight procedures to minimize incidences of improper payments. The U.S. Department of Health and Human Services, Office of the Inspector General, found that approximately 6% of the federal reimbursements claimed by eight districts in fiscal year 2000 were inappropriate. DMA had not complied with its duty to ensure that district claims are submitted in compliance with federal requirements.
- DMA should review federal program parameters to ensure that the state program captures all reimbursement opportunities. For example, while other New England states collect federal aid for special education evaluations, the Massachusetts program excludes this service. Additionally, the Massachusetts allowance for team meeting participants appears to be unduly limited. The fact that these two gaps exist in the state program leads to the concern that there may be other missed opportunities as well.
- DMA should provide updated program manuals, include a Municipal Medicaid section on its website, and improve overall communications with school districts. Finally, the division should implement data management procedures to facilitate program monitoring, oversight, and review.

Mandate Determinations and Legislative Studies

The Uniform Statewide Polling Hours Law

The Division of Local Mandates certified a total of \$1,990,275 for distribution to the Commonwealth's cities and towns to cover expanded polling hours costs related to the 2004 March Presidential primary, the 2004 September state primary, and the November elections. A state mandate, Chapter 503 of the Acts of 1983, requires municipalities to keep polling places open from 7 a.m. to 8 p.m. for all state and federal elections, resulting in an additional three hours of polling place operation expenses. Chapter 503 also directs DLM to determine the local financial impact of this mandate for each city and town. Communities must document any additional election costs and submit them to DLM for certification. The Massachusetts Secretary of State then distributes the funding.

Cities and towns received \$663,426 in state funding for extra polling hours associated with the 2004 March Presidential primary. DLM certified an additional \$1,326,849 to be distributed to municipalities shortly before the 2004 September and November state elections. The combined amounts for the three elections ranged from \$182,265 for Boston to \$189 for Mount Washington. By the fall of 2004, DLM will have certified, and cities and towns will have received, \$13.5 million in local election funding under this law.

Special General Election Costs to Fill a Vacancy

On the same day as the March 2, 2004 Presidential primary, the twelve municipalities of the 25th Senatorial District also conducted a special general election to fill the vacancy created by the resignation of Senator Cheryl A. Jacques. Although DLM had previously certified the \$663,426 cost for the Presidential primary, DLM determined that additional mandated expenses would arise due to the subsequent scheduling of the special general election on the same day.

Separate from the cost of providing personnel to conduct the Presidential primary, the twelve communities were required to employ additional checkers to process voters intending to vote in the special election. Consequently, DLM obtained from these communities updated data on staffing requirements and costs for this purpose, and determined that the Commonwealth needed to provide an additional \$4,578 to assume the personnel costs associated with the uniform polling hours law. This amount was distributed to the 25th Senatorial District communities on February 23, 2004.

Chapter 386 of the Acts of 2002: The English Immersion Law

DLM responded to a request from the Framingham School Committee regarding An Act Relative to the Teaching of English in Public Schools. Specifically, the School Committee asked that this law not be implemented until the Commonwealth provided funds to assume compliance costs for fiscal years 2004 and 2005. DLM explained that while the Judiciary may, under certain circumstances, suspend the operation of a state law, the Office of the State Auditor does not have the authority to void a law, nor may a municipality unilaterally decide not to comply. Rather, it is DLM's role to issue an opinion as to whether the Local Mandate Law applies in a given case, and to determine the amount of the cost imposed by the law or regulation at issue.

In summary, DLM concluded that the Local Mandate Law does not apply to the English Immersion Law, which was enacted through the citizens' initiative process provided by Article 48 of the Amendments to the Constitution. The state Supreme Judicial Court has stated that the Local Mandate Law does not apply to "mandated costs or services which were not initiated by the Legislature and over which it has no control" (*Town of Lexington v. Commissioner of Education*, 1985). In this case, the Legislature declined to approve an earlier bill to establish English Immersion programs, and the people enacted the law notwithstanding the inclination of the Legislature. Accordingly, DLM concluded that the Local Mandate Law does not apply to the English Immersion Law.

Nonetheless, DLM informed the School Committee of a number of existing and potential financial resources to support the \$200,000 estimated cost of making the transition to English Immersion programs. For example, Framingham was due \$251,144 in fiscal year 2004 funding for English language acquisition programs under the federal No Child Left Behind Act. Framingham may also have been eligible for a Competitive Immigrant Grant and a Refugee Children Impact Grant.

The Department of Education also estimated that state school aid under Chapter 70 provided \$651,902 to Framingham's bilingual programs in fiscal year 2002. Comparable aid levels were expected to continue in support of English language learner instruction in fiscal year 2004 (minus any reduction due to a state revenue shortfall) and beyond. Further, Section 210 of the fiscal year 2004 state budget allows school districts to maintain two-way bilingual programs, providing additional programmatic flexibility.

The E-government Initiative: Department of Revenue Bulletin 2003-12

In response to a request from the Department of Revenue (DOR), Division of Local Services, DLM reviewed the so-called E-government initiative. Under the initiative, the Division encouraged localities to file certain documents electronically, rather than on paper. The intent is to eventually not accept certain sorts of filings except via the Internet. The Division recognized that some communities would need to incur costs for computer equipment, Internet access, and training to comply with this requirement.

DLM informed the Division of Local Services that the Local Mandate Law would not apply to the E-government initiative, as it appeared to impose only "incidental administration expenses." In relevant part and in general terms, the Local Mandate Law does not apply to agency requirements that impose "relatively minor expenses related to the management of municipal services" (*City of Worcester v. the Governor*, 1994).

DLM determined that the compliance costs in this case would be "relatively minor expenses," since outlays for this purpose should not exceed a one-time cost of \$2,000 in any community. Nonetheless, DLM expressed support for DOR's intent to provide technical assistance and to utilize a flexible implementation schedule to the extent feasible. Such efforts would be especially important for unprepared communities, particularly smaller towns, where even relatively minor costs may be difficult to absorb.

The State Department of Environmental Protection: Annual Compliance Assurance Fees

DLM reviewed issues raised by the Chief of the City of Gloucester Fire Department concerning Department of Environmental Protection (DEP) annual compliance assurance fees. Chapter 21E authorizes DEP to levy such fees to offset costs for inspection and enforcement activities related to oil and hazardous material release and disposal sites. The Fire Chief requested DLM to determine whether the Local Mandate Law applied to a \$2,000 compliance fee DEP charged the City in 2002 related to a release of gasoline at the Gloucester Fire Headquarters.

DLM advised the Fire Chief that in light of court interpretations, the Local Mandate Law does not apply in this instance. This is primarily because this cost is imposed generally across the public and private sectors, and not directed particularly at cities and towns.

In a court decision with relevance to the City of Gloucester petition, the state Supreme Judicial Court ruled that the Local Mandate Law did not apply to costly regulations governing sanitary landfills. This was because these were “generally applicable environmental regulations” that applied to public and private landfill owners, and resulted in costs only to municipalities that chose to engage in the activity (*Town of Norfolk v. Department of Environmental Quality Engineering, 1990*). As the DEP compliance and assurance fees at issue apply to public and private owners of fuel storage tanks, it was DLM’s opinion that the Norfolk rule would place these costs beyond the protection of the Local Mandate Law.

The Department of Education: Chapter 70 Education Aid and Municipal Revenue Growth Factors

DLM responded to two petitions from the Sturbridge Town Administrator. Both issues involved questions on local appropriations for schools and the Local Mandate Law. In the first petition, the Town suggested that by ignoring the cap on Municipal Revenue Growth Factors set in Section 2 of Chapter 70, the School Finance Law, the Commonwealth had mandated greater minimum required local contributions to schools in fiscal year 2004 than would have resulted from a strict application of the law. In the second petition, the Town questioned the Department of Education’s (DOE) calculation of preliminary estimates of Chapter 70 aid and minimum spending amounts for fiscal year 2005, based upon the Governor’s House 1 recommendations.

In each case, the Town asked DLM to determine whether these were unfunded mandates subject to the Local Mandate Law. In response, DLM concluded that this law did not apply in either case, because the Legislature essentially overrode the Local Mandate Law in relation to these matters. While noting that the Local Mandate Law establishes the general rule that the state must pay for mandated costs, the Supreme Judicial Court (SJC) has ruled that the Legislature is free to supercede or override it. In *Lexington v. Commissioner of Education*, the SJC wrote, “Proposition 2½ is not a constitutional amendment, and although its genesis was in initiative and referendum, it enjoys a legal status no different from any other statute.”

INITIATIVES

Property Tax Relief for Eligible Senior Citizen Homeowners

During this period, DLM began an update of the OSA's 1998 report, "A Review of Property Tax Exemptions for the Elderly." Conducted pursuant to Section 6B of Chapter 11 of the General Laws, that report presented an evaluation of the financial impact of property tax exemptions on senior citizens and on the state's cities and towns. Subsequently, the Legislature approved a number of local option initiatives and a state income tax credit to help more seniors qualify for higher levels of property tax relief.

The current study, which will continue work on this issue, will summarize the major elderly property tax benefit, update the level of acceptance of the various property tax exemption laws by individual municipalities, provide the best available senior tax assistance data for each city and town, and document the financial impact of the cap on state reimbursements to participating communities. To date, DLM has conducted a statewide telephone survey of cities and towns to gather relevant tax benefit data, and analyzed Department of Revenue data and other associated information.

Lottery Distribution Formula

During this period, DLM continued its review of the statutory formula used to distribute Lottery aid to cities and towns. Based on this review, DLM plans to develop recommendations for possible amendments to the formula.

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.

At the close of fiscal year 2004, there were 171 private occupational schools on the OSA active application list. During the twelve months ended June 30, 2004, the OSA certified the financial eligibility of 149 applicants. Twenty-nine of these schools were original applicants, 120 reviews represented annual renewal applications, and 17 previously approved schools were reclassified as inactive during the period.

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.	Bridgewater State College: Information Technology-Related Controls	2003-0177-4T	11/28/2003
2.	Charter Schools Financial Results and Financial Reporting - Fiscal Years 2002 and 2003 (49 Entities)	2004-5110-17C	6/15/2004
3.	Martha's Vineyard Regional High School District	2004-2101-9O	6/4/2004
4.	Massachusetts Bay Community College	2004-0196-3S	6/8/2004
5.	Massasoit Community College: Student Financial Assistance Programs	2004-0197-7S	2/17/2004
6.	Mount Wachusett Community College	2003-0200-3S	2/11/2004
7.	Quinsigamond Community College: Student Financial Assistance Programs	2004-0203-16S	2/17/2004
8.	Roxbury Community College	2002-0204-2S2	7/14/2003
9.	Roxbury Community College: Student Financial Assistance Programs	2004-0204-16S	2/17/2004
10.	Salem State College: Student Financial Assistance Programs	2004-0184-16S	2/17/2004
11.	University of Massachusetts Boston - Parking Garage/Transportation Trust Fund	2003-0214-3S	9/2/2003
12.	University of Massachusetts Lowell - Chapter 647 Review	2003-0206-3S	7/29/2003

HEALTH AND HUMAN SERVICES AUDITS

	<i>Audit</i>	<i>Audit Number</i>	<i>Issue Date</i>
1.	Action for Boston Community Development, Inc. - Fuel Assistance Program	2004-4388-3C	6/30/2004
2.	Community Systems, Inc.	2003-4257-3C	11/25/2003
3.	Department of Public Health - Registry of Vital Records and Statistics: Information Technology-Related Controls	2003-0290-4T	6/25/2004
4.	Department of Public Health - Review of Nursing Home Complaint System	2003-0290-3C	7/21/2003
5.	Department of Youth Services: Chapter 647 Review	2004-0512-12S	6/25/2004
6.	Department of Youth Services: Information Technology-Related Controls	2002-0512-4T	7/9/2003
7.	East Middlesex Association for Retarded Citizens, Inc.	2003-4465-3C	1/21/2004
8.	Executive Office of Health & Human Services: Information Technology-Related Controls	2002-0006-4T	7/23/2003
9.	Greater Lawrence Community Action Council Inc. - Fuel Assistance Program	2004-4480-3C	6/30/2004
10.	Lemuel Shattuck Hospital	2004-0300-3S	4/21/2004
11.	Lifeworks, Incorporated	2004-4267-3C	3/19/2004
12.	Massachusetts Commission for the Deaf and Hard of Hearing: Information Technology-Related Controls	2003-0302-4T	11/28/2003
13.	New England Farm Workers Council, Inc. - Fuel Assistance Program	2004-4457-3C	6/30/2004
14.	Northeast Family Institute -Massachusetts, Inc. Department of Social Services	2003-4181-3C	5/20/2004
15.	People Acting in Community Endeavors, Inc. Fuel Assistance Program	2004-4384-3C	6/30/2004
16.	Review of Pharmacy Operations at Selected State Agencies (13 Entities)	2002-5093-3S	9/8/2003

HEALTH AND HUMAN SERVICES AUDITS

	<i>Audit</i>	<i>Audit Number</i>	<i>Issue Date</i>
17.	Single Audit of the Commonwealth - Department of Social Services	2004-1058-16S	2/18/2004
18.	Single Audit of the Commonwealth - Executive Office of Elder Affairs	2004-0004-7S	4/15/2004
19.	Single Audit of the Commonwealth - Massachusetts Rehabilitation Commission	2004-0054-16S	2/18/2004
20.	Soldiers' Home -Chelsea	2004-0065-3S	3/1/2004
21.	Soldiers' Home -Holyoke	2003-0064-3S	3/1/2004
22.	Soldiers' Home-Holyoke: Privatization Review - Radiology/EKG Department	2004-0064-13O	2/12/2004
23.	South Middlesex Opportunity Council, Inc. - Fuel Assistance Program	2004-4004-3C	6/30/2004
24.	South Shore Community Action Council, Inc. - Fuel Assistance Program	2004-4308-3C	6/30/2004
25.	Spectrum Health Services, Inc.	2002-4453-3C	2/26/2004
26.	The Walker Home for Children, Inc.	2003-4474-3C	1/29/2004
27.	Valley Opportunity Council, Inc. - Fuel Assistance Program	2004-4112-3C	6/30/2004
28.	Vietnam Veterans' Workshop, Inc. D/B/A The New England Shelter for Homeless Veterans	2004-4365-3C	3/1/2004
29.	Worcester Community Action Council, Inc. - Fuel Assistance Program	2004-4479-3C	6/30/2004

HOUSING AUTHORITY AUDITS

	<i>Audit</i>	<i>Audit Number</i>	<i>Issue Date</i>
1.	Affordable Housing Trust Fund (2 Entities) <i>Department of Housing and Community Development Massachusetts Housing Finance Agency</i>	2003-5102-3A	12/4/2003
2.	Andover Housing Authority	2003-0598-3A	8/20/2003
3.	Auburn Housing Authority	2004-0605-3A	8/20/2003
4.	Ayer Housing Authority	2004-1037-3A	3/5/2004
5.	Barre Housing Authority	2004-0607-3A	6/21/2004
6.	Bourne Housing Authority	2004-0618-3A	5/17/2004
7.	Brookfield Housing Authority	2003-1075-3A	7/22/2003
8.	Canton Housing Authority	2004-0628-3A	10/23/2003
9.	Carver Housing Authority	2004-1285-3A	1/30/2004
10.	Clinton Housing Authority	2003-0635-3A	7/30/2003
11.	Department of Housing & Community Development	2003-0001-3A	11/25/2003
12.	Dighton Housing Authority	2004-0643-3A	10/29/2003
13.	Dracut Housing Authority	2004-0843-3A	6/15/2004
14.	Dudley Housing Authority	2004-0970-3A	10/14/2003
15.	Duxbury Housing Authority	2004-0644-3A	1/26/2004
16.	East Bridgewater Housing Authority	2004-0645-3A	12/17/2003
17.	Fairhaven Housing Authority	2004-0651-3A	2/13/2004
18.	Fitchburg Housing Authority	2004-0655-3A	10/30/2003
19.	Foxborough Housing Authority	2003-0657-3A	7/30/2003
20.	Framingham Housing Authority	2004-0658-3A	4/27/2004
21.	Franklin Housing Authority	2004-0660-3A	2/26/2004
22.	Groton Housing Authority	2004-1325-3A	10/23/2003

HOUSING AUTHORITY AUDITS

	<i>Audit</i>	<i>Audit Number</i>	<i>Issue Date</i>
23.	Hamilton Housing Authority	2004-0671-3A	9/22/2003
24.	Hanover Housing Authority	2004-1288-3A	1/29/2004
25.	Hopedale Housing Authority	2004-0680-3A	5/26/2004
26.	Hudson Housing Authority	2003-0682-3A	7/23/2003
27.	Marblehead Housing Authority	2004-0705-3A	10/28/2003
28.	Mashpee Housing Authority	2004-0707-3A	6/14/2004
29.	Maynard Housing Authority	2004-0710-3A	12/17/2003
30.	Mendon Housing Authority	2004-0716-3A	1/8/2004
31.	Methuen Housing Authority	2004-0718-3A	3/22/2004
32.	Middleborough Housing Authority	2004-0720-3A	12/5/2003
33.	Nahant Housing Authority	2004-0728-3A	3/12/2004
34.	Needham Housing Authority	2004-0731-3A	9/5/2003
35.	North Andover Housing Authority	2004-0742-3A	6/9/2004
36.	North Attleborough Housing Authority	2004-0743-3A	6/3/2004
37.	North Brookfield Housing Authority	2003-0901-3A	7/22/2003
38.	North Reading Housing Authority	2004-0746-3A	3/19/2004
39.	Northboro Housing Authority	2004-0744-3A	3/19/2004
40.	Norton Housing Authority	2004-0747-3A	5/12/2004
41.	Orleans Housing Authority	2004-0750-3A	12/17/2003
42.	Palmer Housing Authority	2004-0752-3A	5/17/2004
43.	Pepperell Housing Authority	2004-1071-3A	12/24/2003
44.	Plymouth Housing Authority	2004-0760-3A	5/17/2004
45.	Quincy Housing Authority	2004-0762-4T	6/28/2004

HOUSING AUTHORITY AUDITS

	<i>Audit</i>	<i>Audit Number</i>	<i>Issue Date</i>
46.	Rockport Housing Authority	2004-0767-3A	3/19/2004
47.	Rowley Housing Authority	2004-0768-3A	5/24/2004
48.	Sandwich Housing Authority	2003-0771-11A	4/13/2004
49.	Scituate Housing Authority	2004-0773-3A	10/29/2003
50.	Seekonk Housing Authority	2004-0774-3A	2/25/2004
51.	Sharon Housing Authority	2004-0775-3A	11/5/2003
52.	Shrewsbury Housing Authority	2003-0776-3A	8/20/2003
53.	Single Audit of the Commonwealth - Department of Housing and Community Development	2004-0001-16S	2/18/2004
54.	Somerville Housing Authority	2004-0778-3A	11/19/2003
55.	Spencer Housing Authority	2004-0784-3A	2/6/2004
56.	Statewide Review of Subsidy Calculations for Local Housing Authorities (35 Entities)	2003-5106-16A	5/12/2004
57.	Sterling Housing Authority	2004-0787-3A	5/19/2004
58.	Stoneham Housing Authority	2004-0788-3A	9/5/2003
59.	Stow Housing Authority	2004-1336-3A	7/23/2003
60.	Sudbury Housing Authority	2004-0830-3A	5/24/2004
61.	Swansea Housing Authority	2004-0793-3A	1/8/2004
62.	Templeton Housing Authority	2004-0872-3A	6/14/2004
63.	Wareham Housing Authority	2004-0803-3A	4/29/2004
64.	Wayland Housing Authority	2004-0806-3A	4/21/2004
65.	Wellesley Housing Authority	2003-0808-3A	1/5/2004
66.	West Bridgewater Housing Authority	2003-0810-3A	7/21/2003
67.	Westborough Housing Authority	2004-0809-3A	12/30/2003
68.	Westford Housing Authority	2004-0812-3A	10/14/2003
69.	Winthrop Housing Authority	2003-0822-3A	9/29/2003

SINGLE AUDITS OF HOUSING AUTHORTIES

	<i>Audit</i>	<i>Audit Number</i>	<i>Issue Date</i>
1.	Abington Housing Authority	2003-0591-8F	7/28/2003
2.	Acton Housing Authority	2003-1011-8F	11/25/2003
3.	Avon Housing Authority	2003-0600-8F	3/5/2004
4.	Belmont Housing Authority	2003-0611-8F	12/23/2003
5.	Billerica Housing Authority	2003-0614-8F	10/31/2003
6.	Braintree Housing Authority	2003-0619-8F2	12/30/2003
7.	Braintree Housing Authority	2003-0619-8F	11/25/2003
8.	Bridgewater Housing Authority	2003-0620-8F	7/23/2003
9.	Bridgewater Housing Authority	2004-0620-8F	4/8/2004
10.	Burlington Housing Authority	2003-0625-8F	12/23/2003
11.	Chicopee Housing Authority	2003-0633-8F	7/29/2003
12.	Danvers Housing Authority	2004-0639-8F	4/8/2004
13.	Dartmouth Housing Authority	2003-0640-8F	2/6/2004
14.	Easton Housing Authority	2003-0648-8F	3/23/2004
15.	Everett Housing Authority	2003-0650-8F	11/25/2003
16.	Gardner Housing Authority	2003-0662-8F	11/25/2003
17.	Greenfield Housing Authority	2003-0669-8F	7/30/2003
18.	Haverhill Housing Authority	2003-0673-8F	11/25/2003
19.	Ipswich Housing Authority	2003-0685-8F	7/28/2003
20.	Malden Housing Authority	2004-0701-8F	6/10/2004
21.	Malden Housing Authority	2003-0701-8F	12/23/2003

SINGLE AUDITS OF HOUSING AUTHORTIES

	<i>Audit</i>	<i>Audit Number</i>	<i>Issue Date</i>
22.	Melrose Housing Authority	2003-0715-8F	1/20/2004
23.	Milton Housing Authority	2003-1044-8F	4/13/2004
24.	Natick Housing Authority	2003-0729-8F	10/31/2003
25.	Newton Housing Authority	2003-0736-8F	12/30/2003
26.	Reading Housing Authority	2004-0764-8F	5/17/2004
27.	Reading Housing Authority	2003-0764-8F	10/31/2003
28.	Revere Housing Authority	2004-0765-8F	2/6/2004
29.	Salem Housing Authority	2003-0769-8F	7/23/2003
30.	Salisbury Housing Authority	2003-0834-8F	3/5/2004
31.	Stoughton Housing Authority	2003-0789-8F	12/23/2003
32.	Stoughton Housing Authority	2004-0789-8F	4/8/2004
33.	West Springfield Housing Authority	2004-0814-8F	3/8/2004
34.	Westfield Housing Authority	2003-0811-8F	1/29/2004
35.	Winchester Housing Authority	2003-0821-8F	4/6/2004
36.	Woburn Housing Authority	2004-0823-8F	4/7/2004

INDEPENDENT AUTHORITY AUDITS

	<i>Audit</i>	<i>Audit Number</i>	<i>Issue Date</i>
1.	Brockton Area Transit Authority	2004-0881-3A	5/11/2004
2.	Cape Ann Transportation Authority	2003-0395-3A	9/17/2003
3.	Lowell Regional Transit Authority	2004-0882-3A	2/6/2004
4.	Massachusetts Bay Transportation Authority - Electric Buses Contract	2004-0583-3A1	6/29/2004
5.	Massachusetts Bay Transportation Authority - Outdoor Advertising Contract	2003-0583-3A2	11/21/2003
6.	Massachusetts Convention Center Authority	2003-1272-3A	10/28/2003
7.	Massachusetts Health & Educational Facilities Authority	2003-0041-3A	10/17/2003
8.	Massachusetts Technology Development Corporation	2003-0136-3A	4/14/2004
9.	Massachusetts Technology Park Corporation	2003-1304-3A	2/5/2004
10.	New Bedford Oceanarium Corporation	2003-4475-3C	11/6/2003
11.	Old Colony Planning Council	2003-0579-3A	10/8/2003
12.	Schooner Ernestina Commission	2004-1404-3A	6/21/2004
13.	Southeastern Regional Transit Authority	2004-0878-3A	3/3/2004
14.	Standardbred Breeding Program (5 Entities) <i>Standardbred Owners of Massachusetts, Inc.</i> <i>Standardbred Breeding Program</i> <i>State Racing Commission</i> <i>Equine Division – Division of Food & Agriculture</i> <i>Plainridge Race Course</i>	2004-1369-3O	4/21/2004
15.	U.S.S. Massachusetts Memorial Committee, Inc.	2004-4476-16A	11/26/2003
16.	Woods Hole, Martha's Vineyard and Nantucket Steamship Authority - Privatization Review	2004-0587-13O	4/29/2004
17.	Worcester Regional Transit Authority	2004-0880-3A	3/24/2004

JUDICIARY/LAW ENFORCEMENT AUDITS

	<i>Audit</i>	<i>Audit Number</i>	<i>Issue Date</i>
1.	Administrative Office of the Trial Court: Information Technology-Related Controls	2002-1106-4T	6/22/2004
2.	Boston Municipal Court: Information Technology- Related Controls	2004-1131-4T	6/30/2004
3.	Brockton District Court: Information Technology- Related Controls	2003-1198-4T	5/21/2004
4.	Cape and Islands District Attorney's Office	2004-1263-3S	5/17/2004
5.	Criminal History Systems Board	2002-0857-12S	6/24/2004
6.	East Boston District Court: Information Technology-Related Controls	2003-1135-4T	4/6/2004
7.	Massachusetts District Attorneys Association: Information Technology-Related Controls	2003-1419-4T	7/23/2003
8.	Massachusetts Legal Assistance Corporation	2004-1300-3A	2/6/2004
9.	Pittsfield District Court: Information Technology-Related Controls	2003-1173-4T	2/19/2004
10.	Plymouth County Sheriff's Department	2004-1448-3S	12/30/2003
11.	Single Audit of the Commonwealth - Committee on Criminal Justice	2004-0019-16S	2/24/2004
12.	Statewide Review of Forfeited Properties (11 District Attorney's Offices)	2002-5087-3S	8/21/2003
13.	Suffolk Probate & Family Court: Information Technology-Related Controls	2003-1221-4T	9/30/2003
14.	Technical Assistance Provided to the Worcester County District Attorney's Office: Theft of Funds at a Restaurant in Worcester	2003-6029-9O	7/21/2003
15.	Technical Assistance Provided to the Worcester County District Attorney's Office: Investigation of the Former Superintendent of Schools for the Town of Lunenburg	2003-6031-9O	10/10/2003

JUDICIARY/LAW ENFORCEMENT AUDITS

	<i>Audit</i>	<i>Audit Number</i>	<i>Issue Date</i>
16.	Technical Assistance Provided to the Worcester County District Attorney's Office: Theft of Funds at the Auburn School Department	2003-6030-9O	11/5/2003
17.	Waltham District Court: Information Technology-Related Controls	2004-1147-4T	6/10/2004
18.	Worcester County District Attorney's Office	2003-1262-2S	10/8/2003
19.	Wrentham District Court: Information Technology-Related Controls	2003-1162-4T	12/30/2003

OTHER AUDITS

	<i>Audit</i>	<i>Audit Number</i>	<i>Issue Date</i>
1.	Agency Compliance with State Comptroller's Policies and Massachusetts General Laws and Regulations - Selected Transaction Testing FY 2003 (9 Entities) <i>Division of Employment & Training</i> <i>Department of Mental Health</i> <i>Board of Higher Education</i> <i>Department of Mental Retardation</i> <i>Human Resources Division</i> <i>Teachers' Retirement Board</i> <i>Massachusetts State Lottery Commission</i> <i>Massasoit Community College</i> <i>Salem State College</i>	2004-5007-16S	2/19/2004
2.	Agency Compliance with State Comptroller's Year-End Closing Instructions for Cash and Revenue Management - Fiscal Year 2003 (61 Entities)	2003-5002-16S	1/14/2004
3.	Agency Compliance with State Comptroller's Year-End Closing/Opening Instructions for Encumbrance and Advance Fund Management Fiscal Year 2003 (91 Entities)	2003-5001-16S	12/30/2003
4.	Alcoholic Beverages Control Commission (3 Entities) <i>Alcoholic Beverages Control Commission</i> <i>Office of the State Treasurer</i> <i>Office of Consumer Affairs & Business Regulation</i>	2003-0011-3S	10/15/2003
5.	Chapter 555 Determination of Whether Net State Tax Revenues Exceeded Allowable State Tax Revenues - Fiscal Year 2003 (7 Entities) <i>Department of Revenue</i> <i>Division of Employment and Training</i> <i>Division of Insurance</i> <i>Secretary of State</i> <i>State Boxing Commission</i> <i>State Lottery Commission</i> <i>State Racing Commission</i>	2004-5555-16S	9/16/2003
6.	Department of Agricultural Resources: Pesticide Bureau	2003-0091-3S	5/20/2004
7.	Department of Environmental Management - Division of Forests & Parks: Salisbury Beach State Reservation	2003-0276-12S	6/24/2004
8.	Department of Environmental Protection: Chapter 647 Review	2003-0456-12S	7/17/2003

OTHER AUDITS

	<i>Audit</i>	<i>Audit Number</i>	<i>Issue Date</i>
9.	Department of Environmental Protection: Follow-up Review	2000-0456-7	9/17/2003
10.	Department of Public Safety-Elevator Inspection Division	2003-0306-3S	6/2/2004
11.	Disabled Persons Protection Commission	2004-0046-3A	4/13/2004
12.	Executive Office of Environmental Affairs	2002-0005-12S	12/22/2003
13.	Fiscal Affairs Division: Information Technology-Related Controls	2002-0030-4T	8/20/2003
14.	Massachusetts Cultural Council	2003-1328-2S	10/10/2003
15.	Massachusetts Office on Disability: Information Technology-Related Controls	2002-1308-4T	12/31/2003
16.	Massachusetts State Lottery Commission	2003-0089-11S	9/10/2003
17.	Office for Refugees and Immigrants: Information Technology-Related Controls	2003-1370-4T	12/16/2003
18.	Office of Campaign & Political Finance	2003-0865-3S	4/7/2004
19.	Office of Consumer Affairs & Business Regulation: Information Technology-Related Controls	20004-0002-4T	6/30/2004
20.	Office of the Attorney General	2003-0072-2S	5/5/2004
21.	Office of the Secretary of State	2003-0076-3S	5/5/2004
22.	Statewide Review of Risk Assessment Section of Internal Control Plans at Selected State Agencies	2003-5071-17S	2/6/2004
23.	Suffolk County Registry of Deeds	2003-1356-11S	11/26/2003
24.	Underground Storage Tank Program - Petroleum Product Cleanup (5 Entities) <i>UST Fund</i> <i>Department of Revenue</i> <i>Division of Fire Services</i> <i>Executive Office of Public Safety</i> <i>Administrative Review Board</i>	2003-1402-7S	3/4/2004