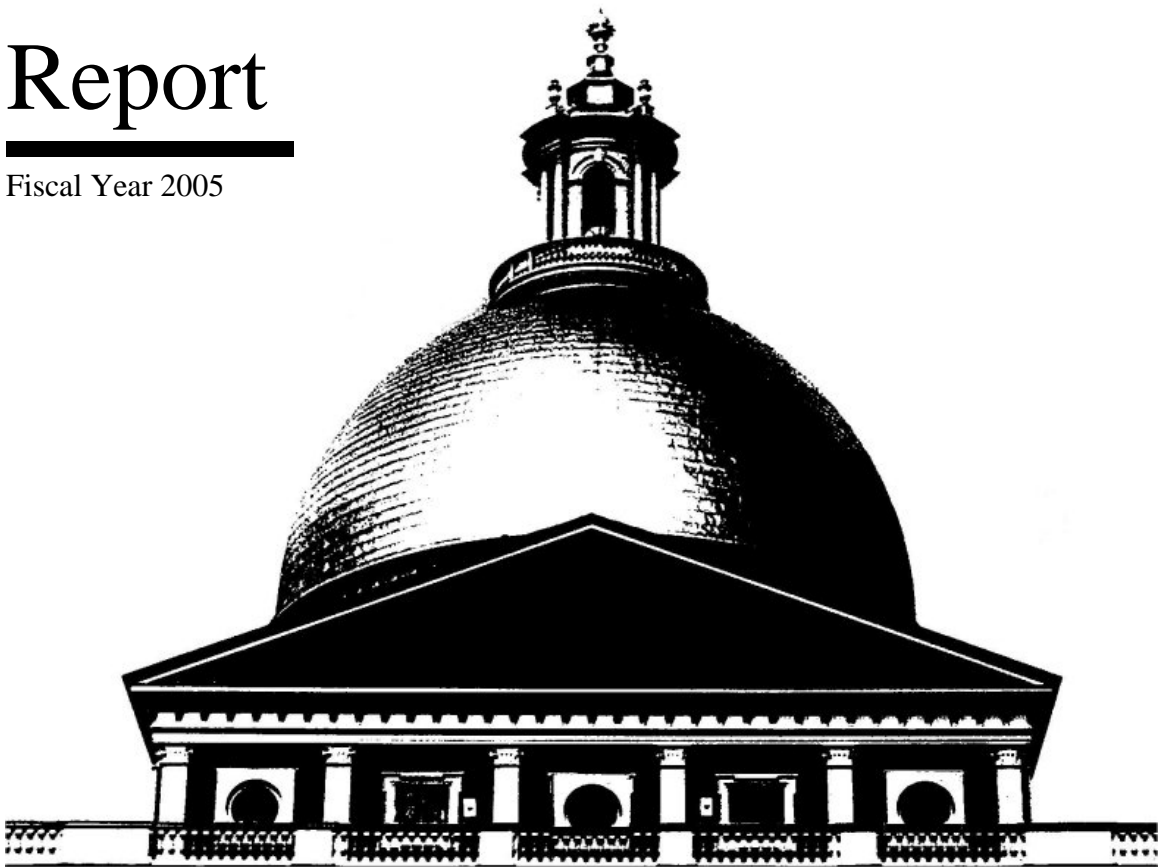


Office of the State Auditor

Annual Report

Fiscal Year 2005



A. Joseph DeNucci

Auditor of the Commonwealth



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 2005

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 Robert A. DeLeo, 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, 2004 through June 30, 2005.

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, my office completed three audits on Homeland Security grants, expenditures, and programmatic issues. We also issued program performance audits assessing the Commonwealth's School Building Assistance and Fuel Assistance programs, a statewide review of accounts receivable and revenue collection efforts, and a series of reports on state entities' computer virus protection activities.

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 dark ink, appearing to read "A. Joseph DeNucci", written over a light blue horizontal line.

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, 2004 through June 30, 2005 the Office of the State Auditor issued 208 reports covering 488 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 71. 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 assist the OSA to focus on areas where weaknesses may 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 fourteen audits covering nineteen education entities. Among these audits were comprehensive reviews of the Everett Public School System and the Department of Education's School Building Assistance Program. 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. Finally, the section includes summaries of OSA oversight activities relative to charter school compliance with financial reporting requirements and the Department of Education's administration of charter school closing procedures.

The EDCO Collaborative

In response to a request from the Department of Education (DOE), the OSA conducted an audit of the EDCO Collaborative, a private nonprofit agency that contracts with DOE to provide instructional programs to at-risk students in the Greater Boston area. The request was made under Chapter 647 of the Acts of 1989, the state's Internal Control Statute, after DOE learned of potential overcharges by EDCO for managing DOE's Educational Services in Institutional Settings program. The OSA reviewed relevant accounts in order to identify any internal control weaknesses pertaining to their administration and to determine whether funds retained in these accounts actually belonged to the Commonwealth. The new Executive Director of EDCO, who had notified DOE that certain improper EDCO program cost charges might have been made, transferred \$1 million dollars to the State Treasurer's Office to be held in escrow pending the results of the OSA audit, which are summarized below.

- The EDCO Collaborative did not adhere to state regulations requiring that tuition payments made by communities and school districts for program services be used to offset DOE's cost of running the program. Instead, at the direction of a former DOE employee who administered the program under review, EDCO shifted non-program-related expenses to its state contract, while building up significant unspent reserves in its tuition accounts. The audit, which covered five fiscal years, determined that, as a result of these cost-shifting activities, EDCO improperly retained \$853,691 that should have been returned to the Commonwealth. The audit also found that EDCO retained an additional \$112,894 in tuition revenues in excess of its actual costs, which should be refunded to the local entities that paid the tuitions. DOE responded in a letter to the Auditor that the OSA's repayment recommendations would be adopted.
- DOE, in collaboration with the Department of Public Health (DPH), used a contracted human service provider, Toward Independent Living, Inc., as a fiscal conduit to pay as much as \$434,943 in expenses for its Educational Services in Institutionalized Settings program during fiscal years 2002 through 2004. This billing process is specifically prohibited under state law because it results in inaccurate financial reporting and increases the potential for the misuse of funds. Moreover, DPH paid the human service provider \$57,024 in administrative fees, which represented an unnecessary expense to the Commonwealth.

The Everett Public School System

In response to a request by the City of Everett, the OSA conducted an audit of the Everett Public Schools primarily for the period July 1, 2002 through June 30, 2004. The request was made under a provision of the 2003 Municipal Relief Act, which authorizes the OSA to conduct specialized local audits when petitioned to do so (See page 41). The audit disclosed hundreds of thousands of dollars in questionable or inappropriate expenditures, as well as serious deficiencies in budgetary procedures, contract procurement, and personnel practices. Major findings are summarized below.

Education

- The Everett Public School System had inadequate controls over the authorization and payment of expenses. As a result, numerous problems involving the potential misuse of school funding were identified. Audit testing of transactions in a variety of areas disclosed \$534,038 in maintenance and other expenses incurred without first obtaining a purchase order, \$79,086 in expenses allocated to the wrong accounts, and over \$199,000 in questionable or inadequately documented expenses, primarily for advertising and legal consultant fees. Among specific findings for fiscal year 2004, \$59,000 intended for MCAS tutoring was spent for other purposes, including a homecoming parade, painting projects, and the lettering of team helmets. In addition, school officials diverted Shore Educational Collaborative funds, which are intended to support special education services, to newspaper ads and athletic activities, as well as to supplement the income of a part-time employee who was already receiving the maximum compensation set by the city for retirees returning to work part-time.
- The Everett Public School System misused certain grant funds. For example, contrary to the condition of its grants, the School Department used \$830,096 in grant funding during fiscal years 2003 and 2004 to pay the salaries of existing teachers rather than to hire new teachers as required. In addition, the School Department did not maintain required time and attendance records relative to \$2,480,212 in payroll expenses charged to grants.
- The Everett Public School System did not have adequate procedures for formulating, tracking, managing, and reporting budgetary activities. Furthermore, school officials, at times, continued to process expenditures from accounts known to be in deficit. As a result, contrary to state law, the School Department overspent its city-appropriated funding amounts by \$1.2 million over a period of four years.
- The Everett Public School System was not in compliance with laws and regulations governing contract procurement. A review of maintenance-related contract expenditures disclosed at least 30 quotes relative to contracts totaling \$264,354 that were questionable or not authentic, including one from a firm that had been out of business since 1997. In addition, \$171,465 worth of bids for maintenance work were split in order to circumvent bidding requirements, and written quotes were not obtained for maintenance expenditures totaling \$86,069. The audit also noted issues relative to split bids and obtaining services without required quotes in other areas of school operations.
- The Everett Public School System engaged in several questionable personnel practices, including the employment of 50 unlicensed teachers, the use of “permanent substitutes” over extended periods of time without obtaining required Department of Education (DOE) waivers, and the misreporting of the number of unlicensed teachers to DOE. In addition, the School System routinely sent layoff notices to all non-tenured teachers regardless of the actual number of layoffs warranted by budget projections. Most of these teachers would be rehired at the start of the following school year. This layoff practice violated state law and also encouraged licensed teachers to seek employment elsewhere. In fact, the audit found that 50% of the newly hired teachers with the highest level of licensure left the Everett Public School System within their first two years of employment.

- In its recommendations, the OSA called for much stronger oversight by the Everett School Committee and increased budget monitoring by city officials. The city and the Everett Public School System needed to establish and implement adequate internal controls over all aspects of school operations, with immediate attention focused on preventing budget overruns, ending bidding irregularities, improving personnel management, and ensuring that school funds are expended for the educational purposes intended. In a meeting held subsequent to the release of the OSA audit, the Everett School Committee voted to adopt the report's major recommendations.

School Building Assistance Program

The OSA conducted an audit of the Department of Education's (DOE) School Building Assistance (SBA) program for the period July 1, 1999 to December 31, 2003. This program provides grants to cities, towns, and regional school districts to help pay the costs of school construction projects. In fiscal year 2004, the SBA program was funding 753 projects at a cost of \$401.3 million. In addition, there were 420 projects on a waiting list. The Commonwealth's total potential liability for future payments, including ongoing projects and those on the waiting list, exceeded \$11 billion. The OSA reviewed prior audit findings and examined oversight, compliance, and internal control issues. Results of this review are summarized below.

- DOE had not adequately addressed the SBA program deficiencies noted in the prior report. As previously cited, DOE did not enforce timely filing by municipalities of final cost information that enables the SBA program to adjust estimated grant amounts to reflect the actual costs of a project. In addition, DOE was still not ensuring that municipalities adhere to regulations regarding bond refinancing, interest costs, and document retention. Furthermore, corrective action had not been taken to adjust project costs based on interest refinancing by municipalities or receipt by municipalities of non-governmental income, such as insurance payments, which could be used to offset project costs.
- DOE, in part due to inadequate resources, did not properly monitor school construction project funding. In addition to failing to establish an effective process for following up on late submissions by municipalities, DOE's auditing procedures were inadequate. As a result, municipalities had not submitted to the SBA program final costs for 169 completed projects. Although SBA program regulations provide for penalties if final costs are not received by deadline, no payments had been suspended or other penalties assessed to any tardy municipality. In addition, SBA program personnel had not fully reviewed final cost information submitted by municipalities for 129 completed projects. The audit estimated that the inability of the SBA program to collect necessary information and conduct timely close-out reviews resulted in missed opportunities to lower payments by as much as \$20,502,873. The audit also recommended that DOE or the SBA program should establish a field audit function in order to improve verification of actual costs and specific expenditures.

- The SBA program needed to provide increased technical and administrative support for ongoing school projects. Given the significant amount of public funding invested and the limited capacity of local governments to administer these projects, a stronger involvement in school construction management was required. In addition, the SBA program's own automated project tracking system needed substantial upgrading.
- Enhanced oversight and technical support are essential in the context of a law, enacted in July 2004, that is expediting construction of the 420 pending school projects by creating a new capital grant program with an accelerated reimbursement schedule. Under the new legislation, an independent Massachusetts School Building Authority has taken over management of the SBA program from DOE. The new law addresses a major concern of the OSA's current and prior audits in that municipalities will receive their final state reimbursement only after the School Building Authority completes a final cost audit on a completed project.

Quinsigamond Community College

The OSA conducted an audit of financial operations at Quinsigamond Community College, including internal controls over revenues, trust fund expenditures, fixed-asset management, and contracts. Major findings are summarized below.

- Quinsigamond Community College had not conducted a full inventory review, including a complete physical inventory of information technology (IT) equipment. In addition, the College maintained IT records separately, rather than compiling a master inventory listing of all property and equipment. As a result, the College's fixed assets were vulnerable to loss and misuse, and its inventory listings were not accurate, particularly with respect to location. Audit testing disclosed seven items that could not be located; several items that were not at their designated locations, though they were found elsewhere; and four IT items that were in use but not recorded on the IT inventory listing.
- The College had not submitted detailed fiscal year 2003 trust fund budgets to its Board of Trustees for approval, as required by its "Trust Fund Management Guidelines" and prudent business practices. Instead, the College combined its trust fund budgets with its college-wide budget and submitted consolidated revenue and expenditure reports. Without accurate and detailed budgets and strong monitoring of trust fund activities, the potential exists for trust funds to develop deficit balances, which are specifically prohibited by the "Trust Fund Management Guidelines," or to operate in a manner inconsistent with the purposes of the accounts. A review of selected Quinsigamond trust funds indicated that the Athletic Center Trust Fund did, in fact, end fiscal year 2003 with a \$76,738 deficit balance, and that other College funds were expended in support of this Trust Fund's activities.

Audits of Federal Student Assistance Programs

The OSA, in this audit period, completed four reviews of student financial assistance programs funded through the United States Department of Education. These reviews were conducted in conjunction with the Single Audit of the Commonwealth for the fiscal year ended June 30, 2004 to determine compliance with federal regulations regarding student assistance and state laws and regulations. The reviews found generally satisfactory compliance, especially with federal regulations and procedures for administering student federal financial assistance. However, certain deficiencies were noted, as detailed below.

- ***Bridgewater State College***'s stated procedures for managing student timesheets were not consistently followed. Specifically, some department supervisors returned signed timesheets to students, rather than directly submitting them to the payroll office as required. Furthermore, timesheets with preprinted control features, although available, were not always used, and appropriate signatures were missing from 52 of 1,375 timesheets. As a result of weak time and attendance controls, timesheets were vulnerable to falsification and, in fact, the College discovered fraudulent timesheets within its Federal Work-Study Program, resulting in a theft of \$998. Other federal student financial assistance findings involved the College's Student Loan programs and included a loan disbursement issue, untimely loan repayment schedules, and inadequacies in the College's quality assurance system for its Direct Student Loan Program.
- ***Bunker Hill Community College*** had 163 checks totaling \$42,884 that had been sent out as student refunds, but remained uncashed for twelve to 24 months. As a result, the College was not in compliance with state law requiring that checks outstanding for over one year be transferred to the State Treasurer's Unclaimed Check Fund. In addition, Bunker Hill Community College did not require students picking up Work-Study paychecks to present proper identification or sign a receipt verification. In response, College officials indicated that they have acted promptly to address these issues.
- ***Roxbury Community College*** continued to make progress in reconciling its in-house records of student financial assistance funding with information on the Massachusetts Management Accounting and Reporting System (MMARS). However, the College still needed to be more timely in its entries in order to reduce variances and ensure the accuracy of financial reports.

The College had \$169,498 in outstanding utility bills for the Reggie Lewis Center, an athletic facility that is part of the Roxbury Community College campus. The unpaid bills resulted primarily from a lack of full integration of the Reggie Lewis Center's financial activities with financial operations of the College's Business Office. Subsequent to the close of the audit period, the College's written policies and procedures were updated to address this issue, and a payment plan was set up with the utility company to pay off the balance owed. Negotiations were also underway with the utility company for a waiver of a portion of the penalties charged for late payment.

- **Worcester State College**, for the period under review, did not report to the OSA losses or thefts of funds or property as required under Chapter 647 of the Acts of 1989, the state's Internal Control Statute. In one instance, the College's accountant discovered thirteen suspicious checks totaling \$8,226, all with the same payee and endorsements. The College notified the bank, which covered the missing funds, and proper law enforcement authorities. The incident remained under investigation as of the close of the audit period. The College also did not report the theft of several equipment items, including a laptop computer and two digital projectors. The OSA noted that it is important that all unaccounted-for variances, losses, shortages, or thefts of funds or property be reported immediately and investigated by the OSA, as prescribed by law, to ensure proper disclosure and corrective action. The OSA also recommended that the College review its policies, which allowed equipment to be left in unlocked classrooms, and instruct faculty, staff, and students to safeguard equipment in their possession.

Charter Schools: Closure Process

The OSA reviewed the Department of Education's (DOE) administration of charter school closings for the period June 1, 2001 through December 31, 2003. The principal audit objectives were to determine whether DOE had established effective management controls over charter school closure proceedings and whether the two charter schools that closed during our review period, the Lynn Community Charter School and the North Star Academy Charter School, adhered to DOE's charter school closure protocol by providing complete and proper documentation regarding the transition of students and the disposition of student records and school finances.

- DOE's Charter School Administrative and Governance Guide did not include the specific steps that charter schools must take upon their closure, nor had DOE promulgated relevant regulations. Instead, DOE developed an informal protocol, which was still subject to revision and modification, and which did not address certain issues of vital importance in the closing process, such as ensuring the confidentiality of student records or providing an accounting of the disposition of assets purchased with state funds. Furthermore, DOE did not actively follow up on charter schools, such as North Star Academy, that did not provide all of the financial information required under the school closure protocol.
- Lynn Community Charter School substantially complied with the financial requirements of DOE's closure protocol by providing financial statements, accounts payable information, and a check and other documents supporting a transfer of \$47,201.07 to DOE, which was subsequently deposited into the General Fund. However, the School did not provide a listing of projected transition tasks and timelines as required by the protocol in order to ensure that schools plan and follow an orderly transition process.

- North Star Academy Charter School had not submitted all of the financial information required by DOE's closure protocol, including a balance sheet indicating financial obligations extending beyond the year of closure, a current and projected payroll benefits commitment listing, and a copy of the School's final audit. In addition, DOE did not have a listing of projected transition tasks and timelines from the School or a list of parents and their addresses, both of which are required by the closure protocol. As a result, there was inadequate assurance that Commonwealth assets held by the North Star Academy Charter School were adequately protected from loss, theft, or misuse upon its closure, that the School planned and followed an orderly transition process, and that students and their families received the protections required by DOE.
- In order to ensure better controls over the charter school closure process, the OSA recommended that DOE formalize its charter school closeout procedures and incorporate them into the "Charter School Administrative and Governance Guide," take a more active role in ensuring that closing charter schools submit all required information on a timely basis, consider instituting a formalized requirement that closing charter schools give local school districts or other nonprofit agencies priority when disposing of their fixed assets, and append a formal requirement to applicable regulations and the Charter School Closeout Procedures directing charter schools in the proper disposition of student records and requiring that they ensure that all student records remain confidential.

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 October 30, 1998.

During December 2004, 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 as well as the Department of Education on or before January 1, in accordance with Chapter 71, Section 89, of the Massachusetts General Laws. The OSA conducted reviews of 53 charter school independent audit reports for fiscal year 2005. Eight reports were submitted after the required deadline, and one school failed to submit a management letter with the audit report. Of the 53 schools reviewed, 45 complied with audit requirements for the areas tested.

Those schools whose independent audit reports did not fully comply with audit requirements were notified of their deficiencies and were requested to take corrective action. Additionally, we requested and received corrective action plans addressing issues noted in the management letters that accompanied the charter school audits.

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 is reviewing and evaluating 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 System

The OSA has completed a performance audit at the University of Massachusetts focusing on various financial activities, including investments and cash management, endowments, unclaimed checks, and contract management. This audit, which is available online or by calling 617-727-6200, will be detailed in the next Annual Report.

AUDIT SUMMARIES

Health and Human Services

During fiscal year 2005, the OSA issued 33 audits pertaining to 60 health and human service agencies, contractors, and activities. Audit work in this area covered activities administered under the Executive Office of Health and Human Services, the Executive Office of Elder Affairs, and the Department of Housing and Community Development. 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; home care and other senior services; and fuel assistance.

The following section highlights findings and recommendations from reports of selected state 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 a statewide review of the Commonwealth's Fuel Assistance Program.

Department of Social Services

The OSA, in conjunction with the Single Audit of the Commonwealth for the fiscal year ended June 30, 2004, 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. During fiscal year 2004, DSS administered over \$720 million, including approximately \$253 million in federal funds. The audit found that DSS had resolved an issue relative to payroll controls. However, certain unresolved and subsequent issues relative to criminal background checks, licensing of foster care homes, untimely appeal hearings, and documentation of judicial determinations were disclosed, as summarized below.

- DSS was cited in a prior audit for failure to perform timely re-evaluations of Criminal Offense Record Information (CORI) checks for persons providing foster care services. The current audit found that over 20% of cases tested were still not in compliance with federal requirements. Moreover, instances continued to be noted in which CORI checks were overdue by more than a year. Furthermore, DSS was continuing to place children in foster homes without completing proper licensing requirements. During fiscal year 2004, 708 children were placed in foster homes prior to the homes being licensed, of which 430 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 reimbursements.
- The monthly DSS report compiled from the agency's computerized FamilyNet data and issued to agency personnel to monitor foster care provider licensing and criminal background checks had a 52% error rate. The errors included missing and inaccurate date information and overdue annual reassessments, including missing criminal background checks. The high error rate in the database system DSS uses to make home approval decisions created an increased risk that children could be placed or allowed to remain in unsafe homes. The OSA recommended, as it had done in the prior audit report, that DSS develop a central office oversight control process, including periodic reviews of monthly reports and case information entered into the FamilyNet system to ensure that information related to foster care cases and licensure is properly recorded and current.
- The audit also noted administrative problems involving DSS's Legal Department. Appeals hearings were not being scheduled in a timely manner, a longstanding problem exacerbated by a reduction in hearing officers. In addition, legal records to document judicial determinations for three of 25 cases tested could not be located. These improperly documented determinations were ineligible for federal reimbursement.

Fuel Assistance Program

The OSA completed a statewide review of the Fuel Assistance Program, including oversight responsibilities of the Massachusetts Department of Housing and Community Development (DHCD) and the system of administrative and accounting controls that DHCD has established over the program. The review included audit work at DHCD and at a representative sampling of

Local Administering Agencies that determine eligibility and arrange for service delivery under contract with DHCD. The federal government, through its Department of Health and Human Services, funds the Fuel Assistance Program. Federal fuel assistance funding for Massachusetts totaled approximately \$73 million in fiscal year 2004. Results of this review are summarized below.

- DHCD needed to strengthen its income eligibility verification procedures to ensure that program benefits go only to low-income households with insufficient means to meet home heating costs. Although the report concluded that the local administering agencies followed state guidelines for fuel assistance, some recipients may not have disclosed all sources of income, including interest income, on their applications. To better ensure that fuel assistance goes only to needy households, the OSA recommended that certain indicators, such as owning a home with a high-assessed value, should prompt additional verification activity. Although sample testing identified potential cases of questionable eligibility, limited financial information maintained in applicant files precluded auditors from reaching a definitive conclusion on any specific cases.
- While strengthening income verification procedures would help improve the overall effectiveness of the Fuel Assistance Program, it would not address the fact that fuel assistance subsidies have not kept pace with rising fuel costs or with additional fuel needs during particularly severe winters. The state, for example, has not supplemented federal fuel assistance funds since 2000, and in fiscal year 2004 the average amount of assistance per household was \$465. The audit recommended that DHCD seek a state appropriation to create a reserve fuel assistance fund to be drawn upon only during the most severe winters and after all federal funding for the program has been depleted.

Chelsea Soldiers' Home

The OSA conducted a follow-up audit of the Chelsea Soldiers' Home in order to determine whether steps had been taken to strengthen internal controls over fiscal and programmatic operations and to assess the management of accounts receivable. The review found that corrective action had been taken regarding remittance to the General Fund of miscellaneous income. However, several other issues identified during the prior audit had not been addressed, and operational weaknesses were disclosed in the Soldiers' Home's newly implemented billing system.

- Although the Chelsea Soldiers' Home had made some progress in preparing an inventory listing and tagging new equipment purchases, 67% of items tested were not yet tagged or listed. In addition, four of 26 randomly selected equipment items were not properly listed and six were listed twice. As a result, the Soldiers' Home could not be assured that its fixed assets were adequately safeguarded or accurately reported on financial statements.

- The current audit noted continued deficiencies in the Soldiers' Home's accounting and administrative controls, resulting in numerous errors in performing reconciliations, maintaining financial records, and reporting revenues and expenditures. Specifically, its Patients Fund account balances were understated by \$179,466; its Legacy Fund checking account balance was understated by \$47,697; and its Legacy Fund Investment Account balance of \$8,578,248 was not reported.
- The Chelsea Soldiers' Home's newly implemented billing system had significant operational deficiencies. The audit attributed some of the problems to a lack of adequate staff training and insufficient management oversight. In addition, the implementation of the new system did not take place with the parallel operation of the old system for a designated period of time, as is customary for system conversion. Therefore, there was no old system to fall back on when the new system was not successfully implemented, and the Soldiers' Home did not have accurate and complete information regarding billings, adjustments, and cash receipts. Problems were compounded when data was improperly reported to and reconciled with the Commonwealth's Billing and Accounts Subsystem. Until these problems are addressed, the risk of lost revenue is increased and reliable information needed to conduct business and complete financial reporting is unavailable. The audit also noted substantial write-off activity, totaling \$781,000 during the review period, for which there was no supporting documentation. The OSA recommended that the Soldiers' Home appoint a member of senior management to oversee follow-up of the contractor's responsibilities in implementing the new billing system; arrange for additional needed training; and establish a reasonable timetable for substantially improving its billing system, including a schedule for correcting prior billing data errors and omissions.

Templeton Developmental Center

The OSA conducted an audit of financial operations at the Templeton Developmental Center, a residential facility under the control of the Department of Mental Retardation (DMR). Major findings are summarized below.

- The Templeton Developmental Center needed to address several issues relative to client funds. Specifically, monthly bank reconciliations of the main checking account for the Center's client funds had not been performed in more than three years. As a result, the Center lacked assurance that this account balance was accurate and, in fact, a variance of \$3,311 was found. In addition, the level of documentation for client fund expenditures was not adequate. Twelve of 40 invoices reviewed lacked sufficient detail, including original receipts and verification that clients actually received the goods and services for which they were charged. Finally, due to insufficient administrative staff, clients' clothing and furniture had not been properly recorded and tagged for purchases made since November 2002, and paperwork for 27 of 33 deceased clients' accounts was not forwarded to DMR's legal office within 90 days as required. Templeton Developmental Center responded by initiating prompt corrective action to strengthen controls over client funds.

- Templeton Developmental Center did not reconcile periodic physical counts of food items to its purchase and inventory records. As a result, variances existed between inventory records and a physical count for about half the food items tested in May 2004. Noting that expenditures for food total approximately \$100,000 over a six-month period, the OSA stressed the importance of protecting these supplies from loss, misuse, or theft. Center officials responded that they were acquiring an inventory program from Worcester State Hospital that, when modified and implemented, will assist them in maintaining a perpetual inventory system, including regular reconciliations.

Tewksbury Hospital

The OSA conducted an audit of Tewksbury Hospital, which, in part, responded to a report filed by the Department of Public Health under Chapter 647 of the Acts of 1989, the Internal Control Statute, documenting potential improprieties involving employees in the Hospital's maintenance department. The audit examined selected Hospital operations to determine the adequacy of controls over financial and administrative activities, including payroll, staffing, and purchasing practices. The audit also reviewed prior audit issues.

- Tewksbury Hospital, as recommended in a prior audit, had improved controls over payroll expenditures by requiring all staff members to prepare and sign their own timesheets and by allocating overtime by cost center. However, the Hospital still was not documenting the reason overtime was worked or the authorization for the overtime. In addition, certain employees out on extended vacation or sick leave received stand-by duty pay, which should have been reserved for employees specifically designated as on call in case of an emergency.
- Tewksbury Hospital did not have adequate internal controls over its maintenance garage operations. Specifically, the Hospital did not have any written policies or procedures concerning the maintenance of its vehicles, did not maintain an inventory of materials or parts, did not properly log entries for vehicle service performed, and did not utilize work order forms. As a result, the Hospital could not ensure that maintenance work on its vehicles was either indicated or necessary, and, in fact, the audit noted several questionable maintenance activities. For example, 22 new tires had been installed on one vehicle over a five-year period, and six new tires had been installed on another vehicle that had been driven just 25,000 miles. Neither maintenance personnel nor Hospital officials were able to explain why so many tire changes had been made. In response to this finding, Hospital management, in January 2005, established a comprehensive written motor-vehicle repair policy.

- Tewksbury Hospital did not have adequate policies and procedures concerning incidental purchases under \$1,000. Approximately one third of the purchase forms for expenditures in this category did not list a description of or purpose for the purchases. In addition, these purchases could be made by any of thirteen employees, using a company charge card, without going through the Hospital's receiving department and with no record, other than the bill, that goods purchased were received by the Hospital. At the close of the audit period, the Hospital reduced to two the number of employees authorized to make incidental purchases and began implementing policies and procedures to provide direction and accountability for the procurement and receipt of all materials and supplies.

Current Vendor Audits

OSA reviews of individual vendors that contract with Commonwealth agencies to provide services identified continuing issues involving questionable and unallowable charges and reimbursements, as well as administrative control weaknesses. Findings of questionable and unallowable billings, as well as cost recovery recommendations, are grouped together in the first set of summaries that follow. Subsequent summaries delineate additional findings, including inadequate internal controls and the inappropriate use, by a state agency, of a private entity as a fiscal conduit.

- ***Cambridge Family and Children's Service, Inc.***, billed and was reimbursed \$54,701 for expenditures that were either inadequately documented or otherwise unallowable under state regulations. These charges included \$22,266 for staff bonuses, \$16,348 in undocumented credit card expenditures, \$13,243 for a leased vehicle for its Executive Director that was not provided for in her employee contract and for which she did not document business and personal use, and \$2,844 in salary reserve fund expenditures that were not sufficiently documented and may not have been disbursed, as required, to the lowest paid staff members. In response to the OSA recommendation that the entity repay funds identified as unallowable, officials indicated that they would work with the appropriate state agencies to resolve these matters. In addition, contrary to state regulations, Cambridge Family and Children's Service did not disclose on its financial submissions a related-party transaction involving the Executive Director's son, who was hired to implement various construction projects. Moreover, invoices for this individual's work were inadequately documented, and his construction services were not procured through a competitive bid process. As a result, the Commonwealth was not given the information necessary to monitor compliance with related-party regulations, and neither the Commonwealth nor the entity could be assured that the best construction services were obtained at the lowest possible cost.
- ***Children's Aid and Family Services of Hampshire County, Inc.***, a nonprofit organization that provides adoption, abuse prevention, and teen parenting services, did not adequately document certain program expenses. In addition, the entity billed expenses to its state-funded programs based on monthly cost estimates, rather than on actual costs. As a result, the entity billed state programs for \$4,203 in undocumented or otherwise unallowable expenses. In addition, the entity provided an employee with \$1,485 in unallowable fringe benefits. Entity officials indicated in their response that \$5,688 would be returned to the Commonwealth.

- ***Comprehensive Mental Health Systems, Inc.***, a nonprofit organization that provides services to individuals with developmental and psychiatric disabilities, had adequately addressed the issues identified in the prior audit, but still needed to improve certain billing and administrative controls. The entity had improved controls over credit card usage, instituted new purchasing and inventory guidelines for capital assets, improved expenditure documentation, and reimbursed the Massachusetts Rehabilitation Commission \$16,970 for unallowable costs associated with an inappropriate related-party transaction and \$12,349 for other overcharges. In the current audit period, rather than billing for actual expenses, Comprehensive Mental Health Systems charged the Commonwealth each month for 1/12 of its contract's maximum obligation. These billings were not reconciled to actual monthly expenditures, which resulted in an overbilling of \$5,310 during fiscal year 2003. In addition, during fiscal years 2002 and 2003, the entity incorrectly allocated payroll taxes and fringe benefits, resulting in \$3,214 in nonreimbursable expenses charged to state contracts. Entity officials responded to these findings by initiating Corrective Action Plans for the return of \$8,525 to the Commonwealth.
- ***GROW Associates, Inc.***, a nonprofit organization that operates two Supported Workshop programs for individuals with developmental disabilities, needed to address certain billing deficiencies associated with compensation and fringe benefit expenses. During fiscal year 2001, the entity's former Executive Director received a full-time salary totaling \$72,075, while also being paid as a part-time public school employee. As a result, \$28,830 of the compensation expenses billed by the entity was unallowable. The OSA recommended that the Department of Mental Retardation recover this overpayment and, in conjunction with the Operational Services Division, review the reasonableness of the compensation provided to GROW's former Executive Director for the seven-year period prior to that covered by the audit and take whatever additional measures they deem necessary to resolve this issue. In addition, during fiscal years 2002 and 2003, GROW awarded fringe benefits totaling \$10,401 to certain members of its administrative staff. These included health care benefits and extra vacation time. Fringe benefits such as these, which were not available to all employees under an established formal written policy, are nonreimbursable.
- ***Lifestream, Inc.***, a nonprofit organization that provides a wide range of services to people with mental and physical disabilities, charged \$113,767 in nonreimbursable costs against its state contracts. These charges included \$19,076 in fringe benefits that were either not available to all employees or exceeded allowable amounts, \$44,515 in staff bonuses, and \$50,176 in non-program-related expenses. Lifestream officials, in response to these findings, began amending and resubmitting their Uniform Financial Reports for fiscal years 2002, 2003, and 2004 to reflect the disallowed costs identified.

- ***People Incorporated***, a nonprofit organization that contracts with the Department of Mental Retardation to provide early intervention and other services, charged and was reimbursed \$136,585 for expenses that were unallowable under state contracts. The audit found that People, Inc., did not report to the Commonwealth \$98,656 in non-state revenue generated by its Residential Program and available, under state regulations, to offset state costs. These funds should be repaid to the Commonwealth. Other nonreimbursable charges included \$6,992 in undocumented or non-program-related administrative expenses, \$6,386 in unallowable credit card expenses, \$16,680 in undisclosed and questionable related-party transactions, and \$7,871 for services that were not provided.
- ***South Shore Mental Health, Inc.***, a comprehensive community-based behavioral health care provider, did not maintain adequate supporting documentation to substantiate that \$135,000 of client support services were actually provided as billed. The entity also charged to its state contracts \$116,572 in nonreimbursable deferred compensation expenses for its Chief Executive Officer, \$23,000 in other nonreimbursable fringe benefit expenses, and \$7,810 that was improperly reimbursed for losses on an investment. The OSA recommended that the Department of Mental Health recover all funds that were paid for unallowable charges and increase oversight to ensure that only reimbursable expenses are allocated against state contracts.

Better Community Living, Inc.

The OSA conducted an audit of administrative and operational activities at Better Community Living, Inc., a nonprofit corporation that contracts with the Department of Mental Retardation (DMR) to provide residential, community support, and training services to developmentally disabled individuals. The audit identified substantial charges that were questionable or unallowable under state contracts. In addition, the audit found that contrary to state law and regulations, DMR used this entity as a conduit to pay as much as \$235,497 in DMR expenses. These issues are delineated below.

- DMR, contrary to Chapter 29, Section 29B, of the General Laws, used its contracts with Better Community Living, Inc., to pay as much as \$235,497 of DMR's expenses from July 1, 2000 to June 30, 2003. These expenditures included payments for services rendered by other human service providers to non-Better Community Living clients and training videos and other materials for another human services agency. By processing certain of its expenses through one of its provider agencies, DMR was not in compliance with state law and various regulations. Furthermore, the practice resulted in inaccurate financial reporting by both DMR and Better Community Living, inadequate documentation of expenditures, and increased risk that funds could be misused.

- Better Community Living, Inc. submitted billings to DMR that misrepresented the services it provided. Specifically, in numerous instances, the entity billed for services that according to its program records were not provided. The entity also billed for services that were different from the type of services that were actually provided. For example, the entity billed for Supervised Living Services at a rate of \$257 per day for a client who actually received Supported Employment Services, which should have been billed at a rate of \$103 per day. As a result of inappropriate and undocumented charges, Better Community Living received \$673,428 in questionable or unallowable payments during the period under review.
- The entity had over \$230,000 in other unallowable and nonreimbursable charges under its state contracts. These included the use of over \$97,000 to purchase and renovate a home for one of its clients, the failure to identify \$74,188 in non-state contract revenues as being available to offset the state's cost for running its Residential Services program, unallowable mortgage principal payments totaling \$33,450, and \$23,540 in inadequately documented or non-program-related credit card expenditures.
- DMR, contrary to state regulations, during fiscal year 2002 increased the maximum obligation of a contract that it awarded to Better Community Living by \$360,262. In so doing, DMR changed the scope of its original Request for Responses (RFR) by adding a community support component. Although requested to do so, neither DMR nor Better Community Living provided documentation to substantiate that this contract amendment, which changed the scope of the original RFR, was in compliance with state bidding requirements.

Pakachoag Acres Day Care Center, Inc.

At the request of the Operational Services Division, the state agency responsible for regulating the activities of human service providers, the OSA conducted an audit of Pakachoag Acres Day Care Center, a nonprofit organization that provides services under contracts with the Office of Child Care Services (OCCS) and the Department of Education. The initial scope of this audit was to follow up on problems identified by OCCS in a contract monitoring review and to examine administrative and fiscal activities at Pakachoag for the period July 1, 2000 through December 31, 2003. In the course of audit fieldwork, however, the scope was expanded to include the Center's nonprofit and for-profit related parties and to cover the period July 1, 1995 through December 31, 2003. The audit identified at least \$1.4 million in unallowable expenses incurred by Pakachoag and its affiliates, as well as governance, operational management, and internal control deficiencies. These findings are summarized below.

- During the period covered by the audit, Pakachoag conducted various transactions with its related parties that resulted in unallowable charges and reimbursements under state contracts. Specifically, the Center made unallowable lease payments totaling \$343,405 to rent space in an Auburn building owned by the Executive Director and her husband, the Center's Administrator. Furthermore, the Executive Director's son, who worked as a manager for the Center, lived with his family at this Auburn location without paying rent or reimbursing the Center for any expenses, including utilities. In another instance, Pakachoag charged a for-profit related party, Kincare, \$86,098 less than the amount required by its lease agreement, resulting in the use of more state funds than necessary to support program operations. Finally, Pakachoag charged the state \$597,604 in non-program-related expenses, such as depreciation and mortgage interest payments, for this property.
- Pakachoag did not maintain records that documented business versus personal use of its corporate vehicles. In addition, Kincare, as well as Pakachoag, used these vehicles without maintaining documentation regarding vehicles used across corporate entities or paying for any vehicle use.
- Pakachoag had not established adequate internal controls over agency operations. The Center did not properly document its accounting system, did not effectively control the use of corporate credit cards, and, in numerous instances, failed to file required reports or filed reports that contained erroneous information.
- Pakachoag operated under the control of its Executive Director and employees without the necessary and required independent Board of Directors oversight. Board meetings were irregular and poorly attended. The Center also failed to implement appropriate conflict-of-interest policies and controls, allowing members to vote on matters of self-interest even if the results were adverse to the interests of the organization. In addition, there was no documentation to substantiate that the Center's Board ever formally reviewed or approved any of the entity's budgets or reviewed its financial reports. Finally, in violation of state regulations, management employees participated in various oversight responsibilities, including review, acceptance, and certification of the Center's Uniform Financial Statements and Independent Auditor's Reports. Certain problems noted above might have been avoided if Pakachoag was in compliance with state requirements relative to the composition and activities of its Board of Directors.

INITIATIVES

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

Department of Public Health: Restaurant Inspections

The OSA is conducting an audit of the Department of Public Health's (DPH) oversight of municipal health departments, which are charged with implementing and enforcing sanitation standards for restaurants. The audit, which will include a review of prior audit findings, will assess the degree to which prior audit recommendations have been implemented and whether DPH is exercising sufficient oversight over municipal health departments relative to restaurant hygiene.

Division of Medical Assistance: Medicaid Administration

The OSA has completed an audit of 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. This audit, which is available online or by calling 617-727-6200, will be detailed in the next Annual Report.

Division of Medical Assistance: Transportation Providers

The OSA is conducting an audit of transportation providers for MassHealth recipients in order to determine whether they are submitting proper claims and are providing all claimed services. The audit will include an examination of claims and billing procedures, focusing on whether submissions are complete, accurate, and in compliance with applicable laws, rules, and regulations.

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

The OSA is reviewing and evaluating corrective actions taken by state agencies in response to deficiencies identified in vendor audit reports issued by the OSA since April 2001. The audit will determine the status of each state agency regarding compliance with the Operational Services Division's Audit Resolution Policy, as well as the effectiveness of the measures taken to resolve problems and recover misused state funds.

AUDIT SUMMARIES

Housing Authorities

Massachusetts public housing is built and managed under the direction of the Department of Housing and Community Development. Its Bureau of Housing Management oversees the operation of 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 2005, the OSA issued 82 housing authority reports. In general, housing authorities complied with state and federal management, internal control, and program requirements. However, audits of certain housing authorities revealed administrative and financial control deficiencies, examples of which, along with recommendations for corrective action, are summarized in the section that follows.

Brockton Housing Authority

The OSA conducted an audit of Brockton Housing Authority, which found generally adequate management controls and compliance with applicable laws, rules, and regulations. However, excessive cell phone usage was noted, as detailed below.

- Brockton Housing Authority's cell phone expenses for 2003 exceeded the Department of Housing and Community Development's budget guidelines by \$7,331. One employee incurred \$6,075 in excess charges within a three-month period. Others incurred excess charges with calls to North Carolina, California, and Florida. Authority policy stipulated that non-business-related cell phone charges that exceeded an employee's monthly allotment would be paid by that employee. In response to OSA recommendations, the Authority took further action, limiting non-business-related cell phone usage, charging for these calls, and conducting a workshop on the new cellular phone policy. The OSA commended the Authority for taking prompt, effective corrective action.

Hingham Housing Authority

The OSA conducted a review of management and financial controls at Hingham Housing Authority. Except for the issues summarized below, the Authority, for the period April 1, 2002 to March 31, 2004, maintained adequate administrative controls and complied with applicable laws, rules, and regulations.

- Hingham Housing Authority did not fill eight vacant units within the Department of Housing and Community Development's 21-day time limit. As a result, the Authority lost the opportunity to earn \$4,671 in potential rental income and may have at least temporarily deprived needy citizens of subsidized housing.
- The Authority did not have an up-to-date personnel policy and lacked proper procedures for maintaining sick and vacation leave. As a result, attendance calendar balances were not recorded, and time records could not be verified to an established personnel policy.
- The Authority was cited in a prior audit for inventory control deficiencies. The current audit found that the Authority still did not have an up-to-date inventory listing that reflected the cost of its property and equipment. In addition, the Authority could not provide information as to when the last physical inventory was taken, and its inventory listing could not be reconciled with its financial records. As a result, the Authority could not be assured that its fixed assets were adequately safeguarded or accurately reported on financial statements.

Holbrook Housing Authority

The OSA's prior audit of Holbrook Housing Authority disclosed several deficiencies, including excessive tenant accounts receivable, failure to convert its basis of accounting to generally accepted accounting principles, as required, and mismanagement of the Family Self-Sufficiency Program. The current audit found that these problems continued. It also identified additional internal control, accounting, and management weaknesses, as discussed below.

- The Authority's Board of Directors did not meet its fiduciary responsibilities. Specifically, minutes were not available for all Board meetings; there were many months in which the Board did not have a quorum; and there was no record of review and approval of budgets, expenditures, or financial statements. There were also no approved management policies and procedures and no annual reports since 2001. As a result, the Authority lacked proper governance and fiscal oversight.
- The former Executive Director improperly allowed worker's compensation insurance coverage to lapse. As a result, Authority employees were not covered by this insurance from March 3, 2002 until May 1, 2003, when the new Executive Director obtained coverage.
- At least \$26,225 of unallowable, inappropriate, and questionable expenditures was identified. These included the use of public funds for tenant Christmas parties, gift lottery tickets, and flowers. In addition, payments of approximately \$32,700 had no supporting invoices.
- Other internal control weaknesses included excessive tenant accounts receivable, an absence of time and attendance records, failure to properly maintain waiting lists, failure to officially close out finished projects, and failure to pay approximately \$90,000 in outstanding bills. As a result of these deficiencies, the Authority's financial condition was poor and inaccurately reported on financial statements.
- The new Executive Director responded that he and other officials are working with state and federal oversight agencies to address and rectify the issues identified in the audit.

Waltham Housing Authority

The OSA conducted an audit of Waltham Housing Authority, which focused on program monitoring and compliance with applicable laws, rules, and regulations. While the audit was in progress, the Authority was cited by the Waltham Health Department and the Department of Housing and Community Development for more than 170 health and safety code violations at its Prospect Terrace apartments. OSA auditors reviewed the inspection reports and also conducted field visits to Prospect Terrace and to the Authority's 409 other state housing units. A summary of major audit findings follows:

- Waltham Housing Authority had substantial health and safety issues at its state housing units, where auditors noted dilapidated buildings; trash strewn about the grounds; walkways in poor condition; and plumbing panels located near stoves and electrical boxes, which could pose a safety hazard. At Prospect Terrace, where the problems were most severe, seven violations were “emergency conditions,” which require commencement of correction within 24 hours. The Executive Director responded that Authority maintenance personnel were addressing emergency code violations. He also stated that the Authority’s state housing units had high maintenance needs due to age and tenant issues, that maintenance staff had been unusually taxed during the audit period due to high tenant turnover, and that approved state modernization funds had been delayed. The OSA emphasized that the Authority needs to continue to seek modernization funds and develop procedures to ensure that all of its housing units are in safe and sanitary condition.
- The Authority needed to improve its internal controls over cash and fixed assets. Specifically, Authority officials did not perform adequate reconciliations of Revolving Fund bank statements for at least a three-year period and therefore were unable to determine the fund’s correct cash balance. In addition, the Authority, which had not conducted an annual physical inventory, could not reconcile its subsidiary ledger for furniture and equipment to its general ledger control account. As a result, there was inadequate assurance that the Authority’s assets were properly safeguarded or accurately reported on financial statements.

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. The audit will also examine the adequacy of state funding for repairs, renovations, and maintenance. 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 Turnpike Authority, and the Massachusetts Water Resources Authority (MWRA), provide and oversee essential services, such as public transit, Central Artery management and construction, and the maintenance and management of public water resources. During the report period, the OSA issued eighteen audit reports regarding independent entities, including reviews of contract management at the MBTA and Central Artery/Tunnel contracting and construction. An additional audit, which examined the MWRA's Emergency Management Plan, is detailed on page 41 in a Special Audit Section on Homeland Security.

Massachusetts Turnpike Authority's Central Artery/Tunnel (CA/T) Project

As part of an ongoing review of the CA/T Project, the OSA issued its eighteenth and nineteenth Big Dig reports. One of these audits examined waterproofing activities under a modified contract costing \$497 million. Although work under this contract was originally scheduled for completion on December 11, 2001, the actual completion date was March 31, 2003. The other audit examined contract delays and added costs associated with implementation of the Integrated Project Control System, which provides traffic surveillance, incident detection, roadway control, and fire and security monitoring for the CA/T Project. Results of these reviews, which are summarized below, have been referred to the CA/T Project Cost Recovery Team.

- The CA/T Project's waterproofing practices for underground structures, including surface preparation, installation, and contractor quality control activities, were inadequate. These deficiencies, and efforts to correct them, added at least \$10 million in project costs. The OSA recommended that steps be taken to identify the party or parties responsible for the additional waterproofing costs, and to recover these funds. The audit noted that the Project's Management Consultant, Select Design Consultants, and construction contractors were responsible for establishing and implementing the Project's waterproofing systems. If these entities had utilized an adequate Quality Assurance program, including appropriate training, the majority of problems associated with the waterproofing systems would have been significantly mitigated.
- CA/T Project officials failed to secure timely access rights to the software source code developed by Transdyn, the contractor who implemented the preliminary version of the Integrated Project Control System (IPCS) for the Ted Williams Tunnel. As a result, there was a significant delay in providing software and related materials to the contractor who was to develop this system for the full CA/T Project. The OSA estimated that delays and disputes related to this software source code material added approximately \$3.1 million in increased software licensing costs and \$7.2 million in lost productivity costs. In addition, as of January 2005, the second-phase of IPCS had not yet been fully implemented.

Massachusetts Bay Transportation Authority (MBTA) Parking Revenues

The OSA conducted a review of the MBTA contract with and oversight of the private company that manages parking facilities at transit and commuter rail stations. The report disclosed that unfavorable contract terms had cost the Authority millions of dollars over the past five years. The audit also made recommendations for improving the parking contract solicitation process and contract terms.

- The MBTA had only one bidder for its parking facilities contract, and the resulting agreement continued a pattern of declining parking revenues. From fiscal year 1998 through fiscal year 2003, the MBTA's share of annual gross parking revenues declined from 70% to 54%. Over this period, the parking contractor's revenues more than doubled from \$4 million to \$8.3 million, while MBTA revenues increased by only \$300,000. In addition, the MBTA's estimate of additional funds from parking fee increases implemented in January 2003 was overstated, since unfavorable contract language governing the methodology for computing revenue increases resulted in retention of 25% of these revenues by the contractor.
- The MBTA awarded no-bid contracts, apart from its master contract with Central Parking, for parking facility management at the Arborway Station and Hingham Boatyard. As a result, the MBTA was not in compliance with its own contract solicitation policy or with sound business practice. Furthermore, the Authority lost an opportunity to solicit bids from smaller operators, a strategy with potential for increasing competition for parking leases in the future.
- The OSA recommended that the MBTA revise the terms of its next parking contract Request for Proposals (RFP) to require that the Authority receive either a minimum annual rental amount or a predetermined percentage of the gross revenues each month, whichever is greater. In addition, all future parking fee hikes should be calculated on monthly car counts and actual revenues, with no guaranteed minimum going to the contractor. The MBTA also needed to increase efforts to foster more competition from parking contractors. In their response, MBTA officials indicated that they would break up the two current parking contracts into four or five smaller contracts in an effort to increase competition and would revise RFP and contract language to reflect OSA recommendations.

Cape Cod Regional Transit Authority

The OSA conducted an examination of financial controls and contract management at the Cape Cod Regional Transit Authority. The review found that, with one significant exception, the Authority maintained adequate management controls and complied with applicable laws, rules, and regulations. The exception, as discussed below, found serious internal control deficiencies regarding the collection of and accounting for certain fare box revenues that were recorded at \$178,877 for fiscal year 2004.

- Cape Cod Regional Transit Authority did not reconcile the amounts of bus fare revenues collected from riders with the amounts of money subsequently deposited in the bank and recorded on the Authority's books. In addition, approximately 20%-25% of all fareboxes were not working on the buses at any given time, thus requiring bus drivers to collect money by hand and put it in bags by their seats. The audit also noted that the Authority had not replaced a safe that was damaged during two burglaries at its Dennis Operations Center, though funds had been set aside from an insurance settlement to do so. As a result of these deficiencies, bus fare revenues were at risk of loss, theft, and misuse.

- The OSA recommended that the Authority either purchase “Smart Fareboxes” that would register the amount of money collected, or program the mobile data computers currently on the buses to track fare amounts collected. Fare amounts collected should also be routinely reconciled with the amount of money deposited in the bank by the Authority and recorded on its books. The OSA also recommended that physical controls, such as proper lockboxes, should be in place at the Cape Area Transportation Systems Operations Center in order to safeguard funds prior to their deposit. Finally, the OSA recommended that the Authority discontinue the practice of allowing bus drivers to directly collect fares by hand. Authority officials responded that they have prioritized the programming of their mobile data computers in order to strengthen their fare collection system, and have prepared a request for a federal capital grant to pay for this improvement.

Fall River Line Pier, Inc.

The OSA conducted a follow-up audit of certain activities of the Fall River Line Pier, a nonprofit corporation that operates and maintains a pier under a fifty-year lease with the Commonwealth. Under the latest lease amendment, the entity pays \$1 a year for rent and must transfer to the Commonwealth its annual net operating profits. The current audit found that Pier officials had improved certain administrative and accounting controls by renewing a lapsed lease with the U.S.S. Massachusetts Memorial Committee and adopting formal personnel policies and procedures. However, the audit disclosed prior issues that had not been resolved, as summarized below.

- The prior audit of the Fall River Line Pier found that the entity was not in compliance with the terms of its lease. Specifically, the entity did not seek approval from its oversight agency, the Department of Conservation and Recreation, for its capital improvements, and did not transfer its net profits to the Commonwealth. The current audit determined that the entity was still not complying with the terms of its lease and that it had excess profits totaling \$189,427 dating back to 1995 that had not been paid to the Commonwealth.
- The prior audit report also disclosed that the Fall River Line Pier had written off \$4,155 without securing required approvals from the Department of Conservation and Recreation. In addition, the entity did not have procedures for collecting or writing off past due accounts receivable. The follow-up review determined that rather than taking corrective action on these issues, the entity had written off an additional \$48,159 without receiving approval. These write-offs contributed to a reduction in the entity’s net profits and resulted in a loss of revenue due to the Commonwealth.
- The OSA again recommended that the Fall River Line Pier comply with the requirements of its lease, including the transfer of all accumulated profits to the Commonwealth. The OSA further recommended that if the entity continues its noncompliance, the Department of Conservation and Recreation should initiate legal proceedings to compel the entity to fulfill its contracted obligations.

Massachusetts Thoroughbred Breeders Association, Inc.

The OSA examined financial and programmatic operations at the Massachusetts Thoroughbred Breeders Association, a nonprofit organization primarily funded by a percentage of the handle of live and simulcast racing at Suffolk Downs racecourse. Several state statutes enacted to promote, develop, and encourage the breeding of thoroughbred horses in the Commonwealth govern the Association's activities. The OSA audit focused on the compliance and allowability of expenditures under relevant laws and regulations, compliance with the laws governing cash prizes to breeders, and issues identified in prior audits. Major findings are summarized below.

- The Massachusetts Thoroughbred Breeders Association, Inc., had resolved an important prior audit finding, but had not fully addressed certain other issues. The Association, in response to the prior audit, reclassified a Suffolk Downs award payment of \$100,000 from its administrative account to its restricted awards account. This correction increased the availability of funds for award payments used to further program objectives. In addition, a \$7,500 overpayment to the Executive Director had been returned, though the current audit identified a more recent potential overpayment of \$10,785. Finally, more than 20% of Association administrative expenses tested still lacked sufficient supporting documentation.
- The Massachusetts Thoroughbred Breeders Association had no policies and procedures for monitoring or reconciling its two checking accounts. As a result, the Association had numerous outstanding uncashed checks, some over three years old, and accounts that appeared to be overdrawn. As a result of inadequate cash management policies and procedures, the entity was not in compliance with state requirements that all uncashed checks three years old or older be remitted to the Office of the State Treasurer as abandoned property. Furthermore, the Association could not accurately identify cash availability or make proper financial decisions, particularly when setting award purses for races it sponsors.

Mystic Valley Development Commission

At the request of several members of the State Legislature, the OSA conducted an audit of the Mystic Valley Development Commission, which was established under a 1996 state statute for the purpose of initiating the Mystic Valley Development Project on property located in Medford, Malden, and Everett. The planned project will include an industrial and office park, as well as housing, and is intended to reclaim a blighted area, provide new jobs, and return eight acres of open space to the communities involved. At the close of the audit period, the Commission had purchased all but two parcels of land needed to begin the first phase of project development, which will take place in Medford. The audit found that the Commission was expending its funds for the purposes intended. However, in certain areas internal controls needed to be strengthened, and other issues, including increased project costs and the potential premature transfer of property to a developer, were identified.

- The Mystic Valley Development Commission had established informal controls or was utilizing controls established by the Malden Redevelopment Authority, which appeared to be functioning adequately. However, in certain areas the Commission needed to improve controls and procedures in order to assure maintenance of accurate and complete financial records. The OSA recommended that the Commission maintain detailed balances in its own records for all of its financial activities and routinely perform reconciliations of its bank statements, rather than relying on the accounting system and financial records of the Malden Redevelopment Authority.
- The Commission's cash flow problems, which resulted from various causes including delays in the release of state funding, increased project costs by over \$14.2 million. To address cash flow issues, the Commission borrowed money for the purchase of land and other expenses, thereby accruing \$457,978 in interest costs. In addition, cash flow problems caused the Commission to incur approximately \$4.3 million in additional costs due to delays in starting construction and \$9.4 million in additional land acquisition costs due to delays in purchasing property.
- The Commission's contract with its Project Developer for approximately 93 acres of land includes a provision that allows the Developer to acquire this land once it has advanced \$3 million to the Commission. As of the close of the audit period, the Commission had received loans totaling over \$2,433,600 from the Developer. Although Commission officials anticipated receiving the state funding required to make further similar loans unnecessary, the amount already borrowed raised concerns about a potential premature transfer of Commission property and authority to the Project Developer.

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 nineteen reports to date.

Massachusetts Bay Transportation Authority: The Ride

The OSA is conducting a performance audit of "The Ride," an MBTA program that provides door-to-door transportation to eligible individuals who are unable to use general public transportation because of disabilities. The audit will include, but not be limited to, a review of eligibility determinations, payment systems, on-time performance, complaint systems, and monitoring procedures. It will also evaluate financial controls over receipts and expenditures and assess whether financial records are complete, accurate, and up-to-date.

Massachusetts Bay Transportation Authority: Controls over Monthly Passes

The OSA is reviewing inventory controls over monthly MBTA passes. The audit will include, but not be limited to, an evaluation of the system in place for accounting for all monthly passes; a review of MBTA records pertaining to monthly passes sold and revenues received; and a determination as to whether the MBTA conducts monthly reconciliations of its inventory of passes.

Massachusetts Bay Transportation Authority: SMART CARD Fare System

The OSA is completing an audit of the MBTA's implementation of its new SMART CARD fare system. The audit will include a review of the internal controls built into the new fare system to ensure accuracy and accountability and to safeguard the inventory of new cards. The bid and contract award process, as well as costs to date, including change orders, will also be reviewed and assessed.

AUDIT SUMMARIES

Judiciary/Law Enforcement

During fiscal year 2005, the OSA issued 23 audit reports covering 28 judiciary, law enforcement, and public safety entities. These reviews included Homeland Security audits, audits completed under a pilot program of specialized fraud audits of local entities, and three letter reports related to technical assistance provided to District Attorneys in connection with ongoing investigations. Findings from selected reports are summarized in the section that follows.

Barnstable County Probate and Family Court

The OSA conducted a review of various activities of the Barnstable County Probate and Family Court, which found generally adequate internal controls and compliance with relevant laws and regulations. The one area of programmatic noncompliance noted is summarized below.

- The Court had not remitted abandoned passbook accounts of custodial and probate funds to the Office of the State Treasurer, as required, since 1993. As of December 31, 2003, the Court had 226 passbooks valued at \$1,015,957 that had been held at least six months after the date that, with the exception of minors' accounts, they should have been transferred. The OSA recommended that the Court review its custodial and probate funds and submit to the Treasurer's Office all passbooks deemed abandoned. The Treasurer's Office publishes a list of these accounts in an effort to find their owners, invests the funds to maximize interest, and affords the Commonwealth use of the funds until they are claimed.

Berkshire Sheriff's Department Worcester County Sheriff's Office

The OSA conducted audits of the Berkshire Sheriff's Department and the Worcester County Sheriff's Office, both of which were established as independent state agencies when county government was abolished in Berkshire and Worcester Counties. The audits assessed internal controls over operations, the appropriateness of expenditures, and the status of certain issues, including deposits, compensatory time, and reporting requirements, that have generally presented problems in transferred sheriff's departments. Results of these reviews are summarized below.

- The Berkshire and Worcester Sheriff's Offices needed to improve the accuracy of financial reports submitted to the Office of the State Comptroller. Specifically, the Berkshire Sheriff's Department's required fiscal year 2003 financial report did not include assets totaling \$21,123 from its Inmate and Work Release accounts. In response to this finding, Department officials indicated that the State Comptroller's Office is providing training to Sheriff's Department fiscal staff in order to ensure accurate and timely financial reporting in the future. The Worcester County Sheriff's Office did not report certain assets held in trust as required by Office of the State Comptroller's end-of-year instructions. The Sheriff's Office did not report the assets in its canteen account, which totaled \$389,230 in fiscal year 2004, or the assets of its civil processing division, which, over the same two fiscal years, totaled \$246,178 and \$474,987 respectively. Finally, not all vacation balances were properly reflected and reported on financial statements by the Worcester Sheriff's Office.

- The Berkshire and Worcester Sheriff's Offices needed to seek legal clarification regarding the deposit of telephone commissions. Both entities have continued to retain these revenues under laws and procedures that governed their operations as county offices. However, since these offices are now state entities, these revenues may fall under a statute requiring that they be deposited into the General Fund. The OSA recommended, as it has in the case of each of the transferred sheriff's departments, that legal clarification be obtained to resolve this issue.
- The Berkshire and Worcester Sheriff's Offices needed to improve their management of compensatory time. The Berkshire Sheriff's Department began to allow certain employees to accrue compensatory time during recent budget crises, when it could not fund all requests for overtime. However, the Department did not formally document this decision or standardize the use of compensatory time for all shifts. In response to this audit finding, as of January 1, 2004, the Department discontinued allowing employees to earn compensatory time in lieu of overtime. The Worcester Sheriff's Office had been cited in a prior audit for allowing employees to accrue unlimited compensatory time. The current audit found that the Sheriff's Office continued to grant compensatory time in lieu of overtime payments in spite of a determination from the state's Human Resources Division that the practice should be discontinued. As of April 27, 2005, there were 428 employees from the Sheriff's Office who had accumulated a total of 3,611 days of compensatory time with an estimated value of \$627,217. In addition to the current balances, during fiscal year 2005, seven employees retired and received \$92,630 in compensatory time. Because the Worcester Sheriff's Office allowed compensatory time to accrue without requiring that employees use the time within a reasonable period, a large unfunded liability has been created that will have to be addressed in future budgets.
- The Worcester County Sheriff's Office was anticipating a shortfall of \$1 million for fiscal year 2005. This deficit was largely attributable to increases in payroll and fringe benefit costs, which included payouts of accrued benefits to retiring employees, contracted services costs, and medical costs. As of the close of the audit period, the Sheriff's Office had requested a supplemental budget to meet expenses and was also planning cost-saving measures, including temporary staff lay-offs.

Executive Office of Public Safety: Programs Division

The OSA, in conjunction with the Single Audit of the Commonwealth for the fiscal year ended June 30, 2004, conducted a review of the financial activities of the Programs Division of the Executive Office of Public Safety. This division is responsible for applying for and administering federal and state criminal justice grants, duties previously performed by the Committee on Criminal Justice.

The audit reviewed findings from the OSA's prior report on the Committee on Criminal Justice and from a federal financial monitoring and assistance review that had disclosed serious deficiencies in the administration of Byrne Formula Grant funding. (The Byrne Formula Grant Program provides federal funding for combating violent crime, with an emphasis on drug control and serious offenders.) We noted improvements in some areas, including completion of the Byrne database, more accurate in-house recordkeeping, and elimination of advance payments to

subrecipients. Also, as of July 2003, Public Safety consolidated its Program Division into the Secretariat to enhance accountability and internal controls over federal funds. However, certain weaknesses from prior reports persisted and new issues were identified, as summarized below.

- The Executive Office of Public Safety's Program Division did not adequately address deficiencies in its monitoring of subrecipients, its documenting of salary allocations, and its compliance with contract and payment voucher policies. The audit also noted that a federal investigation of Byrne Formula Grant expenditures by the Commonwealth in 2003 was still ongoing.
- The Executive Office of Public Safety spent over \$8.1 million in fiscal year 2004 Commonwealth funds for federally supported Homeland Security programs. However, as of September 15, 2004, more than \$7.3 million of this amount had not been reimbursed to the Commonwealth due to the failure of Public Safety officials to properly apply for and receive a Grant Adjustment Notice from the federal Department of Homeland Security's Office of Domestic Preparedness. The adjustment notice would certify that special conditions required of the Commonwealth in order to access Homeland Security grant funds had been met. In response to this finding, Public Safety officials stated that an internal process would be developed for ensuring that all federal grants are monitored and all special conditions attached to grants are met.
- The Executive Office of Public Safety and its subrecipients did not always process federal funds in a timely manner. As a result, these entities were not in accordance with federal regulations relative to the retention of excess cash and could be assessed penalties for drawing down funds prior to the need to pay off obligations incurred.

Special Audit Section

Homeland Security

The OSA has initiated a series of Homeland Security audits to determine whether Massachusetts is using federal and state Homeland Security funds efficiently and for the critical purposes intended. For the period from October 1, 2001 through May 13, 2005, the Commonwealth was awarded \$374 million in federal grants intended to enhance statewide capabilities to detect, prevent, and respond to acts of terrorism and other emergencies. The first phase of this OSA audit initiative is an analysis, issued May 31, 2005, of the amounts and categories of funds Commonwealth entities have received. This report was followed, in June, by reports on the Massachusetts Water Resources Authority's Emergency Management Plan and the Department of Telecommunications and Energy's oversight of liquefied natural gas (LNG) facilities under its jurisdiction. As increasing amounts of federal funding for Homeland Security are awarded to the Commonwealth, the OSA will continue to monitor grants and expenditures and assess whether this crucial funding is being utilized in ways that significantly enhance the safety of the citizens and infrastructure of Massachusetts.

- The Awarded Homeland Security and Bioterrorism funding review covered the period October 1, 2001 to May 13, 2005 and evaluated \$374 million in federal grants and direct allocations to the Massachusetts Turnpike Authority, Massachusetts Bay Transportation Authority, Executive Office of Public Safety, Massachusetts Emergency Management Agency, Department of Public Health, Massachusetts Port Authority, local communities, and other smaller entities. Preliminary research has identified issues similar to those reported by other state auditing offices around the nation. These included a lack of adequate processes for grant funds allocated to local jurisdictions, slow spending of awarded funds, abuse and misuse of funds related to equipment purchases, and a lack of communication between grantor and grantee. These and other pertinent issues will be examined for each of the major agencies in receipt of Homeland Security funding.
- The Massachusetts Water Resources Authority (MWRA) had implemented significant security enhancements in a concerted effort to protect the Commonwealth's drinking water and sewage assets. The most important element of the Authority's long-term security strategy is its \$1.7 billion Integrated Water Supply Capital Improvement Program, which was begun in 1996. Through this program, a new 17.6 mile Metro-West Tunnel was built hundreds of feet below ground, thus affording added protection against attacks involving explosives or contaminants. Five relatively new underground covered water-storage facilities with controlled access further reduce the vulnerability of water supplies to contamination. MWRA had also added card access technology to vulnerable buildings, installed monitoring devices at key locations, and added both fencing and security guards. Finally, MWRA had installed computer systems that control the operations of various facilities, monitor alarms, and provide operators with the ability to take remote control of a facility, if necessary. MWRA made most of these improvements with its own funds, having received only about \$365,000 in Homeland Security money.
- The Department of Telecommunications and Energy (DTE) was not enforcing the regulatory requirement that operators of liquefied natural gas (LNG) facilities develop and submit fire study and prevention plans, evacuation plans, and annual training program reports. Furthermore, the degree of cooperation between LNG operators and local fire and police officials varied substantially, although state regulations required LNG facilities to work with local officials in preparing and updating evacuation and training plans. Finally, DTE did not complete timely inspections of 18 of 20 LNG plants within its jurisdiction. These inspections are required once every two years in order to evaluate the physical condition of each plant and to ensure that appropriate safety and security controls are in place. The OSA review disclosed that twelve plants had been inspected in the previous 25-30 months; two plants had inspections completed within 35 months; and four plants exceeded three years between inspections.

DTE responded to these audit findings by taking a series of corrective actions that have improved state oversight of LNG facilities. The Department has amended its procedures to ensure that operators have adequate safety and training plans and that these plans are appropriately monitored. DTE has also initiated a system that tracks LNG inspection timeliness and, based on the date of the last inspection, generates a future inspection schedule. DTE officials also commented on other areas in which the Department benefited from audit recommendations, including improved documentation of the

inspection process and the appointment of an Assistant General Counsel for Pipeline Safety to help monitor inspections and adherence to all applicable state and federal requirements.

Local Fraud Audits

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

The first provision, Section 7, effectively enacted an OSA sponsored legislative proposal, An Act Relative to Certain Requests for Local Audits. Auditor DeNucci had filed this bill 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 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 involving local entities covered by relevant sections of Chapter 46 of the Acts of 2003.

Everett Public Schools

In accordance with the provisions of Section 7 of Chapter 46 of the Acts of 2003, the City of Everett requested that the OSA conduct an audit of the Everett Public Schools. The audit request followed the announcement in March 2004 by the Office of the Attorney General of 41 indictments against eleven Everett school employees, including the Superintendent of Schools, and five corporations for alleged contract fraud. A joint investigation by the Office of the Attorney General, the Office of the Inspector General, and the State Police had identified at least 63 contracts worth more than \$552,000 during a five-year period from 1998-2003 that were allegedly obtained by fraudulent means.

The OSA audit, issued in May 2005, disclosed continuing procurement process problems, especially in the Everett Public School System's Maintenance Department. The audit also found serious internal control deficiencies that resulted in hundreds of thousands of dollars in questionable or inappropriate expenditures and budget overruns totaling over \$1.2 million. Audit results are detailed in the Education Audit section.

Pilot Program Reviews

The following is a summary of selected OSA activities relative to the investigation of suspected irregularities or illegal acts in local entities under the provisions of Section 35 of Chapter 46 of the Acts of 2003.

- ***Martha's Vineyard Regional School District:*** At the request of the District, the OSA provided technical assistance to correct internal control deficiencies identified in the District's Independent Audit Report for the fiscal year ended June 30, 2003. The request was made as a result of certain financial irregularities in the vocational culinary arts department at the high school.

The OSA determined that the District needed to formalize an internal control guide and document policies and procedures for its various departments. At the close of the review, the District had made progress in developing the accounting and administrative controls necessary for maintaining proper financial management and minimizing vulnerabilities to waste and abuse.

- ***Town of Barre Police Department:*** In conjunction with the Worcester County District Attorney's Office, the OSA conducted an investigation of financial irregularities concerning grants received by the Barre Police Department.

The OSA review examined certain town records and documents relating to DARE and Community Policing grants. Based on the results of the review, it was determined that there was insufficient evidence to warrant criminal proceedings and the case was closed.

- ***Nashoba Regional School District:*** In conjunction with the Worcester County District Attorney's Office, the OSA conducted an investigation of financial irregularities in the Nashoba Regional School District. At the close of audit work, the District Attorney referred the matter to the Attorney General's Office for further investigation.

INITIATIVES

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

Court System: Revenues and Expenditures

The OSA will review internal controls over financial and management activities at the probate and family, superior, and district courts. The audits will focus on revenue collections, including fees; accounts receivable records; and expenditures.

Homeland Security Audit Initiative

As part of an ongoing effort to determine whether Homeland Security and other relevant funding is being used, as intended, to significantly enhance the safety of the citizens and infrastructure of Massachusetts, the OSA is continuing to audit Homeland Security grants, expenditures, and programmatic issues. A report on security initiatives at the Massachusetts Turnpike Authority is nearing completion, and will be followed by audits at the Massachusetts Port Authority, the Executive Office of Public Safety, the Massachusetts Emergency Management Agency, and the Department of Public Health. The three reports on Homeland Security-related issues completed during this report period are detailed in a Special Audit section beginning on page 39.

Technical Assistance to District Attorneys

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

AUDIT SUMMARIES

Financial Management and Other Special Audits

During fiscal year 2005, the OSA issued 38 audit reports pertaining to 281 various agencies, boards, commissions, and funds. Four of these reports addressed statewide revenue issues and were completed in association with the Single Audit of the Commonwealth. Other major reports pertained to the Health Security Trust Fund, Boat Excise Tax Collection, and the Department of Environmental Protection.

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 and 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 2005, 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, 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 and thirteen lockbox locations. 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 2004 Office of the State Comptroller's year-end closing instructions. Moreover, the Springfield and Worcester District Courts, which were previously cited for incorrectly processing and depositing certain year-end receipts and the Berkshire Sheriff's Department, which needed to improve its 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, including the following findings, so that appropriate final adjustments could be made to the Commonwealth's records.

- Uxbridge District Court did not include \$1,750.75 in cash received on June 30, 2004 as fiscal year 2004 revenue. Consequently, these funds were improperly accounted for as fiscal year 2005 revenue.
- Greenfield Community College, Roxbury Community College, and Worcester State College did not have policies and procedures in place to ensure that all outstanding debts collected through June 30, 2004 were properly deposited and recognized as fiscal year 2004 revenue. As a result, not all recovered funds due to the Commonwealth were accounted for in the correct fiscal year.

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

The OSA reviewed encumbrance transactions at 68 state agencies to determine compliance with the requirement that goods and services purchased with fiscal year 2004 funds be received by June 30 and properly entered into the Massachusetts Management Accounting and Reporting System. The audit also examined advance-fund management of 22 state agencies in order to evaluate documentation supporting open encumbrance balances. Agency compliance was very high, with approximately 97% of transactions reviewed in compliance with closing instructions for encumbrances. However, certain compliance issues were identified as noted below.

- The Department of State Police, Department of Industrial Accidents, Division of Standards, Essex County Sheriff's Department, Massachusetts Bay Community College, and Middlesex Community College processed a total of nine encumbrance transactions that did not comply with the State Comptroller's closing instructions. As a result, \$306,629.54 of fiscal year 2004 funds was used to pay fiscal year 2005 obligations.

- The Department of Housing and Community Development, Department of Social Services, Office of the State Treasurer, and Essex County Sheriff's Department processed payment vouchers for seven encumbrance transactions, totaling \$474,769.07, that were paid three to 65 days later than provided for by the State Comptroller's 30-day bill-paying policy. Furthermore, the Department of Housing and Community Development and the Office of the State Treasurer did not have funding approvals in place before ordering and receiving equipment and furnishings costing \$213,427. Finally, contrary to state finance law, the Department of Social Services made 31 payments totaling \$294,649.92 for information technology equipment prior to receiving it.

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

The OSA, in conjunction with the Single Audit of the Commonwealth, conducted a review of selected transactions at eight state agencies for the purpose of determining agency compliance with applicable laws, rules, and regulations. The audit found that the two university campuses previously cited for deficiencies in managing their accounts receivable, Salem State College and Massasoit Community College, had taken all necessary corrective action. New issues noted are summarized below.

- The Soldiers Home in Holyoke did not enter Medicare accounts receivable information into the Commonwealth's automated Billing and Accounts Receivable Subsystem (BARS) in a timely manner and did not perform monthly reconciliations between its records and BARS. As a result, variances occurred, which required an adjustment of \$484,623 in the Soldiers' Home accounts receivable balance. Soldiers' Home officials stated that the purpose of the adjustment was to enter an accumulation of unpaid Medicare charges for the period August 1998 through April 2003. Variances persisted, however, for subsequent entries, and further adjustments were required to reconcile the BARS balance with in-house Soldiers' Home records as of June 30, 2004.
- Springfield Technical Community College did not properly post cash collections and other financial activity on its in-house records, did not enter timely and accurate accounts receivable information into the Commonwealth's Billing and Accounts Receivable Subsystem and did not perform required monthly reconciliations. As a result, 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, 2004 of \$16,052,917,427.98 were below allowable state tax revenues of \$20,398,592,000.32 by the amount of \$4,345,674,572.34. Therefore, no excess tax revenues, as defined in Chapter 62F, MGLs, existed for fiscal year 2004.

Statewide Review of Accounts Receivable and Revenue Collection Efforts

The OSA reviewed the Commonwealth's accounts receivable balances in order to assess whether funds owed to the state for fees, fines, assessments, tuitions, loans, and other charges for services were properly accounted for, efficiently collected, and effectively monitored. OSA auditors focused on departmental accounts receivable, which totaled \$1.4 billion as of June 30, 2003, with particular emphasis on departments with significant accounts receivable balances older than 90 days. Audit field work included an accounts receivable comparison and trend analysis relative to agencies that utilize the state's Billing and Accounts Receivable Subsystem (BARS) and those that maintain their own independent billing and accounts receivable system. Agencies that use BARS are considered to report receivables in "detail." Agencies with independent systems report their receivables periodically to BARS in one aggregate amount, which is termed "summary" reporting. Our audit tests encompassed eight fiscal years through June 30, 2003, with information in certain areas updated to include relevant fiscal year 2004 data.

Although improvements have been made in the Commonwealth's centralized billing and accounting system, the OSA audit identified a number of areas, as summarized below, in which collection and cash management of accounts receivable could be further enhanced, thereby increasing Commonwealth revenues.

- As of June 30, 2003, 76 departments had approximately \$451 million in accounts receivable reported on BARS. Many agencies reporting in "detail" and "summary" were properly managing and monitoring their accounts receivable. However, "summary" reporting agencies that had a large percentage of past due receivables had greater difficulty than "detail" reporting agencies in making collections and in maintaining accurate account aging, balance, and reconciliation information. Some departments reporting in "summary," including Holyoke Community College, Northern Essex Community College, Salem State College, the Department of Correction, and the Registry of Motor Vehicles, did not update their accounts receivable balances on a monthly basis or properly reconcile their in-house systems with the information on BARS. As a result, the BARS system could not provide an accurate amount or aging of the Commonwealth's receivables for a significant number of agencies. Furthermore, several "summary" reporting agencies had large unreconciled variances. The OSA recommended that agencies be encouraged, where feasible, to report in "detail." Those that continue to report in "summary" should be required to provide an accurate aging of accounts and reconcile their accounting system to BARS on a monthly basis.

- Certain departments were not utilizing the Commonwealth's intercept program to collect outstanding debt. As a result, these agencies were missing opportunities to collect past due accounts receivable. Pursuant to laws enacted in 2002 and 2003 some entities that historically had large, old accounts receivable are now required to use the intercept program. These include the Department of Industrial Accidents, Department of Public Health, Division of Employment and Training, Group Insurance Commission, and all state and community colleges. With the passage of these laws, participation in the intercept program has increased. However, Roxbury Community College and Worcester State College were not in compliance with the laws' requirements and did not have implementation plans that would allow them to participate in the intercept program in the near future. The OSA strongly recommended that the Commonwealth require agencies to utilize this collection process. Because the intercept system is integrated with BARS and the Department of Revenue's Massachusetts Tax System, it has proven to be an excellent vehicle for collecting past-due accounts receivable.
- Certain departments had a high allowance for uncollectibles. These included the Department of Revenue's Child Support Program, Department of Transitional Assistance, Department of Environmental Protection, Department of Public Health, Massachusetts State Lottery Commission, Department of Industrial Accidents, and Division of Employment and Training. Departments' allowances for uncollectible amounts have increased over the past six years due in part to not writing off uncollectible older accounts receivables on their balance sheets in the hopes that some of this debt would be recovered through the Commonwealth's debt collection or intercept program. However, as receivables age, they are less likely to be collected. The OSA recommended that agencies closely monitor the status of their accounts receivable and collect payments due as soon as possible. Departments that have old accounts receivable should make every effort to collect amounts due and then take steps, through the Office of the State Comptroller, to write off uncollectible amounts.

Health Care Security Trust Fund

The OSA reviewed the activities of the Health Care Security Trust Fund, the repository for funds received by the Commonwealth as a result of the settlement of Medicaid lawsuits filed by 46 states against the tobacco industry for recovery of tobacco-related disease costs. Massachusetts estimates its allocable share of the settlement over the next 21 years to be approximately \$6.7 billion. From its inception in 1999 through January 2004, the Trust received over \$1 billion. The OSA review focused on activities of the seven-member Board of Trustees, which supervises Trust investments and expenditures; Fund revenues and transfers; and legal compliance issues. A summary of audit results, including the status of the Health Care Security Trust as of the close of the audit period, follows.

- The Board of Trustees of the Health Security Trust Fund, on October 31, 2001, signed an investment services agreement with the Pension Reserve Investment Management (PRIM) Board and designated \$376,610,253 in Trust assets as the initial amount to be invested by PRIM. The Trustees hired an Executive Director in October 2002 and issued a statement of Investment Policy and Objectives in April 2003. Activities of the Trustees, who have exclusive control and management of the Trust Fund, were found to be in compliance with Chapter 29D and other laws applicable to the operation of the Trust. However, during the review period, the Board of Trustees had two vacant appointments due to resignations.
- In accordance with the requirements of the Master Settlement Agreement, during the review period, the Commonwealth received \$849,563,096, which was deposited into the Health Care Security Trust Fund. Added to funds already in place, as well as interest and other income, revenues totaled \$1,555,240,315. In compliance with Chapter 29D and other mandates, \$541,498,096 was transferred to the Tobacco Settlement Fund, from which health expenditures would be made. Total transfers and expenses, including those made to the General Fund, the Economic Stimulus Fund, and the Health Care Quality Improvement Fund, were \$1,099,235,768. As of January 31, 2004, the Health Care Security Trust Fund Balance was \$456,004,547. With the addition of in-transit revenues, the final balance was \$458,009,570.

Boat Excise Tax Collection

The OSA completed a review initiated to determine the effectiveness of boat excise tax collections in the Commonwealth. Auditors contacted 162 communities, as well as relevant state and federal agencies, in order to assess the adequacy of intergovernmental cooperation in the collection of these taxes. Based on available federal and state information, as of January 2004 there were approximately 175,632 boats listed with a Massachusetts address. Results of this review are summarized below.

- The Commonwealth's system for collecting boat excise taxes was found to be ineffective and inefficient. The complex intergovernmental cooperation outlined in relevant statutes and necessary for successful collections had broken down. For example, over 15,000 federally documented boats were not reported to local officials. As a result, 120 communities, discouraged by problems within the system, had stopped collecting boat excise taxes altogether. Other communities put considerable effort into collection activities, but could not be assured that they were getting all taxes due, especially since many boat owners were evading the system by registering their boats in communities that did not assess boat excise taxes.
- The OSA estimated that as much as \$30 million in boat excise taxes had been lost to Massachusetts communities from 1977 through September 2004.

- Citing the need to maximize state and local revenues, as well as to enhance the security of harbors and waterways, the OSA recommended passage of pending state legislation proposed by the Massachusetts Association of Assessing Officers. Major provisions of this bill include database improvements, new interagency agreements, and required registration with the Commonwealth of all federally documented boats housed in the state. Enactment of this legislation would reduce disincentives to assessing and collecting boat excise taxes in Commonwealth communities.

Special Audit Section

Cost Recovery Activities Relative to Three Accidents that Resulted in Environmental Damage

The Office of the State Auditor conducted a review of cleanup and repair activities associated with three accidents, an oil spill in Buzzards Bay, a natural gas truck rollover on Route 128, and a truck collision in the Interstate 93 tunnel. These accidents, which occurred in 2003, threatened the environment and resulted in cleanup costs totaling tens of millions of dollars. The audit found that the incidents on Route 128 and in the I-93 tunnel were handled appropriately with respect both to cleanup and cost recovery activities. However, weaknesses were noted in the state's procedures for identifying cleanup expenses and coordinating cost reimbursement efforts relative to the Buzzards Bay spill.

- The Massachusetts Department of Environmental Protection (DEP) was notified in April 2003 that a fuel barge had leaked tens of thousands of gallons of fuel oil at the entrance to Buzzards Bay. DEP and the U.S. Coast Guard mobilized and coordinated the emergency response and long-range cleanup activities associated with this potential environmental disaster. However, no single state agency was designated as a repository for the collection and coordination of cost data and submission for reimbursement. As a result, certain state agencies that were eligible to recover cleanup costs did not, at first, apply for reimbursement. Some were unaware that reimbursement was available. Others thought, incorrectly, that DEP was handling the entire reimbursement mechanism. Based on data received from governmental agencies, the OSA identified participants of cleanup activities and associated costs. As of the close of the audit period, various state agencies had incurred \$541,446 in spill-related costs, of which \$143,646 had not yet been billed, while cities and towns had yet to bill for \$19,480 of \$366,650 in expenses. In addition, 540 third-party insurance claims had been filed, with \$990,166 paid in partial or full settlement of those claims. Finally, \$33,650,080 had been paid to cleanup contractors, vendors, and support companies.
- The OSA recommended that the Commonwealth designate a single lead agency to establish cost recovery policies and procedures, with specific reference to documentation, data accumulation, and billing information. This agency should also provide guidance and assistance to state entities and municipalities involved in cleanup operations and cost recovery activities.

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 2006, 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, Massachusetts College of Liberal Arts, Middlesex Community College, Roxbury Community College, and Worcester State College;
- Federal grant programs at the Executive Office of Public Safety and Homeland Security;
- Federal grant programs at the Massachusetts Emergency Management Agency; and
- Federal grant programs at the Department of Social Services.

AUDIT SUMMARIES

Information Technology Audit

During the report period, the OSA's Information Technology (IT) Audit Division issued 27 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 will be met regarding security, integrity, and availability of automated systems. 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, virus protection controls, and system access security. The following section highlights findings from this report period.

The Department of Transitional Assistance

The OSA's IT Audit Division completed an audit of IT-related activities at the Department of Transitional Assistance (DTA), the agency that administers the state's cash assistance and Food Stamp programs for eligible low-income individuals. For fiscal year 2004, DTA administered over \$1 billion in state and federal funds. The audit found that adequate controls were in place in several areas, including access security, physical security, and environmental protection. However, certain administrative and internal control problems were noted, particularly regarding implementation of the Benefit Eligibility and Control On-line Network (BEACON) and protection of BEACON data. OSA testing of the BEACON system disclosed that ineligible noncitizens were receiving benefits and that other potentially ineligible recipients were also receiving benefits. Major audit findings are summarized below.

- Although DTA had appropriate controls over the initial determination of client eligibility, caseworkers did not adequately monitor and update recipient case documentation on the BEACON system. As a result, DTA made cash payments totaling approximately \$263,000 to potentially ineligible recipients during the audit period. For example, audit tests found that supporting documentation was missing or incomplete for over 20% of case records regarding verification of employment income and for 19% of case records regarding verification of children's immunization and school attendance records. These findings indicate control weaknesses that increase the risk of overpayments.
- DTA was paying benefits to ineligible noncitizens, sometimes over an extended period of time. Most of these recipients had applied for benefits while their Social Security applications were pending, and were categorized at that time as "immigration status undetermined." When these applicants were accepted for benefits, they were assigned temporary "dummy" Social Security numbers, which were to be replaced when they received valid Social Security numbers. However, DTA did not systematically monitor or reverify information for these recipients. As a result, certain recipients received questionable benefits, some for more than six years, without a valid Social Security number. In addition to the issue of questionable payments, concerns were raised that recipients, as well as others, could construe "dummy" Social Security numbers as legitimate and allow them to be used for employment and other purposes, a breach of current security protocols. After the OSA informed DTA that auditors had identified potentially ineligible noncitizens receiving benefits, DTA took prompt action with respect to two recipients found to be "incorrectly aided" and were reviewing the benefits of an additional 76 noncitizens that might be receiving financial assistance benefits incorrectly.

- DTA did not have a documented and tested disaster recovery and business continuity plan to provide for the timely restoration of mission-critical and essential business functions should a disaster render automated systems inoperable or inaccessible. As a result, the agency was at risk of losing the ability to process information through the BEACON system, which could disrupt eligibility determinations and other essential benefits processing functions should automated systems be lost for an extended time. The OSA recommended that DTA conduct a risk assessment and, based on its results, develop and implement a business continuity strategy, including the identification of an alternate processing site and periodic testing of the plan.

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.

- ***Dedham District Court, Suffolk County Juvenile Court, and Taunton District Court*** needed to work with the Administrative Office of the Trial Court to develop a formal business continuity strategy, including user area plans, that would provide reasonable assurance that critical business operations could be restored in a timely manner should a disaster render automated systems inoperable or inaccessible. Without adequate disaster recovery planning, the courts' operations, including warrant management, case tracking, and fee collection could be adversely affected should processing capabilities be lost for an extended time. The OSA recommended that each court perform a risk analysis and criticality assessment, designate and test an alternate processing site, and implement an effective recovery plan.
- ***Taunton State Hospital*** did not have a formal, tested disaster recovery plan for the timely restoration of mission-critical and important data processing operations should a disaster render automated systems inoperable or inaccessible. Without adequate disaster recovery and contingency planning, including user-area contingency plans and specific arrangements for alternate site processing, the Hospital's medical and business functions would be adversely affected by a loss of processing capabilities. At the close of the audit period, Taunton State Hospital, in conjunction with the Department of Mental Health, had begun to formulate a business continuity strategy.

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. As part of an ongoing review of controls over computer equipment at state colleges, the OSA completed three audits, with significant results summarized below.

- ***Fitchburg State College*** did not have adequately documented policies and procedures for receiving IT-related assets, did not perform annual physical inventories and reconciliations, and did not include in its inventory records sufficient information to determine the location of all computer equipment items. As a result, IT assets were potentially exposed to an increased risk of loss, theft, and misuse. In addition, although the College had reported missing or stolen IT equipment items to the campus police, missing assets were not reported to the State Auditor as required under Chapter 647 of the Acts of 1989, the state's Internal Control Statute.
- ***The Massachusetts Maritime Academy*** did not perform an annual physical inventory and reconciliation of computer equipment. As a result, the integrity of its inventory records could not be relied upon and, in fact, audit tests indicated missing or incorrect information with respect to inventory location, receiving date, serial number, and value. In addition, of 73 inventory items tested, 29 pieces of computer equipment could not be located, and six additional items were found in locations different from those listed on inventory records. Finally, the Academy did not report to the OSA any computer equipment that had been lost or stolen, as required by the state's Internal Control Statute.
- ***North Shore Community College*** could not provide documentation that an annual physical inventory had been performed. In addition, the College did not have adequate controls in place to monitor the assignment and use of laptop computers. Laptops assigned to department heads were distributed to faculty, staff, and students without requiring signed responsibility and usage sheets from individual users. As a result, risk was increased that equipment would not be recovered from users and that equipment loss would go undetected.

Physical Security

Adequate physical security for data centers and on-site and off-site media storage rooms serves to enhance staff safety and prevent damage to automated systems by minimizing the risk of unauthorized persons breaching security and gaining entry to areas housing computer-related equipment and information.

- ***Suffolk County Juvenile Court and Taunton District Court*** needed to improve management of their keycard systems that permit access to certain restricted areas of the courts. Neither court had an established process for maintaining a current list of authorized key holders or retrieving keys from prior employees. In addition, Taunton District Court needed to better control access to its computer network equipment storeroom, which was not kept locked and for which an access log was not maintained. Both courts took prompt action to enhance physical security, including deactivation by Suffolk County Juvenile Court of electronic keycards for individuals no longer employed by the Court.

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 user IDs and passwords 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 Massachusetts Hospital School*** did not always promptly deactivate user accounts that were no longer needed or authorized. Audit tests found that user IDs and passwords had not been deactivated for fourteen individuals who were no longer employed by the Hospital School, including one user who had left employment in 1996. Hospital School officials responded that they were taking steps to reinforce and monitor existing policies and procedures intended to ensure that computer access is terminated for all individuals who leave Hospital School employment.
- ***Dedham District Court, Suffolk County Juvenile Court, and Taunton District Court*** needed to strengthen controls over access to their mission-critical Warrant Management System (WMS) in order to ensure that only authorized users have access to this system. Audit tests indicated that a significant number of individuals authorized to use the WMS were no longer employed by the applicable court. In addition, there were no procedures for the regular changing of passwords. As a result of these deficiencies, information concerning outstanding warrants and criminal investigations was potentially exposed to increased risk of unauthorized access, alterations, and deletions. All three courts moved promptly to deactivate user privileges for former employees and were taking steps to improve their monitoring of password administration.

Financial-Related Issues

The audit of the Massachusetts Hospital School disclosed that the entity was not maximizing its revenue collections for services provided to Medicaid recipients under its care. A summary of this finding follows.

- ***The Massachusetts Hospital School*** did not have adequate controls in place for the monthly resubmission of initially denied Medicaid claims. Due to a reduction in staff to review, amend, and resubmit these claims, the Hospital School had a revenue delinquency from July 1, 2000 through December 31, 2003 totaling \$1,215,534. Hospital School officials responded that staff from the University of Massachusetts Revenue Operations Department was assisting with current billing operations and was also providing resources needed to reduce the outstanding uncollected revenue.

Special Audit Section

Virus Protection Programs

The IT Audit Division issued fourteen reports during fiscal year 2005 on technology-related controls for virus protection. These audits were conducted as part of a comprehensive review and assessment of virus protection activities at 32 state agencies. The focus of this effort, which will result in a comprehensive statewide report, as well as individual reports, is on controls relating to policies and procedures, and use of software tools to prevent and detect viruses and unauthorized intrusions. IT auditors are also assessing the level of virus risk, reviewing the reporting of viruses, and recommending appropriate corrective measures. A general summary of results follows:

- All fourteen audited entities had a measure of protection through the installation of anti-virus software and their own or a larger agency's firewall and intrusion detection system. Moreover, most agencies had additional security controls in place to provide email filtering and blocking capabilities, to scan software prior to installation or opening, and to assure that all anti-virus software is up to date. Most agencies also had controls in place to ensure that users could not disable anti-virus software.
- The OSA found that technical controls at most of the agencies audited were stronger than administrative controls for virus protection. With few exceptions, even those agencies that were adequately protected by up-to-date anti-virus software did not have sufficient written policies and procedures to guide IT personnel in addressing virus protection and incident response. In general, user training was also inadequate, particularly with respect to guidelines for authorized and acceptable use of IT resources. Furthermore, many entities did not perform periodic risk assessments for virus protection, and even those that did so often lacked adequate documentation of potential entry paths for viruses, vulnerability points, and measures to contain and eradicate any infection.
- The following are examples of recurring OSA recommendations from the virus protection audits completed during the report period. Entities should:
 - Enhance IT-related policies and procedures to provide a detailed explanation of the specific steps to be followed for the successful prevention, detection, and correction of virus events and unauthorized intrusions. These policies should strictly prohibit the programming or propagating of any computer code designed to self-replicate or to damage IT resources. Policies should also prohibit the use of nonauthorized gateways, such as modems or wireless devices, to access the Internet, and prohibit or severely restrict the use of instant messaging. Furthermore, incident response policies and procedures should be documented, with emphasis on preventing security breaches through containment and eradication of the infection or problem.

- Perform risk assessments on an annual basis, or as a result of virus infection or malicious intrusion.
- Conduct formal training to ensure that users have an adequate understanding of anti-virus policy, risks of computer viruses, indications of infected machines, and notification and incident response procedures.
- Consider installing anti-adware and anti-spyware programs as part of their security and control strategy.

INITIATIVES

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

College and University Controls over Computer Equipment

The OSA is continuing 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 includes an evaluation of procedures to properly identify and report on lost or stolen equipment. In addition, relevant aspects of an 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. Three individual audits were issued during the report period as part of this ongoing initiative. They are discussed on page 57.

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 is assessing 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. This comprehensive review will result in a statewide report, as well as individual reports, fourteen of which were issued during fiscal year 2005.

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 have surveyed 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 have been 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. BSI staff participate in joint investigations and serve on task forces focused on preventing and combating illegal activities. Agencies with which BSI interacts 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.

As part of its 2005-2006 legislative package, the OSA has filed a bill that enhances efforts to combat Food Stamp fraud. Although under current law, Food Stamp fraud can be prosecuted under general larceny statutes, prosecutions for defined offenses would be more efficient and more likely to succeed. In addition, specifying prohibited activities, such as the use of false identities and Food Stamp trafficking, focuses attention on criminal activities that defraud the state and obstruct efforts to eliminate hunger and malnutrition. The bill is pending before the Joint Committee on Children and Families.

Finally, during fiscal year 2005, BSI was funded to develop a database application, which will electronically collect investigative data, perform analytical tasks, and help to prioritize casework. This will expedite fraud investigations, accelerate referrals for recoveries, and provide information to enhance prevention activities. The OSA is also working closely with a variety of state agencies to maximize the application's benefit to other public entities.

Highlights of BSI activities and accomplishments are detailed below.

- During fiscal year 2005, BSI identified fraudulently obtained cash assistance, Food Stamps, and Medicaid benefits totaling over \$2.1 million. These completed cases were referred to the appropriate agency for prosecution or civil recovery. As of June 30, 2005, BSI had 40 cases pending in various courts throughout the Commonwealth.

- BSI, during this period, completed 734 investigations into allegations of public assistance fraud. Over 30% 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.
- During the course of investigating public assistance fraud, BSI has found instances of simultaneously occurring housing fraud. Working closely with the U.S. Inspector General's Office of Housing and Urban Development, BSI completed and referred for prosecution an investigation that identified approximately \$120,000 in fraudulently obtained public assistance and housing benefits, of which half was housing fraud. A second investigation, which is currently ongoing, involves approximately \$50,000 in potential housing and public assistance fraud.
- BSI has worked with federal agencies, including Homeland Security, in the investigation of combined Medicaid and public assistance fraud totaling \$96,000. In addition, BSI has seven cases in various stages of prosecution that involve over \$250,000 in Medicaid fraud and five other cases, totaling \$40,000 in combined fraud, awaiting prosecution. BSI also continues to address the issue of "border fraud," the illegal receipt of Massachusetts benefits, usually MassHealth benefits, by those living out-of-state.
- BSI is continuing its investigations of drug diversion cases, which involve the use of Medicaid benefits for drug-related criminal activities. Most of these investigations disclose MassHealth recipients who fraudulently obtain certain prescription drugs, which are then either abused by the recipient or sold on the street at a substantial profit. In many of these cases, recipients conspire with physicians and pharmacists to obtain these drugs, requiring investigation and criminal prosecution of both recipients and providers. During the report period, two BSI investigations involving illegally obtained OxyContin resulted in convictions. In one case, an individual was found guilty of MassHealth fraud totaling \$33,000. In the second case, a joint investigation with federal agents, an individual was convicted of using stolen MassHealth identification numbers, including the identification numbers of minor children, to illegally obtain OxyContin. This individual, at the close of the report period, was awaiting sentencing. BSI also had three ongoing investigations involving physicians who allegedly conspired with MassHealth recipients in the illegal prescribing of various narcotics.
- 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 substantially less than the value of the Food Stamp benefit in cash. 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.

Division Activities

- BSI has experienced a significant increase in Personal Care Attendant (PCA) fraud referrals, cases in which falsified records enabled certain caregivers to receive payment for services that were not provided. As a result of BSI investigations, four PCA cases were successfully prosecuted over the past year, and six other cases, involving over \$60,000 in fraud, are pending prosecution in various courts. In the largest of BSI's ongoing investigations, a network of individuals appears to have conspired to fraudulently bill for over \$150,000 in PCA funds.
- BSI continues to investigate allegations of fraud in publicly funded childcare programs throughout the Commonwealth. In June, BSI examiners gave Grand Jury testimony on a \$43,000 fraud case under the direction of the Norfolk District Attorney. Other cases of previously identified childcare fraud are also pending criminal prosecution. In addition, in the current year, BSI has identified \$110,000 in ineligible subsidized childcare benefits.

Division of Local Mandates

To ease some of the impact of municipal 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.

Mandate Determinations and Legislative Studies

Senate 2037: An Act Relative to the Installation of Carbon Monoxide Detectors in Residential Buildings

The Senate Committee on Ways and Means requested an opinion regarding the applicability of the Local Mandate Law to Senate 2037, legislation that would require local fire departments to conduct inspections of certain carbon monoxide detectors. Because the bill includes a schedule of fees to be paid by the owners of buildings subject to inspection, DLM concluded that the Local Mandate Law probably would not apply.

While Senate 2037 would impose new duties upon fire departments, it also provides for a schedule of fees contemplated to offset the additional cost. The bill would allow fire departments to charge fees ranging from up to \$50 for inspections of carbon monoxide detectors at single-family dwellings to \$500 at residential buildings with more than six units. Should these fees, in fact, offset the cost of conducting mandated inspections, the Local Mandate Law would not apply.

DLM noted that there is no court precedent directly addressing the notion that fees charged to private parties to cover the local cost of administering a state mandated program would satisfy the standards of the Local Mandate Law. Nonetheless, it follows that there would be no cost to be assumed by the Commonwealth, if cities and towns fully recovered their expenses from the regulated private parties.

Noting that the bill calls for regulations to further define the requirements on cities and towns, DLM reserved the right to revisit the matter if necessary.

House 1439 (2003): An Act to Protect the Public from Condemned Vicious Dogs

Senator Richard T. Moore requested an opinion regarding the Local Mandate Law and House 1439, refiled in 2005 as House 3583. In relevant part, this bill would require the local dog official to take a dog from the owner when a city or town orders that the animal be destroyed. It would also require the community to pay the costs of confining the dog pending an owner's appeal. If a court agreed that the order of destruction was warranted, the owner would be required to reimburse the city or town. If a court determined that the order was not warranted, the community would be responsible for the costs of impoundment. DLM concluded that the Local Mandate Law would not apply in this case, because the bill would simply clarify existing, pre-1981 law, and would not impose new, substantive duties on cities and towns. The Local Mandate Law does not apply to local obligations under laws and regulations that took effect before January 1, 1981.

Department of Revenue: Interim Adjustments to Property Values

In response to a request from Senator Richard T. Moore, DLM reviewed the Department of Revenue (DOR) requirement that municipal assessors conduct annual analyses to determine whether changing market conditions warrant interim adjustments to property values. If warranted, assessors must make adjustments to maintain full and fair cash valuation of property in the two years prior to DOR's triennial certification of property values in each community. DOR's January 2004 "Guidelines for Development of a Minimum Reassessment Program" emphasized this requirement, and made it a prerequisite to certification of fiscal year 2005 tax rates. On the surface, this did appear to be a new requirement, as numerous communities had not been conducting interim assessments. Nonetheless, DLM's review, including meetings with representatives of the Massachusetts Association of Assessing Officers and DOR, concluded that this was actually an administrative effort to compel compliance with the long-standing duty to determine the full and fair cash value of property on an annual basis. Because this was a pre-1981 requirement, DLM advised that the Local Mandate Law does not apply in this case.

Although DOR guidelines at issue were published after January 1, 1981, state law in effect before that date provides: "The assessors of each city and town shall determine the fair cash valuation of such property for the purposes of taxation on the first day of January each year." Despite this requirement, it had not been the practice of every community to conduct analyses and make annual interim adjustments when warranted. In fact, DOR data indicated that less than one-half of the cities and towns not on cycle for triennial certification undertook interim adjustments. Moreover, until issuing the recent guidelines, DOR had made no consistent enforcement efforts, and only required an "Interim Year Adjustment Report" from a limited class of communities. Nonetheless, court precedent indicates that these facts would not override the reality that the duty to determine fair cash valuations of property on an annual basis was imposed by pre-1981 law.

Mandatory Health Insurance Costs for Early Intervention Services and for Coverage of Certain Clinical Trials

Representatives of the Cape Cod Municipal Health Group requested an opinion relative to the Local Mandate Law and additional health insurance costs resulting from enactment of two laws requiring expanded health insurance coverage. The first statute requires certain health insurers and health maintenance organizations to increase caps for coverage of early intervention services. The second requires coverage for qualified clinical trials for cancer treatment. DLM recognized the strain of continuous expansion of covered services and the growing cost of health insurance on municipal budgets, and noted that these laws are among the 59 mandatory coverage items listed in one state Division of Insurance publication. Nonetheless, DLM concluded that the Local Mandate Law did not apply to these laws.

The basis for this conclusion is court decisions ruling that the Local Mandate Law does not apply to laws that are generally applicable to both public and private sectors, when local government voluntarily participates in the regulated activity. Both of the statutes at issue here amend state insurance laws that apply generally to private and public purchasers of health insurance. Additionally, cities and towns that participate in the Cape Cod Municipal Health group voluntarily voted to provide health insurance for municipal employees under Chapter 32B of the General Laws, a local option statute.

INITIATIVES

Property Tax Relief for Eligible Senior Citizen Homeowners

DLM has completed its review of the local financial impact of property tax exemptions for senior homeowners. This work was conducted as a follow-up to the OSA's 1998 report, "A Review of Property Tax Exemptions for the Elderly." Illustrating the effects of inflation, that report documented a progressive decline in the relative value of local exemptions and the number of seniors qualifying for property tax relief. It also documented a progressive increase in the number of exemptions granted without state reimbursement, which totaled over \$2 million in 1998. As a result, the Auditor recommended that applicable laws be amended to increase the value of property tax exemptions for seniors, expand the eligibility criteria, and increase state reimbursements.

Subsequently, the Legislature enacted amendments to provide cities and towns with as many as eight new local options to increase the value of senior property exemptions and/or eligibility standards. These amendments bring the total of local options for senior tax relief to sixteen. Even though the issue of local reimbursements has not been addressed directly, through the 1999 Circuit Breaker program, the Commonwealth for the first time is playing a direct role in assuming financial responsibility for additional tax relief for senior citizens.

The follow-up report presents an analysis of current trends in utilization of the various senior tax relief programs and options. It also provides an evaluation of existing laws and the degree to which they meet the dual objectives of fair and sensible property tax relief for seniors and reasonable state reimbursements to cities and towns. Finally, this report includes recommendations for more consistent and effective public policy in this field and to address the financial impact on cities and towns. This report is available online or by calling DLM at 617-727-0980. Its findings and recommendations will be detailed in the next Annual Report.

State Funding for the Uniform Polling Hours Mandate

In June 2005, DLM initiated the process of certifying expenses resulting from the Uniform Polling Hours Law for the state elections upcoming in 2006. Chapter 503 of the Acts of 1983 requires that all polling places for state elections open no later than 7:00 a.m. and remain open until 8:00 p.m. Since state law prior to Chapter 503 allowed polling places to open as late as 10:00 a.m., three hours of mandated expenses are eligible for state funding under the Local Mandate Law.

Chapter 503 directs DLM to determine the incremental local costs attributable to the statute for each community. Since 1984, the OSA has certified \$13.5 million in state funding for distribution to cities and towns. Individual determinations for each of the 351 cities and towns for the 2006 elections will be completed in the upcoming period and detailed in the next Annual Report.

PROGRAM ACTIVITIES

Private Occupational Schools: Financial Evaluations

Chapters 75C, 75D, and 93 of the Massachusetts General Laws require the Office of the State Auditor and the Department of Education to annually evaluate the financial and academic qualifications, respectively, of applicants for licensure or registration as post-secondary, non-degree-granting business, trade, and correspondence schools. Schools conducted by employers to train their own employees and schools or colleges chartered or otherwise authorized by the Commonwealth are exempt from the mandates of the statutes. These consumer protection statutes were established to ensure that private occupational schools are both academically and financially qualified to operate in Massachusetts.

Prior to licensure or registration 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. Those schools determined to be financially qualified for licensure or registration 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 2005, there were 186 private occupational schools financially certified for Massachusetts licensure or registration. During the twelve months ended June 30, 2005, the OSA performed 183 financial evaluations. Thirty-two of these schools represented first-time applicants, 151 reviews covered renewal applications, and 19 previously approved schools were reclassified as inactive.

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, secretarial skills, 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	2005-0177-16S	3/22/2005
2.	Bunker Hill Community College	2005-0192-16S	3/22/2005
3.	City of Everett Public School Department	2005-2102-3C	5/11/2005
4.	Compliance with the Office of the State Comptroller's FY 2004 Year-End Closing Instructions: Department of Education	2004-0157-16S	2/9/2005
5.	Compliance with the Office of the State Comptroller's FY 2004 Year-End Closing Instructions: Roxbury Community College	2004-0204-16S	2/9/2005
6.	Department of Education: Charter School Closings (3 Entities) -Department of Education -Lynn Community Charter School, -North Star Academy Charter School	2004-0157-3O	7/29/2004
7.	Department of Education: School Building Assistance Program	2004-0157-3S	8/23/2004
8.	EDCO Collaborative (4 Entities) -EDCO -Department of Education -Department of Public Health -Toward Independent Living & Learning, Inc.	2005-4224-3C	6/30/2005
9.	Fitchburg State College	2005-0178-4T	6/28/2005
10.	Massachusetts Maritime Academy	2005-0182-4T	5/26/2005
11.	North Shore Community College	2005-0202-4T	6/9/2005
12.	Quinsigamond Community College	2004-0203-3S	7/14/2004
13.	Roxbury Community College	2005-0204-16S	3/22/2005
14.	Worcester State College	2005-0186-16S	3/22/2005

Health and Human Services

	<i>Audit</i>	<i>Audit Number</i>	<i>Issue Date</i>
1.	Alternatives Unlimited, Inc.	2004-4357-3C	1/20/2005
2.	Better Community Living, Inc.	2003-4466-3C	12/3/2004
3.	Bridge of Central Massachusetts, Inc.	2005-4345-3C	4/4/2005
4.	Cambridge Family and Children's Services, Inc.	2004-4482-3C	12/9/2004
5.	Chelsea Soldiers' Home	2005-0065-7S	3/1/2005
6.	Children's Aid and Family Services of Hampshire County, Inc.	2004-4481-3C	8/12/2004
7.	Commission for the Deaf and Hard of Hearing	2004-0302-4T	4/21/2005
8.	Compliance with the Office of the State Comptroller's FY 2004 Year-End Closing Instructions: Chelsea Soldiers' Home	2004-0065-16S	2/9/2005
9.	Compliance with the Office of the State Comptroller's FY 2004 Year-End Closing Instructions: Holyoke Soldiers' Home	2004-0064-16S	2/9/2005
10.	Comprehensive Mental Health Systems, Inc.	2004-4486-3C	12/27/2004
11.	Department of Mental Health (2 Entities) -Central Massachusetts Area Office, -Worcester State Hospital	2004-0238-7S	11/17/2004
12.	Department of Mental Health (5 Entities) -Southeastern Mass Area Office (SMAO) -Brockton Multi-Service Center -Corrigan Mental Health Center -Pocasset Mental Health Center -Taunton State Hospital	2005-0243-3S	6/14/2005
13.	Department of Social Services	2005-1058-16S	4/14/2005
14.	Department of Transitional Assistance	2004-0310-4T	6/2/2005
15.	Department of Veterans' Services-Agawam Cemetery	2005-0018-12O	4/4/2005
16.	Grow Associates, Inc.	2004-4478-3C	10/12/2004
17.	Holyoke Soldiers' Home	2005-0064-7S	3/1/2005
18.	Lifestream, Inc.	2004-4485-3C	3/28/2005
19.	Massachusetts Developmental Disabilities Council	2004-1460-4T	6/1/2005
20.	Massachusetts Hospital School	2004-0301-4T	12/21/2004
21.	Massachusetts Rehabilitation Commission	2004-0054-4T	6/20/2005
22.	Monson Developmental Center	2005-0262-3S	3/11/2005
23.	New England Shelter For Homeless Veterans	2005-4365-7C	2/28/2005

Health and Human Services

	<i>Audit</i>	<i>Audit Number</i>	<i>Issue Date</i>
24.	North Suffolk Mental Health Association, Inc.	2004-4473-3C	12/21/2004
25.	Office of Child Care Services	2005-0837-16S	3/22/2005
26.	Office of Child Care Services	2004-0837-4T	6/23/2005
27.	Pakachoag Acres Day Care Center, Inc.	2003-4477-3C	3/4/2005
28.	People Incorporated	2004-4270-3C	4/4/2005
29.	South Shore Mental Health, Inc.	2003-4190-3C	8/10/2004
30.	Statewide Review of Fuel Assistance Program (23 Entities) -Department of Housing & Community Development and 22 Local Administering Agencies (LAA)	2004-5108-3C	10/4/2004
31.	Taunton State Hospital	2005-0266-4T	6/28/2005
32.	Templeton Developmental Center	2004-1454-3S	4/26/2005
33.	Tewksbury Hospital	2005-0304-12S	6/22/2005

Housing Authority Audits

	<i>Audit</i>	<i>Audit Number</i>	<i>Issue Date</i>
1.	Acushnet Housing Authority	2005-0592-3A	9/30/2004
2.	Amesbury Housing Authority	2005-0596-3A	11/24/2004
3.	Amherst Housing Authority	2005-0597-3A	3/7/2005
4.	Barnstable Housing Authority	2005-0606-3A	6/21/2005
5.	Bedford Housing Authority	2005-0608-3A	1/27/2005
6.	Bellingham Housing Authority	2005-0610-11A	9/28/2004
7.	Belmont Housing Authority	2004-0611-8F	10/15/2004
8.	Beverly Housing Authority	2004-0612-3A	9/29/2004
9.	Blackstone Housing Authority	2004-0615-3A	7/13/2004
10.	Brewster Housing Authority	2005-0659-3A	5/4/2005
11.	Brimfield Housing Authority	2005-0858-3A	4/7/2005
12.	Brockton Housing Authority	2004-0621-3A	9/14/2004
13.	Burlington Housing Authority	2004-0625-8F	3/21/2005
14.	Cambridge Housing Authority	2005-0626-3A	4/15/2005
15.	Charlton Housing Authority	2005-1279-3A	3/2/2005
16.	Chatham Housing Authority	2005-0629-3A	1/27/2005
17.	Chelsea Housing Authority	2005-0631-3A	5/4/2005
18.	Concord Housing Authority	2004-0637-3A	8/30/2004
19.	Danvers Housing Authority	2005-0639-8F	4/29/2005
20.	Dartmouth Housing Authority	2005-0640-3A	6/20/2005
21.	Easthampton Housing Authority	2005-0646-3A	11/10/2004
22.	Fairhaven Housing Authority	2005-0651-11A	3/2/2005
23.	Gardner Housing Authority	2004-0662-8F	7/12/2004
24.	Georgetown Housing Authority	2005-0664-3A	3/29/2005
25.	Gloucester Housing Authority	2004-0665-3A	7/27/2004
26.	Grafton Housing Authority	2005-0666-3A	3/9/2005
27.	Groveland Housing Authority	2005-0929-3A	5/4/2005
28.	Halifax Housing Authority	2005-1287-3A	6/21/2005
29.	Harwich Housing Authority	2005-0679-3A	11/9/2004
30.	Haverhill Housing Authority	2005-0673-3A	6/15/2005
31.	Hingham Housing Authority	2004-0764-3A	11/29/2004

Housing Authority Audits

	<i>Audit</i>	<i>Audit Number</i>	<i>Issue Date</i>
32.	Holbrook Housing Authority	2004-0675-8F	11/1/2004
33.	Holliston Housing Authority	2005-0677-3A	1/31/2005
34.	Hopkinton Housing Authority	2005-0681-3A	4/26/2005
35.	Lancaster Housing Authority	2005-0687-3A	3/2/2005
36.	Leominster Housing Authority	2005-0693-3A	11/24/2004
37.	Lexington Housing Authority	2004-0694-3A	7/30/2004
38.	Littleton Housing Authority	2004-0833-3A	8/24/2004
39.	Lunenburg Housing Authority	2005-0698-3A	6/27/2005
40.	Lynnfield Housing Authority	2004-0860-3A	7/27/2004
41.	Mansfield Housing Authority	2004-0704-3A	8/5/2004
42.	Marshfield Housing Authority	2005-0708-3A	11/10/2004
43.	Mattapoisett Housing Authority	2004-0709-3A	9/14/2004
44.	Medfield Housing Authority	2005-0711-3A	6/2/2005
45.	Medford Housing Authority	2005-0712-3A	6/14/2005
46.	Medway Housing Authority	2005-0714-3A	5/25/2005
47.	Melrose Housing Authority	2005-0715-8F	5/5/2005
48.	Merrimac Housing Authority	2005-0717-3A	3/29/2005
49.	Milford Housing Authority	2005-0722-3A	4/27/2005
50.	Millbury Housing Authority	2005-0724-3A	10/19/2004
51.	Millis Housing Authority	2005-0725-3A	11/24/2004
52.	Milton Housing Authority	2005-1044-8F	5/4/2005
53.	Natick Housing Authority	2005-0729-3A	6/30/2005
54.	New Bedford Housing Authority	2005-0732-3A	6/21/2005
55.	Newburyport Housing Authority	2005-0734-3A	6/23/2005
56.	Newton Housing Authority	2004-0736-8F	10/21/2004
57.	Northbridge Housing Authority	2005-0745-3A	3/16/2005
58.	Norwell Housing Authority	2005-0854-3A	6/10/2005
59.	Oxford Housing Authority	2005-0751-3A	11/19/2004
60.	Pembroke Housing Authority	2005-0756-3A	5/25/2005
61.	Plainville Housing Authority	2005-0759-3A	4/29/2005
62.	Raynham Housing Authority	2004-0903-3A	11/10/2004

Housing Authority Audits

	<i>Audit</i>	<i>Audit Number</i>	<i>Issue Date</i>
63.	Reading Housing Authority	2005-0764-8F	5/24/2005
64.	Revere Housing Authority	2005-0765-8F	1/18/2005
65.	Rockland Housing Authority	2005-0766-3A	1/27/2005
66.	Somerset Housing Authority	2005-0777-3A	4/8/2005
67.	Sutton Housing Authority	2004-0791-3A	9/17/2004
68.	Upton Housing Authority	2005-0797-3A	12/20/2004
69.	Walpole Housing Authority	2005-0800-3A	9/17/2004
70.	Waltham Housing Authority	2004-0801-3A	6/20/2005
71.	Ware Housing Authority	2005-0802-3A	3/2/2005
72.	Watertown Housing Authority	2005-0804-3A	6/21/2005
73.	West Boylston Housing Authority	2004-1278-3A	7/29/2004
74.	West Newbury Housing Authority	2005-1295-3A	3/2/2005
75.	West Springfield Housing Authority	2005-0814-8F	3/14/2005
76.	Westport Housing Authority	2005-0813-3A	2/15/2005
77.	Whitman Housing Authority	2004-0817-3A	9/28/2004
78.	Wilmington Housing Authority	2005-0819-3A	5/4/2005
79.	Winchendon Housing Authority	2005-0855-3A	5/25/2005
80.	Winchester Housing Authority	2004-0821-8F	5/10/2005
81.	Worcester Housing Authority	2005-0825-3A	3/29/2005
82.	Yarmouth Housing Authority	2004-0828-11A	6/6/2005

Independent Authority Audits

	<i>Audit</i>	<i>Audit Number</i>	<i>Issue Date</i>
1.	Bourne Recreation Authority	2005-0844-3A	1/26/2005
2.	Brockton Redevelopment Authority	2004-0622-8F	11/19/2004
3.	Cape Cod Regional Transit Authority	2005-1008-3A	4/29/2005
4.	Devens Enterprise Commission	2005-1450-3O	4/20/2005
5.	Fall River Line Pier, Inc.	2004-0504-3A	11/22/2004
6.	Fall River Redevelopment Authority	2005-0053-3A	1/26/2005
7.	Greater Attleboro-Regional Transit Authority	2004-1007-3A	9/14/2004
8.	Massachusetts Bay Transportation Authority: Parking Revenues	2003-0583-3A	12/13/2004
9.	Massachusetts Community Development Finance Corporation	2004-1022-3A	11/29/2004
10.	Massachusetts Housing Finance Agency Retirement Board	2004-0144-3A	10/6/2004
11.	Massachusetts Port Authority Retirement Board	2004-0507-3A	1/20/2005
12.	Massachusetts Turnpike Authority Retirement Board	2004-1401-3A	11/29/2004
13.	Massachusetts Turnpike Authority's Central Artery/Tunnel Project: Project Waterproofing	2003-0510-3C4	11/18/2004
14.	Massachusetts Turnpike Authority's Central Artery/Tunnel Project: Integrated Project Control System	2003-0510-3C3	2/17/2005
15.	Montachusetts Regional Transit Authority	2005-1038-3A	1/7/2005
16.	Mystic Valley Development Commission	2004-4483-3C	4/8/2005
17.	Public Employee Retirement Administration Commission	2005-1315-3A	6/28/2005
18.	South Shore Tri-Town Development Corporation	2005-1452-16A	4/15/2005

Judiciary/Law Enforcement Audits

	<i>Audit</i>	<i>Audit Number</i>	<i>Issue Date</i>
1.	Barnstable Probate and Family Court	2003-1230-3S	10/7/2004
2.	Berkshire Sheriff's Department	2004-1437-3S	2/7/2005
3.	Clinton District Court	2005-1185-3S	6/10/2005
4.	Compliance with the Office of the State Comptroller's FY 2004 Year-End Closing Instructions: Berkshire Sheriff's Department	2004-1437-16S	2/9/2005
5.	Department of Telecommunications & Energy: Monitoring of LNG Storage Facilities	2005-5116-3S	6/23/2005
6.	Dedham District Court	2005-1160-4T	6/28/2005
7.	Department of Correction	2004-0145-4T	3/11/2005
8.	Executive Office of Public Safety: Programs Division	2005-0008-16S	3/22/2005
9.	Hampden County District Attorney's Office	2004-1259-3S	1/31/2005
10.	Massachusetts Office for Victim Assistance	2004-0074-4T	5/23/2005
11.	Massachusetts Water Resources Authority: Emergency Management Plan (Public Distribution)	2004-1323-3C	6/8/2005
12.	Massachusetts Water Resources Authority: Emergency Management Plan (Restricted Distribution)	2004-1323-3C1	6/8/2005
13.	Municipal Police Training Committee	2004-0053-4T	5/26/2005
14.	Office of the Commissioner of Probation	2005-1215-4T	6/8/2005
15.	Plymouth County Sheriff's Department	2005-1448-11S	5/26/2005
16.	Review of Homeland Security And Bioterrorism Funding: (6 Entities) -Massachusetts Turnpike Authority -Massachusetts Bay Transportation Authority -Executive Office of Public Safety -Massachusetts Emergency Management Agency -Department of Public Health -Massachusetts Port Authority	2005-8004-14S	5/31/2005
17.	Suffolk County Juvenile Court	2004-1241-4T	12/27/2004
18.	Taunton District Court	2004-1191-4T	12/27/2004
19.	Technical Assistance Provided to the Worcester County District Attorney's Office: (Montachusetts Regional Transit Authority)	2003-6033-9O	9/27/2004
20.	Technical Assistance Provided to the Worcester County District Attorney's Office: (Barre Police Department)	2004-6034-9O	1/6/2005

Judiciary/Law Enforcement Audits

	<i>Audit</i>	<i>Audit Number</i>	<i>Issue Date</i>
21.	Technical Assistance Provided to Worcester County District Attorney's Office: (Larceny at Financial Institutions)	2002-6017-9O	5/24/2005
22.	Worcester County Sheriff's Office	2005-1432-11S	6/9/2005
23.	Wrentham District Court	2004-1162-12S	8/31/2004

Other Audits

	<i>Audit</i>	<i>Audit Number</i>	<i>Issue Date</i>
1.	Agency Compliance with the State Comptroller's Policies and Massachusetts General Laws and Regulations: Selected Transaction Testing & Internal Control Review FY 2004 (13 Entities)	2005-5007-16S	3/22/2005
2.	Agency Compliance with the State Comptroller's Year-End Closing Instructions for Cash & Revenue Management: FY 2004 (50 State Agencies)	2004-5002-16S	12/28/2004
3.	Agency Compliance with the State Comptroller's Year-End Closing Instructions for Encumbrance & Advance Fund Management: FY 2004 (77 State Agencies)	2004-5001-16S	2/4/2005
4.	Architectural Access Board	2004-0023-4T	3/24/2005
5.	Boat Excise Tax Collection System: (3 Entities) -Department of Revenue -Division of Marine & Recreational Vehicles -EOEA Boat Registration & Title Bureau	2004-5112-3O	9/9/2004
6.	Bureau of State Office Buildings	2004-0026-4T	4/12/2005
7.	Chapter 555 Determination of Whether Net State Tax Revenues Exceeded Allowable State Tax Revenues: FY 2004 (7 Entities) -Department of Revenue -State Boxing Commission -State Lottery Commission -State Racing Commission -Secretary of the Commonwealth -Department of Unemployment Assistance -Division of Insurance	2005-5555-16S	9/20/2004
8.	Compliance with the Office of the State Comptroller's FY 2004 Year End Closing Instructions: Department of Conservation & Recreation	2004-0276-16S	2/9/2005
9.	Compliance with the Office of the State Comptroller's FY 2004 Year End Closing Instructions: Department of Environmental Law Enforcement	2004-0432-16S	2/9/2005
10.	Compliance with the Office of the State Comptroller's FY 2004 Year End Closing Instructions: Department of Environmental Protection	2004-0456-16S	2/9/2005
11.	Compliance with the Office of the State Comptroller's FY 2004 Year End Closing Instructions: Department of Fire Services	2004-0012-16S	2/9/2005
12.	Compliance with the Office of the State Comptroller's FY 2004 Year End Closing Instructions: Department of Industrial Accidents	2004-0222-16S	2/9/2005

Other Audits

	<i>Audit</i>	<i>Audit Number</i>	<i>Issue Date</i>
13.	Compliance with the Office of the State Comptroller's FY 2004 Year End Closing Instructions: Department of Revenue	2004-0142-16S	2/9/2005
14.	Compliance with the Office of the State Comptroller's FY 2004 Year End Closing Instructions: Division of Unemployment Assistance/ Division of Career Services (2 Entities)	2005-0221-16S	3/22/2005
15.	Compliance with the Office of the State Comptroller's FY 2004 Year End Closing Instructions: Registry of Motor Vehicles	2004-0511-16S	2/9/2005
16.	Compliance with the Office of the State Comptroller's FY 2004 Year End Closing Instructions: State Lottery Commission	2004-0089-16S	2/9/2005
17.	Department of Fire Services	2004-0012-3S	7/30/2004
18.	Department of Labor & Workforce Development	2004-0217-3S	1/25/2005
19.	Department of Revenue	2004-0142-4T	6/14/2005
20.	Department of Telecommunications and Energy	2004-0307-4T	7/6/2004
21.	Disposal of Surplus State Vehicles (2 Entities) -Operational Services Division -Office of Vehicle Management	2004-1414-3O	12/9/2004
22.	Division of Banks	2004-0100-3S	8/31/2004
23.	Division of Marine Fisheries	2004-0282-17F	7/12/2004
24.	Division of Professional Licensure (6 Entities) -Division of Professional Licensure -Board of Hearing Instrument Specialists -Board of Funeral Services -Board of Cosmetology -Board of Real Estate Salespersons and Brokers -Board of Veterinary Medicine	2004-0105-3C	11/9/2004
25.	Executive Office of Transportation & Construction	2004-0009-3S	7/7/2004
26.	Group Insurance Commission	2004-0040-4T	6/20/2005
27.	Health Care Security Trust (7 Entities) -Health Care Security Trust Fund -Tobacco Settlement Fund -Health Care Quality Improvement Fund -Economic Stimulus Fund -General Fund -Office of the State Comptroller -Office of the State Treasurer	2004-1451-3S	9/14/2004

Other Audits

	<i>Audit</i>	<i>Audit Number</i>	<i>Issue Date</i>
28.	Hearing Instrument Specialists Board	2004-1423-3C	11/9/2004
29.	Massachusetts Division of Fisheries and Wildlife	2004-0279-17F	12/9/2004
30.	Massachusetts Office of Dispute Resolution	2005-1380-4T	5/23/2005
31.	Massachusetts Office on Disability	2004-1308-4T	5/26/2005
32.	Massachusetts Thoroughbred Breeders Association Inc.	2004-1352-3O	1/18/2005
33.	Motor Vehicle Insurance Merit Rating Board	2004-0906-4T	6/20/2005
34.	Office of the Inspector General	2004-1052-4T	6/14/2005
35.	Review of Three Significant Environment Issues and Resultant Cost-Recovery Efforts	2004-5115-3S	11/23/2004
36.	State Boxing Commission & Boxers' Fund Board (2 Entities)	2005-0015-3O	2/28/2005
37.	State Ethics Commission	2004-1053-4T	3/14/2005
38.	Statewide Review of Accounts Receivable (76 Entities)	2003-5092-3S	7/16/2004