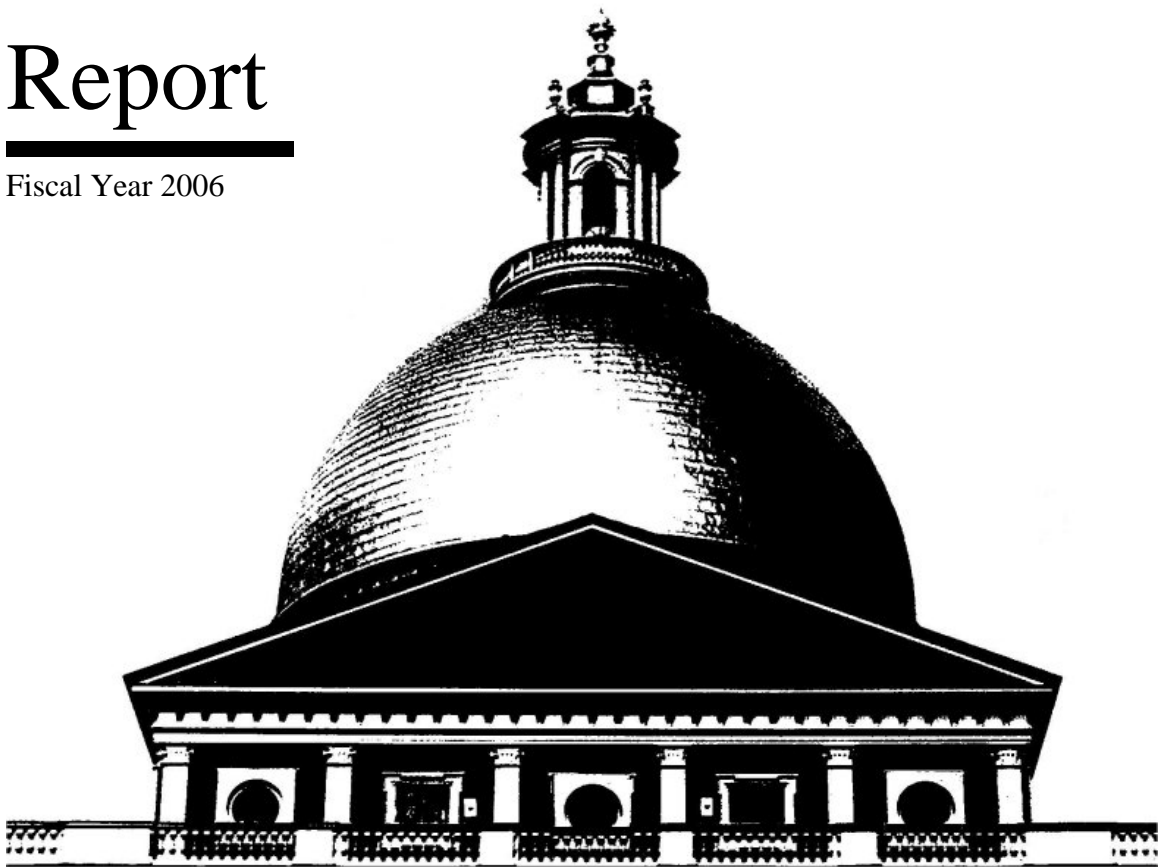


# Office of the State Auditor

## Annual Report

Fiscal Year 2006



A. Joseph DeNucci

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*Auditor of the Commonwealth*



A. JOSEPH De NUCCI  
AUDITOR

**The Commonwealth of Massachusetts**  
**AUDITOR OF THE COMMONWEALTH**  
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November 2006

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, 2005 through June 30, 2006.

This report summarizes major OSA audit and other oversight activities, as well as proposed and ongoing audit initiatives. Of particular interest during this report period, my office completed an audit of MassHealth's administration of the state's Medicaid program; an audit of the Sex Offender Registry Board; and a review of financial management at district, probate and family, and superior courts. I am also pleased to note that audit findings and recommendations reported in fiscal year 2005 resulted in increased funding for and significant improvements in the Department of Social Services' Foster Care Program, contributed to reforms in state management and funding for school construction, helped to restore state funding for low-income fuel assistance at a time of steeply rising fuel costs, and led to significant cost recovery of state funds.

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

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

Sincerely,

A handwritten signature in black ink, appearing to read "A. Joseph DeNucci". The signature is stylized with a large, sweeping initial "A" and a long, horizontal stroke at the end.

A. Joseph DeNucci  
Auditor of the Commonwealth

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## **OFFICE OF THE STATE AUDITOR: AUTHORITY AND RESPONSIBILITIES**

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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:

- 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**

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During the report period July 1, 2005 through June 30, 2006 the Office of the State Auditor issued 220 reports covering 515 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 77. 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 in focusing on areas in which 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**

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### ***Education***

During the report period, the OSA released 25 audits covering 53 education entities. These reports include two audits of public institutions of higher education, an audit of tuition remission policies at state colleges, and an audit of a school serving special needs students. 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 a comprehensive review of the Robert M. Hughes Academy Charter School.

## ***The Robert M. Hughes Academy Charter School***

In response to a referral by the Department of Education, the OSA conducted an audit of the Robert M. Hughes Academy Charter School for the period July 1, 2000 to June 30, 2004. The audit, which reviewed issues of governance, administrative leadership, financial operations, related-party transactions, and potential conflicts of interest, found that management and internal control deficiencies had resulted in operating deficits, cash-flow problems, and indicators of declining financial health. Major findings are summarized below.

- The Robert M. Hughes Academy Charter School experienced a rapid deterioration of its cash position, which required officials to maximize the School's line of credit in order to maintain operations. Specifically, from June 30, 2002 to June 30, 2004, available cash declined 31%, from \$535,925 to \$368,371, and borrowing went from zero to \$248,000. In addition, the School incurred operating deficits of \$199,304 for fiscal year 2003 and \$164,934 for fiscal year 2004. As a result, uncertainty existed as to whether the School would be able to meet its immediate and longer-term cash obligations.
- The School paid \$55,886 in excess rent to a related party with which it shares common trustees. In addition, School officials did not provide the documentation necessary to substantiate that its monthly lease payments totaling approximately \$279,000 during the audit period were allowable under its state contracts. Furthermore, a general contractor hired by the related party failed to satisfactorily complete electrical and plumbing work necessary for the school to receive a Certificate of Occupancy from local building code officials. In violation of state law and regulations, the School opened without an occupancy permit and, as of June 30, 2004, was continuing to conduct classes in a building that did not meet building code requirements. Finally, School officials, in fiscal year 2002, transferred \$125,000 in state funds to its related party. Although School accounting records indicated that the cash transfer was for building improvements, officials did not provide any documentation detailing how these funds were spent or whether they would be repaid.
- The School purchased a \$150,000 certificate of deposit from a troubled credit union whose Chief Executive Officer was the School's Chairperson. The School's Treasurer was also on the board of the credit union, an institution with limited federal coverage that was later placed in conservatorship. This questionable transaction may have violated the state's Conflict of Interest Law and has been referred to the State Ethics Commission.
- The School purchased computer equipment totaling \$116,357 and awarded consultant contracts totaling more than \$240,000 without the benefit of competitive bid procedures. With respect to computer equipment, officials, at the direction of the Board of Trustees, repeatedly used the same vendor for virtually all of its computer-related needs. Based upon comments from current and former School officials, as well as a review of internal records, the computer equipment supplied by this primary vendor was of inferior quality and required frequent repairs. The consultant contracts, in addition to being no-bid awards, lacked details specifying services to be rendered and maximum cost obligations. Consequently, there was inadequate assurance that state funds expended by the School on consultant services represented reasonable, allowable, and allocable costs.

- The School's Board of Trustees did not provide necessary and required oversight. Specifically, the Board did not maintain adequate meeting minutes and functioned without the benefit of current financial statements. In addition, several Board members were frequently absent from Board meetings, and the majority of Board members served terms beyond the maximum period set in the School's bylaws. These problems prevented the Board from achieving a quorum, properly monitoring fiscal operations, and effectively carrying out its fiduciary duties.

***Southampton School Department:  
William E. Norris School***

At the request of the Chief of Police of the Town of Southampton, the OSA conducted an audit of the breakfast and lunch programs at the William E. Norris School for the period August 22, 2001 to June 30, 2005. 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. The objective of the audit was to provide technical assistance to a police investigation of alleged illegal acts and irregularities within the School's food service programs. The audit identified potential cash shortages of at least \$17,841 as well as missing food items and significant weaknesses in inventory controls, program application procedures, and cash management in the Norris School's breakfast and lunch programs. Findings are summarized below.

- The Norris School did not have adequate procedures for or controls over the collection and deposit of student meal funds. Numerous individuals, including teachers and administrative staff, collected and transferred these funds without maintaining any records. Once collected, the funds were transferred to the former school cafeteria manager, who tabulated student payments, adjusted student accounts, and transferred student payments to the Town Treasurer for deposit. The lack of separation of financial duties and inadequate recordkeeping created conditions in which cash shortages occurred. The OSA review identified \$17,841 in missing funds and indicated that the shortages could be greater due to additional unaccounted-for revenues from the sale of snacks and drinks.
- The former cafeteria manager used at least \$1,613 in school funds to purchase items such as steaks and stuffed sole that were not served to students or teachers at the school. The former cafeteria manager admitted during police questioning that he bought some personal items, but claimed that he had reimbursed the school for these purchases. However, the OSA found no record that such reimbursement had been made. In addition, the former cafeteria manager, who operated a catering business during the period, purchased certain food items in questionable amounts. Working with the current cafeteria manager, the OSA calculated a number of excess purchases, including 560 pounds of baking candies and fourteen cases of meatballs. However, because proper controls were not in place over food inventories, it was not possible to determine whether excess purchases were stolen or wasted through failure to properly rotate and utilize food. The audit noted that the Norris School, even under the new cafeteria manager, lacked inventory records that detailed purchases and uses of food items, had not implemented procedures for limiting food purchases to reasonable quantities or for routinely rotating stock, and did not adequately limit access to inventory storage areas.



- The Norris School needed to improve its processing of student applications for participation in the program providing for free and reduced-price meals. The OSA found that, during the period of review, 21% of applications were not correctly assessed. These included twenty cases in which eligible students were denied benefits, eleven cases in which students were given benefits to which they were not entitled, and twelve cases in which students receiving free or reduced-price meals did not have an application on file. In addition, data reported to the Department of Education relative to the provision of food services was not consistent with program information maintained within the school's computer database. As a result of these deficiencies, the school could not ensure that its monthly requests for reimbursement were accurate.

### ***Valley West Day School***

The OSA examined various administrative and operational activities of Valley West Day School, which is run by a for-profit organization, Valley Educational Services, Inc., and licensed by the state's Department of Education. The school serves special needs students for whom alternative programming within a public school setting has been unsuccessful. Its funding is derived primarily from student tuition payments, set at \$31,954 per student per year in fiscal year 2005, made by cities and towns. In the course of the audit, the OSA identified \$897,414 in expenses incurred by Valley West that were unallowable and nonreimbursable under state regulations.

- Valley West, from July 1, 2000 to November 30, 2005, paid \$562,000 to lease property from its Chief Executive Officer (CEO) to house its day and summer programs. Reimbursements under this type of related-party arrangement are allowable when disclosed and to the extent that no profit is made on the transaction. However, since the total cost to the CEO to own and maintain the property was \$122,584, Valley West overcharged the Commonwealth by \$439,416. Regarding this matter, the CEO stated that he was unaware of the state's regulations governing related-party transactions and had charged rents based upon market rates.
- Valley West used state funds totaling \$30,609 to cover monthly lease payments and other vehicle expenses for its CEO without requiring documentation that the vehicle was used for school-related purposes. Furthermore, Valley West billed the state \$32,652 for various unallowable administrative expenses, including cell phones for family members of its CEO and non-school-related meals, entertainment, travel, and donations.
- The OSA recommended that the Commonwealth initiate recovery, on behalf of the cities and towns that paid Valley West tuitions, of all unallowable charges. The Commonwealth should also require future adherence to state regulations governing related-party transactions and to policies and procedures requiring that expenditures of public funds be adequately documented and directly benefit program activities.

### ***Springfield Technical Community College***

In consideration of the appointment of a new College President, the OSA conducted a transition audit of Springfield Technical Community College, the only technical institution in the Massachusetts community college system. The audit examined fiscal operations for the period

## *Education*

July 25, 2004 through January 31, 2005 and also reviewed a report submitted by College officials regarding a theft of funds that occurred earlier in 2004. The audit found that except for the issues discussed below, the College had adequate internal controls over its financial and program operations and was in compliance with applicable laws, rules, and regulations.

- Responding to the requirements of Chapter 647 of the Acts of 1989, the state's Internal Control Statute, the College reported to the OSA a series of thefts of funds from its Bursar's Office during the 2004 spring semester. The problem was first uncovered when a student whose tuition had been paid received a second billing notice. The internal investigation that followed disclosed that seven cash payments totaling \$3,860 were missing and resulted in the dismissal of a cashier. The OSA identified insufficient supervision and inadequate separation of financial duties as contributing to conditions that allowed the thefts to occur. In addition, cashiers were allowed to collect payments after the College's electronic recording system was closed and to issue manual receipts to students who made cash payments. This made it possible for a cashier to issue a receipt for payment, then alter the College's copy to indicate no cash payment. While the audit was in progress, the College took several steps to improve internal controls, including moving the Bursar's Office to a new location, which is monitored by security cameras. In addition, College officials indicated that oversight would be strengthened, including review by the Bursar of all manually processed receipts, and that segregation of duties would be enhanced.
- The audit noted that the College had a well-developed internal control plan. However, the OSA recommended wider distribution of the plan, increased training, and inclusion of information regarding the Springfield Technical Community College Foundation. The College also needed to improve certain administrative procedures, such as updating inventory listings, increasing the timeliness of bank reconciliations, and enhancing oversight in its used book buy-back program. The College agreed with these findings and was in the process of taking corrective action on all of the identified issues.
- The College, which had received a \$3 million grant from the National Science Foundation (NSF) to train people for the telecommunications industry, had not resolved an outstanding liability of more than \$230,000 in expenditures disallowed by NSF. In response to the OSA audit, the College indicated that additional supporting documentation had been submitted to NSF that could reduce the questioned costs to \$70,181.

## ***University of Massachusetts Treasurer's Office***

The OSA conducted an audit of the University of Massachusetts (UMass) Treasurer's Office, which has fiduciary responsibility for endowment funds, investments, bank reconciliations, and contract procurement. During fiscal year 2003, the Treasurer's Office processed in excess of \$1.4 billion in transactions, and managed an investment portfolio valued at \$398.5 million as of June 30, 2003. The audit found that the UMass Treasurer's Office generally had adequate policies, procedures, and controls in place and, where improvements were needed, was working to make its investment, endowment, and cash management activities more efficient. Major findings and recommendations are summarized below.

- The UMass Treasurer's Office was not completing all bank reconciliations in a timely manner and in compliance with the University's required procedures. During fiscal year 2003, the Treasurer's Office did not complete any overall monthly reconciliations and was not current on several of its individual bank reconciliations. As a result, there was inadequate assurance that its cash on-hand was in balance with bank records and, in fact, as of June 30, 2003, the UMass ledger differed from bank records by approximately \$7 million. Officials stated that reconciliations fell behind due to staffing shortages and because, at the start of the audit period, UMass had just completed a two-year effort to integrate the accounting systems of its four campuses into one accounting and banking system. As of June 30, 2005, in response to audit recommendations, the UMass Treasurer's Office had completed summary reconciliations through April 2005 and had also updated and re-issued certain fiscal account management procedures.
- The UMass Treasurer's Office had transferred responsibility for the University's \$34.3 million endowment to the UMass Foundation, an independent non-profit entity, without a written agreement specifying how the funds were to be administered and at what cost. This left the issue of endowment management subject to interpretation and dispute. In response to this finding, the University formalized its arrangement with the foundation through a written agreement that clearly identifies the authority and responsibilities of both parties.
- The UMass Treasurer's Office needed to improve controls over its procurement of both banking and investment services. UMass did not enter into a written contract for banking services until after the start of the OSA audit, did not bid its agreement for banking services, and paid for banking services from its investment earnings. As a result, UMass had limited assurance that it was getting the best value for its expenditures on banking services or that campuses were receiving the full benefit of investment earnings. In addition, the Treasurer's Office selected or retained certain investment managers whose performance and investment strategies did not adhere to University investment guidelines and, in two instances, without the benefit of competitive bidding. The audit also identified investments in some corporations that exceeded the maximum allowed under UMass policy. In one instance, the University had holdings in a company that were over allowable limits by \$11.3 million. In response to the OSA audit, the University Board of Trustees approved a revised Investment Policy, agreed to regularly update its policies and procedures, and assigned the UMass investment committee responsibility for monitoring the performance of all managers on a quarterly basis.

### ***Tuition Remission Policies at State Colleges***

The OSA reviewed and evaluated the tuition remission policies at Massachusetts Public Institutions of Higher Education. Public colleges and the university system are funded through state appropriations, trust funds, and student tuition and fees. The Board of Higher Education is responsible for creating a tuition plan for state and community colleges, while local boards of trustees at the colleges set the fees that are charged to students. Generally speaking, tuition charges must be remitted to the Commonwealth, while fees are retained by the school. In the case of the University of Massachusetts, the Board of Trustees makes tuition rate recommendations to the Board of Higher Education for its approval, and also establishes student

fees. During the audit period, state appropriations decreased; tuition rates remained steady; and fee charges, which were not the focus of this audit, increased. The audit found that the state college systems did not have a standardized method for determining the amount of tuition that should be remitted to the Commonwealth and that in some instances, colleges were using estimates to calculate remittance amounts. Issues relative to the granting of tuition waivers were also noted. These findings are detailed below.

- The tuition remittance process varied widely among the state colleges, community colleges, and the University of Massachusetts system. With no standard policy in place, each school was using its own system to identify and account for state tuition and to establish a priority order to apply student payments against charges, whether for tuition or fees. The majority of colleges had established a priority system in which fees, which were retained, were given highest priority. Consequently, most outstanding student accounts receivable balances represented state tuition. The audit also noted that two state colleges and two community colleges used estimates in their tuition remission calculations because of limitations in their computer software. Although the \$203 million remitted to the Commonwealth in fiscal years 2003 and 2004 appeared to be reasonable, without a standard reconciliation procedure, the Board of Higher Education could not ensure that various colleges used the same factors in making calculations and was also hindered in determining underpayments or overpayments.
- The Board of Higher Education, in accordance with Chapter 15A of the Massachusetts General Laws, established a single Tuition Waiver Program focused on need-based waivers. Although this program did not include local waivers, the Boards of Trustees at nine colleges established unapproved supplemental local tuition waivers worth \$3.3 million. Most of this waived tuition was for non-state-supported classes, that is, classes taught by an instructor paid through trust funds or federal grants rather than through state appropriations. However, \$298,895 was waived from state-supported classes. As a result, the Commonwealth lost this money, which represents charges that would have been subject to tuition remission requirements.

### ***Audits of Federal Student Assistance Programs***

The OSA, in this audit period, completed six 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, 2005 to determine compliance with federal regulations regarding student assistance and state laws and regulations. The reviews found that several prior audit findings had been corrected and that compliance, especially with federal regulations and procedures for administering student federal financial assistance, was generally satisfactory. Noted deficiencies, as well as corrective actions, are detailed below.

- ***Bridgewater State College*** needed to improve the management of timesheets for students in the Federal Work Study Program. OSA testing disclosed timesheets written in pencil, altered without approval, not submitted on the required preprinted form, and, in one case, submitted twice for the same pay period, resulting in a duplicate payment. In addition, the College failed to perform, in a timely manner, reconciliation procedures that help ensure that in-house records and required financial reports are accurate. Specifically, the College was not entering its student assistance funding on the Massachusetts Management Accounting and Reporting System (MMARS) on a monthly basis, properly reconciling information on MMARS with its internal records, and performing monthly reconciliations of its fiscal and program records. As a result of these deficiencies, the College was unaware of the actual balance in its Perkins Loan Account and awarded loans exceeding available funds by \$540,000, necessitating transfers from other College funds to the Perkins account. Finally, it was not until the College completed year-end reconciliation procedures that its officials realized that receipts totaling \$355,441 entered on its in-house records had never been deposited. The College reported the missing funds to the OSA, as required under Chapter 647 of the Acts of 1989, and also conducted its own internal investigation, which resulted in the dismissal of an employee in its business office. As of the close of the audit period, the OSA and the Office of the Attorney General were continuing to investigate this matter.
- ***Bunker Hill Community College*** satisfactorily resolved issues reported in a prior audit by transferring to the State Treasurer's Unclaimed Check Fund student refund checks that remained uncashed for twelve months and improving controls over Work-Study paychecks.
- ***The Massachusetts College of Liberal Arts*** needed to update its Internal Control Plan to include risk assessments for administrative and programmatic departments. In addition, in part due to the Commonwealth's implementation of an updated Massachusetts Management Accounting and Reporting System (NewMMARS), the College waited until the end of the fiscal year to enter its non-appropriated fund activity into the state's automated accounting system and perform necessary reconciliations. As a result, for most of the year, the College could not be assured that its financial records and reports were complete and accurate.
- ***Middlesex Community College*** had a significant number of checks made out to either employees or Work-Study students that had remained uncashed for twelve months to several years. 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. College officials responded that they had not transferred these funds because they maintained their own Unclaimed Check Fund, which, as of June 30, 2005, totaled \$414,323. However, subsequent to the audit period and in response to this finding, the College transferred \$393,661 to the state's Unclaimed Check Fund. The College also needed to update its Internal Control Plan to include a risk assessment document and specific Student Financial Aid policies.

- **Roxbury Community College** continued to improve its financial operating system by installing upgraded software, enhancing training opportunities, and strengthening controls over fiscal activities. As a result, the prior finding of \$169,498 in unpaid utility bills for the College's Reggie Lewis Athletic Center was resolved, and bills for other departments were also being paid on a timely basis. Furthermore, student billing and accounts receivable information was up-to-date and accurate. However, the College's efforts to improve the timeliness of its entries into the Massachusetts Management Accounting and Reporting System (MMARS), as well as the accuracy of its reconciliations, was set back by the Commonwealth's implementation of its NewMMARS system. The College indicated that it is developing procedures for more efficiently and accurately recording non-appropriated funds, including federal grants, on the state's automated system.
- **Worcester State College's** inventory control policies still did not ensure compliance with Chapter 647 of the Acts of 1989, which requires that all unaccounted-for variances, losses, or thefts of funds or property be immediately reported to the OSA. Notifications of missing items totaling \$9,361 and including a telephone, two data projectors, a strobe light, and cash and checks stolen from the Bursar's Office were made four to five months after the incidents occurred, delaying investigation and recommendations for corrective action.

## **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 2005, 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 58 charter school independent audit reports during fiscal year 2006. Eight reports were submitted after the required deadline. Of the 58 schools reviewed, 49 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 received eight corrective action plans addressing issues noted in the management letters that accompanied thirteen charter school audits.

## INITIATIVES

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

### ***Student Financial Aid Programs***

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

### ***Public Higher Education Hiring Practices***

The OSA is conducting an audit of faculty payroll and course load records at state and community colleges to assess the impact of certain hiring practices on college finances and course availability, including the use of less than full-time faculty to teach what is essentially a full-time course load. The audit will also review procedures for granting permission to faculty members to teach less than a full course load and the documentation maintained to support and justify non-teaching duties. One purpose of the audit is to examine the consistency of hiring practices throughout the state and community college system and identify those practices that affect quality and cost effectiveness.

## **AUDIT SUMMARIES**

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### ***Health and Human Services***

During fiscal year 2006, the OSA issued 26 audits pertaining to 49 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 and the Executive Office of Elder Affairs. Utilizing both agency and contract workers, these entities provide a broad array of services, including medical assistance; public health initiatives; mental health programs; programs that serve the mentally retarded; rehabilitation services; child protection, childcare, and family assistance programs; refugee assistance; juvenile justice programs; and home care and other senior services.

The following section highlights findings and recommendations from reports of selected state agencies and of private vendors that provide services under state contracts.



## ***The Massachusetts Medicaid Program***

The OSA issued a comprehensive audit of MassHealth's administration of the state's Medicaid program, which will be followed by a series of audits on various medical assistance topics. Medicaid serves close to a million people and accounts for approximately 24% of total Commonwealth expenditures. The report's most significant finding was that MassHealth did not have either the resources or the internal controls to effectively deter Medicaid fraud. Details of the report, including recommendations for improving Medicaid oversight, are summarized below.

- MassHealth needed to improve its Medicaid fraud detection efforts. In detailing the state's lack of success in identifying and recovering fraudulent payments, the audit noted that during fiscal years 2001-2003, MassHealth recovered only \$17.2 million, compared with \$15 billion that was expended. According to the United States Government Accountability Office, between 3% and 10% of total health care costs are lost to fraud or abuse, principally by unscrupulous providers. Even using the low-end figure, this would mean a potential loss of \$471 million.
- MassHealth's resources dedicated to the detection of fraud in the Medicaid program did not match the potential scale of the problem. For example, the Program Integrity Unit at UMass Medical School, which is principally responsible for Medicaid fraud detection, had only two full-time employees in fiscal year 2004, when 75 million claims were filed. As a result, post-payment oversight of claims was minor, resulting in the referral of only 51 provider fraud cases to the Massachusetts Medicaid Fraud Unit in the Office of the Attorney General over a three-year period. Furthermore, MassHealth did not have an independent internal audit department, did not perform many desk or on-site audits, and had suspended the re-credentialing process for Medicaid providers.
- The OSA made several recommendations to MassHealth for improving Medicaid oversight. These included expanding the use of automated systems to monitor utilization and identify suspicious provider behavior, reinstating re-credentializing of providers, and establishing an internal audit unit to monitor agency operations. The OSA review also emphasized that MassHealth needed to acknowledge the extent of undetected fraud and aggressively implement effective programs and internal controls to prevent fraudulent activities. Finally, MassHealth needed to better utilize the resources of the Attorney General's Medicaid Fraud Control Unit and the Office of the State Auditor's Bureau of Special Investigations, by increasing referrals of suspected fraud and abuse. MassHealth responded that it would resume the formal process of re-credentialing providers and would undertake a number of additional initiatives to improve program integrity activities. The agency also stressed the importance of its current front-end program processes and argued that integrity efforts needed to be measured both by cost-recovery statistics and ongoing efforts to ensure that eligibility payment determinations are appropriate.

## ***Department of Social Services***

The OSA, in conjunction with the Single Audit of the Commonwealth for the fiscal year ended June 30, 2005, 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 programs. During fiscal year 2005, DSS administered approximately \$688 million, including \$270 million in federal funds. The audit found that although DSS had taken steps to address problems relative to criminal background checks, licensing of foster care homes, and report data management, further improvements were needed in these areas and in the conduct of appeal hearings.

- Although DSS had significantly improved the timeliness of Criminal Offense Record Information (CORI) checks for foster care providers, 68 instances of overdue CORI checks were identified. Furthermore, DSS continued to place children in foster homes without completing proper licensing requirements. During fiscal year 2005, 340 children were placed in foster homes prior to the homes being licensed, of which 102 exceeded the 40 days emergency placement allowed. This represented a decrease of 368 children in unapproved homes from the 708 children identified in the prior audit. However, continuing deficiencies in CORI check procedures and foster care placements 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 20% error rate, a substantial improvement from the fiscal year 2004 error rate of 52%. The errors, as in the past, included missing and overdue annual reassessments, including missing criminal background checks. Data integrity problems in the automated system DSS uses to make home approval decisions, although partially resolved, still elevated the risk that children could be placed or allowed to remain in unsafe homes. DSS responded that new staff positions have been established to review FamilyNet reports for data accuracy, conduct training, and monitor compliance with state and federal laws and regulations.
- The audit also noted continuing administrative problems involving DSS's Legal Department. The audit noted that 3,910 of 5,009 open requests for a hearing received from 1998 to June 22, 2005 had not been scheduled for a fair hearing within the required 90 calendar days. This longstanding problem was exacerbated in recent years by a reduction from five to three hearing officers. In response to this finding, DSS received additional administrative funding, which will be used to hire additional hearing officers.

## ***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 and the inappropriate use, by state agencies, of private entities as fiscal conduits.

- ***Child Development Centers and Systems, Inc.***, a for-profit company that provides contracted and voucher-based childcare services, charged and was reimbursed \$83,643 in credit card expenditures that were either inadequately documented or appeared to be unrelated to the entity's program activities. In response to this finding, entity officials amended their Uniform Financial Reports for 2003 and 2004 to identify these expenses as nonreimbursable under their state contracts. The entity also established an internal control plan and procedures for the use of corporate credit cards.
- ***Goodwill Industries of the Springfield/Hartford Area, Inc.***, a nonprofit organization that provides vocational opportunities and independent living skills to people with disabilities, paid two of its former Executive Directors a total of \$301,217 in unallowable compensation, more than \$100,000 of which was public funding. Of the amount charged to state contracts, \$82,199 was paid to one of the former Executive Directors as part of a September 2002 retirement agreement. However, Goodwill was unable to document that this individual provided any consulting or other services in return for this money. Goodwill also charged the Commonwealth \$11,945 for fringe benefits for this former official that were not allowable because they were offered exclusively to one individual rather than to all employees. The audit noted that in December 2004, Goodwill discontinued both the consulting and fringe benefit payments. However, since these payments were nonreimbursable under state regulations, the Department of Mental Retardation should seek repayment of these funds on behalf of the Commonwealth. Finally, Goodwill billed the state almost \$6,000 in unallowable vacation time payments for both former Executive Directors, remittances that were received almost immediately after their respective resignations from the organization.
- ***Cooperative Production, Inc.***, a nonprofit organization that provides vocational and other services to disabled individuals, submitted and was reimbursed for undocumented contract billings totaling \$44,258. Payment vouchers for these charges were not accompanied by required information regarding clients served, staff members who provided services, or dates of service. Because such undocumented expenditures are not reimbursable, the OSA recommended that the Department of Mental Retardation seek repayment of the entire \$44,258 and also take measures to ensure that documentation of services accepted for reimbursement meets the standard of state regulations. The audit also noted that Cooperative Production had no written accounting policies and procedures or an accounting manual to ensure the accuracy of its financial transactions, reports, and records.
- ***Crittenton, Inc.***, a nonprofit organization that provides housing, nutrition, education, health, and employment services to at-risk individuals, provided certain fringe benefits totaling \$61,750 to its Chief Executive Officer, of which \$35,506 was charged to state contracts. Fringe benefits such as these, which are not available to all employees under an established policy of the agency, are nonreimbursable under state regulations. Crittenton officials agreed that the agency incorrectly reported its allocated fringe benefits in fiscal year 2004 and took immediate steps to correctly report these costs as nonreimbursable.

- ***Human Service Options, Inc.***, a nonprofit company that provides residential and day rehabilitative, educational, and vocational services to disabled persons, charged a total of \$43,053 in nonreimbursable expenses against its state contracts, retained unallowable profits totaling \$13,786, and retained \$11,070 in salary reserve funds that should have been paid to low-wage employees. The company contested some of the findings, but did agree to repay \$27,000, including undistributed salary reserve funds, an \$11,342 double-billing for staff training, and certain unallowable administrative expenses.
- ***Seven Hills Foundation, Inc.***, a nonprofit multi-service organization, was used by the Department of Mental Retardation (DMR) as a fiscal conduit to pay \$39,195 of DMR's expenses. These expenses were incurred by another human service provider for non-Seven Hills Foundation clients. As a result of processing expenses in this manner, DMR was in noncompliance with state law and various regulations. Furthermore, the practice resulted in inaccurate financial reporting by both DMR and Seven Hills Foundation, inadequate documentation of expenses, and increased risk that funds could be misused. Seven Hills officials agreed with the audit findings and, in response, implemented policies that ensure that their organization will not act as a fiscal conduit for any state agency.

### ***Integrated Clinical Solutions, Inc.***

The OSA conducted an audit of Integrated Clinical Solutions, Inc., a for-profit corporation that contracts with the Department of Mental Retardation to provide a variety of support services to eligible individuals and families. The audit, which is detailed below, found substantial internal control weaknesses and at least \$122,285 in unallowable expenses charged against state contracts. The audit also reported that subsequent to the completion of audit fieldwork, Seven Hills Foundation, Inc., of Worcester purchased the company, retaining the services of Integrated Clinical Solutions' President.

- Integrated Clinical Solutions had not established adequate internal controls over key aspects of its operations. The entity did not have a comprehensive internal control plan covering business functions such as purchasing, contracting, payroll, and recordkeeping. In addition, officials were unable to provide documentation for important financial transactions, did not maintain personnel records in accordance with state regulations, did not always enter into formal written agreements with consultants, and did not have a governing or advisory board. These management and internal control weaknesses contributed to the payroll and other deficiencies discussed below.

- Integrated Clinical Solutions did not require its staff or consultants to use timesheets or other records, such as invoices, to document their hours worked. As a result, the entity could not substantiate that all of the \$706,841 in reimbursements that it received for payroll expenses were appropriate. Additionally, the OSA reviewed records maintained in the entity's automated system relative to the amount of time staff and consultants spent providing services to clients between April and June 2004 and compared this information to billings submitted to the Department of Mental Retardation (DMR). The audit found that Integrated Clinical Solutions had billed for \$25,342 more in payroll expenses than the automated Time Tracker system indicated had been earned. Finally, during this same period, the entity routinely billed DMR for the services of psychologists and other direct care professionals who did not meet the established qualifications for these positions. In so doing, Integrated Clinical Solutions may have received as much as \$53,404 in excessive reimbursements.
- Integrated Clinical Solutions' administrative expenses included \$23,719 in non-program-related costs. Among the nonreimbursable charges were \$720 in duplicative billings and \$18,689 in research costs associated with the development of software for a related party, which did not directly benefit disabled clients.
- The Department of Mental Retardation (DMR), contrary to state law, used Integrated Solutions as a fiscal conduit to rent property in which to house DMR clients. In return for handling these rental expenses, DMR paid Integrated Solutions administrative fees totaling \$19,820. Because DMR's own staff should have processed those payments, the \$19,820 represents an unnecessary expense to the Commonwealth.

### ***Riverside School***

The audit of Riverside School, which serves special needs students, disclosed serious compliance, billing, and administrative deficiencies. The School, a nonprofit 58-bed facility for boys, was operated during the audit period by New England Human Services, Inc., and received over 70 percent of its funding from state and local governments, especially the Department of Social Services and Massachusetts municipalities. The audit, which is detailed below, found that Riverside spent more than \$1.7 million in state money on questionable and unallowable expenditures, many of which appeared to benefit the Executive Director and his family rather than the School's students and programs.

- The School's Executive Director cashed weekly agency checks averaging \$3,200, which were to be used for the purchase of items for Riverside programs. However, during the 33-month period covered by the audit, over \$232,000 of these expenditures were inadequately documented. Furthermore, at least \$26,717 of these expenses appeared to be non-program-related, including purchases of lobsters, steaks, wine, and beer from restaurants and stores near the Executive Director's Lynnfield residence. Also, there were at least 46 instances totaling \$4,454 in which receipts were resubmitted and duplicative reimbursements made.

- Due to inadequate administrative controls, at least \$264,468 in additional state-reimbursed expenses were inadequately documented, and \$15,138 of these expenses did not appear to be program-related. These included Red Sox tickets, food and gifts for employees, personal dental payments, and professional fees incurred by a related-party organization. The audit also disclosed nearly \$182,000 in unallowable employee bonuses and fringe benefits, \$50,472 in credit card charges for such non-program-related items as snowboards and sports memorabilia, and \$51,556 in questionable and unallowable vehicle expenses.
- Riverside's Executive Director used \$103,805 in state funds to give himself three personal loans with no written agreement as to the terms and conditions of repayment. There was also no evidence that Riverside's Board of Directors was aware of or had approved the use of agency funds for this purpose.
- Riverside spent at least \$430,000 in unallowable excess costs to rent property from a company owned by the Executive Director. In addition, Riverside provided this related-party company \$33,000 per year to pay the tax liability incurred by the Executive Director from profits he made from leasing space to Riverside. Under state regulations, no profit can be made on related-party transactions. Furthermore, Riverside failed to properly disclose three other related-party transactions that occurred during the audit period.
- Riverside spent \$348,623 in state funds on life insurance policies for the Executive Director and a former business associate who had no connection with the School. In addition, the Executive Director's wife received \$91,035 for serving as the School's bookkeeper despite questionable qualifications, while consultants were paid \$118,681 for accounting-related duties.
- Subsequent to the completion of audit fieldwork, Riverside was sold to NFI Massachusetts, Inc., and NFI gave Riverside's Executive Director a five-year consulting contract worth \$125,000 a year. The Auditor recommended that the Department of Social Services and other funding agencies take action to recover the \$1.7 million in misspent funding. Audit findings are also being reviewed by the Attorney General's Office to determine whether criminal charges will be filed.

## INITIATIVES

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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: 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.

### ***Personal Care Attendant Program***

The OSA is reviewing the Personal Care Attendant (PCA) program under the Executive Office of Elder Affairs (EOEA) to determine whether adequate regulations have been established and whether sufficient monitoring and oversight procedures are in place to protect consumers and prevent program abuses. The audit will also include a review of the contractual and program obligations of the Fiscal Intermediary Agencies and PCA Agencies that provide administrative support to EOEA, training, and certain services to consumers to assess contract compliance.

### ***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**

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### ***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 247 local housing authorities, which provide 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 2006, the OSA issued 67 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.



## ***Cohasset Housing Authority***

The OSA reviewed fiscal and management controls at Cohasset Housing Authority. While programmatic and legal compliance was high, certain administrative issues needed to be addressed, as summarized below.

- The Authority, under a former Executive Director, did not pay its monthly electric bills despite having funds budgeted for this expenditure. As a result, the Authority's outstanding liability to the utility company as of June 30, 2005 was \$91,900, which included interest charges of \$9,027. The current Executive Director, when informed of this finding during audit fieldwork, was unaware that interest charges were being assessed each month on the unpaid past due utility bill balance. The OSA recommended that the Authority more closely monitor its financial activities to minimize the risk of outstanding bills being unpaid, and that the Board of Directors actively oversee fiscal matters.
- The Authority did not conduct an annual inventory, did not have a complete listing of its property and equipment, and did not reconcile its inventory records to other financial records. As a result, there was inadequate assurance that the Authority's fixed assets were properly safeguarded or accurately reported on financial statements.
- Authority management did not sign a maintenance employee's timesheets as part of the weekly payroll process. In response to this finding, the current Executive Director took prompt action to ensure that all timesheets would be reviewed and signed by a management official. In addition, the Authority did not issue an Internal Revenue Service (IRS) Form 1099-MISC to a contractor who was paid \$1,225 for carpentry services. As a result, taxes may not have been paid on these earnings, and the Authority could be assessed interest and penalties for noncompliance with IRS regulations.

## ***Granby Housing Authority***

The OSA audit of Granby Housing Authority found generally adequate management controls and compliance with applicable laws, rules, and regulations. However, issues of compensatory time accrual and records management were identified, as summarized below.

- The Authority's Executive Director was allowed to accrue and use compensatory time contrary to Department of Housing and Community Development (DHCD) policies. The Executive Director used 178 hours in compensatory time between June 2000 and June 2005, and claimed she was still owed an additional 192 hours. DHCD allows properly authorized compensatory time for administrative and maintenance staff, but not for Executive Directors. Neither the Executive Director nor the Authority's Board was aware of DHCD's policy.
- The Authority did not maintain required written tenant selection ledgers. The Executive Director responded that the Authority maintained its waiting list on a DHCD-approved computer program, but would, in compliance with state regulations, maintain handwritten ledgers as well.

## *Housing Authority*

- Certain required documents could not be located at the Authority, including a management plan and original by-law documents certified by the Secretary of State. The Executive Director responded that she is developing a management plan for the Authority and seeking to rectify any remaining recordkeeping problems.

## ***Hull Housing Authority***

The OSA conducted an audit of administrative controls and compliance issues at Hull Housing Authority. The review found that the Authority did not maintain adequate management controls or comply with certain laws and regulations, which resulted in questionable expenditures and programmatic deficiencies during the 40-month period ended April 30, 2005. Major findings are summarized below.

- The Authority's Board of Directors did not fulfill its fiduciary responsibility to set policy, give direction, and monitor and oversee the entity's activities. In addition to vacancies that were not filled, the Board did not maintain proper minutes of meetings and did not fully comply with state laws governing executive session meetings. As a result, Board approval of contracts, cash disbursements, and policies and procedures could not be verified, and internal control problems, such as those disclosed in the OSA report, negatively impacted programmatic and fiscal operations.
- The Authority's controls over payroll expenditures and other disbursements were inadequate. Specifically, the Executive Director was operating without a contract; was paid overtime totaling \$1,351 for performing maintenance duties when a maintenance employee was on vacation; was paid \$37,378 in lieu of employee benefits without documentation of Department of Housing and Community Development or Board approval; and was compensated \$7,000 for the administration of two modernization projects without documentation to verify that the hours worked on these projects were, in fact, overtime. Other disbursement problems resulted from failure to present pertinent expenditure requests to the Board for approval, making payments without adequate documentation, and use of a rubber stamp as the second signature on several checks. Because of these deficiencies, several of the Authority's cash disbursements were unbudgeted or unallowable, including such items as flowers, questionable credit card purchases, automobile maintenance, late fees, and tax penalties.
- The Authority did not properly maintain its tenant selection Master Ledger, in which applicants' names, priorities, and preferences are recorded, or its Waiting List. As a result, it could not be determined whether eligible tenants were selected for housing in the proper order. In addition, the Authority's financial statements dated March 31, 2005 revealed a tenant accounts receivable balance of \$12,977. Because the Authority did not actively monitor accounts due from tenants or effectively pursue collections, it increased the risk of lost revenue and deficits.

## ***Ludlow Housing Authority***

The OSA conducted an audit of Ludlow Housing Authority, which found generally adequate management controls and compliance with applicable laws, rules, and regulations. However,

certain questionable payments made to a former Executive Director were noted, as detailed below.

- Ludlow Housing Authority's former Executive Director received several payments, both before and after her retirement that the audit disclosed as questionable or improper. For example, the Authority paid this individual \$4,600 for extra work on modernization programs without evidence of additional hours worked and without approval from the Department of Housing and Community Development (DHCD). In addition, the former Executive Director received post-retirement income as the Authority's Interim Executive Director that exceeded by \$6,730 the earnings limit allowed under the state's retirement law. Finally, due to a calculation error, the former Executive Director received over \$1,000 more in accrued sick leave benefits when she retired than the amount to which she was entitled. The OSA recommended that the Authority and DHCD review these issues and take steps to recover payments deemed improper.

### ***Monson Housing Authority***

The OSA conducted an audit of financial operations at the Monson Housing Authority, which revealed that the Authority experienced a steady and significant decline in its financial position as a result of poor administrative decisions and inadequate oversight by its Board of Directors. Among deficiencies noted were questionable travel and postage expenses, pre-signed blank checks, a disorganized and outdated management plan, and a series of questionable and improper payments made to a former Executive Director. The decline in operating reserves that resulted from these deficiencies jeopardized the Authority's ability to maintain its full range of programs and services. Findings relative to questionable and imprudent payments, as well as problems regarding tenant selection and rent determinations, are detailed below.

- The Authority's Board approved \$129,765 over fifteen years for pension costs associated with an Early Retirement Incentive Program that was undertaken without conducting a required cost/benefit analysis and without the approval of DHCD. Moreover, this former official received \$23,174 in accrued sick and vacation benefits that were neither budgeted nor approved by DHCD as required. Furthermore, this payment was \$12,540 more than the amount to which she was entitled, as her time and attendance calculations were not accurate. Finally, this individual, who continued after retirement to serve as interim Executive Director on an emergency basis, was paid \$14,219 more than the earnings limit allowed under the state's retirement law. The OSA recommended that the Authority and DHCD review these matters and seek reimbursement for all payments deemed to be improper.
- The Authority's application process, maintenance of waiting lists, and tenant selection procedures were not in full compliance with DHCD regulations. Consequently, some eligible applicants may have been deprived, at least temporarily, of needed housing. A review of rent determinations also disclosed that at least two tenants were charged incorrect rents due to errors in calculation, and some files did not contain sufficient income and deduction documentation. The current Executive Director responded that she was working with DHCD to update waiting lists and comply with rent determination regulations.

## ***Orange Housing Authority***

The OSA conducted an audit of Orange Housing Authority, which indicated general compliance with the laws and regulations governing its many programs and activities, including site inspections, rent determinations and collections, and maintenance of waiting lists. However, certain financial management and control issues were noted, as summarized below.

- A review of the Authority's financial activity identified \$8,163 in questionable expenditures made from two accounts. The former Executive Director without the knowledge or approval of the Authority's Board of Directors opened one of these accounts, the Community Building Fund, in 1998. The former official was also the sole authorized signatory on the account. The OSA found expenditures of \$2,897 (34%) that lacked sufficient supporting documentation. Of this amount, 34 checks totaling \$1,632 appeared to be for personal expenses such as clothing, jewelry, and books. The second account, the Administrative Account, did properly require two signatures on checks. However, \$5,266 in expenditures from this fund also lacked supporting documentation. The current Executive Director responded that all checks issued by the Authority now have two signatures and are accompanied by proper supporting documentation.
- The Authority was cited in a previous audit for exceeding, by a total of 979 days, DHCD's 21-workday guideline for placing new tenants in vacant units. As a result, the Authority lost the opportunity to earn over \$6,000 in rental income. The current review found that delays in renting vacant units continued, and that in fiscal year 2004, vacancies exceeded the 21-day guideline by 1,268 days, resulting in approximately \$9,500 in lost potential income.
- The Authority, contrary to DHCD regulations, did not have an up-to-date inventory listing of its furniture and equipment. A test of seven purchases made during the audit period and consisting of five refrigerators, a stove, and a computer found that none of the items were recorded on the inventory list. In addition, seven other items tested were not recorded on the inventory list, several recorded items were improperly tagged, and a variance of \$18,414 existed between in-house inventory record totals of \$59,920 and \$78,334 reported on financial statements submitted to DHCD. In response to the audit, the Authority is taking steps to revamp its inventory control system, including the adoption of a software program to assist with recordkeeping and reconciliations.

## ***Randolph Housing Authority***

The OSA conducted an audit of Randolph Housing Authority, which disclosed a lack of proper governance and fiscal oversight by its Board of Commissioners. In addition, the Authority's prior Executive Director presided over a complete breakdown in internal accounting and administrative controls, as well as improprieties in tenant selection, rent determination, site inspection, security, and tax reporting practices. Given the extent of the deficiencies, which undermined the Authority's financial stability and created health and safety risks for tenants, the findings, summarized below, have been forwarded to the appropriate law enforcement agencies.

- Tenant rental income in April 2004 was \$21,765 short. Of this amount, \$16,306 was found in the locked drawer of the Authority's bookkeeper, who abruptly left her position. This matter, including the remaining shortage of \$5,459, was turned over to the Norfolk District Attorney's Office, which subsequently charged the bookkeeper with larceny. An OSA analysis of the previous year's tenant rent rolls, accounts receivable, and deposits found that deposits were not made in a timely manner and tenant accounts receivable steadily increased. Furthermore, possible additional shortages in receivables and collections from previous years could not be precisely determined due to incomplete tenant files and payment records.
- The Authority did not deposit any revenues from its coin-operated washers and dryers during a three-month period and deposited only about half of the money collected during another two-month period, resulting in an estimated \$5,400 in missing laundry income. The audit also questioned the Authority's "donation bank account," which was opened with a \$300 transfer of laundry money. The Authority created this fund to pay for expenses such as catered parties, flowers, and gift cards, which are unallowable expenditures of state funds. The account was also funded with donations from local firms doing business with the Authority, a violation of state law. The audit also noted that a part-time custodial worker who was related to a Board member was paid \$2,314 in 2004 from the laundry account and that these payments were not reported as income to tax authorities.
- The Authority violated state tenant selection regulations. The audit found that applications and the waiting list ledger were incomplete, inaccurate, tampered with, and improperly maintained. Moreover, the time/date machine for stamping applications at intake was tampered with, permitting the backdating of applications. As a result, there was little assurance that only eligible applicants were housed or that applicants were housed fairly and in proper sequence. In fact, the audit cited numerous instances of favoritism in accepting tenants, including a tenant improperly housed under "emergency status" who had previously resided in housing owned by the former Executive Director. Another tenant was placed in family housing as homeless and disabled after the Authority's Board Chairman purchased a house from the tenant's mother, a former Board member. No documentation of either homelessness or disability was found in the tenant's file. Failure to adhere to tenant selection requirements deprived certain eligible low-income persons, at least temporarily, of needed housing.

## *Housing Authority*

- Serious safety and security deficiencies placed Authority tenants at risk of injury or criminal victimization. Required yearly site inspections, which help to ensure that apartments meet state standards for safe and sanitary housing, were not taking place. Furthermore, during the snowstorms of 2005, a handicapped ramp, stairs, and emergency exits were blocked, either because snow was not immediately removed or because it was plowed into these areas. Also, a maintenance employee discovered that the entrance door to one of the apartment buildings had been tampered with, making the automated door inoperable and creating a serious fire hazard. Of particular concern, the Authority experienced several break-ins and an apparent arson attempt during the audit period, and incidents of illegal drug activity involving tenants and employees were reported. The current Executive Director responded that the Authority was working with the Randolph Police Department to address reported illegal incidents and suspicious activities, including drug trafficking.
- Other internal administrative, accounting, and management control deficiencies included missing and inaccurate financial records, Authority staff making personal purchases through the Authority's accounts, inappropriate personal use of Authority vehicles, questionable real estate transactions, and unreliable records of employee leave time. The OSA recommended that the Authority adopt a system of approved policies, procedures, and practices for all phases of its operations, including cash management, inventory, purchasing, hiring, tenant selection, and rent determinations. In addition, because Executive Directors of small housing authorities such as Randolph perform vital financial functions, the Board of Directors must decisively fulfill its oversight and fiduciary responsibilities. The new Executive Director responded that she and a reconstituted Board are working with the Department of Housing and Community Development to address and rectify all issues identified in the audit.

## ***Warren Housing Authority***

The OSA conducted an audit of financial operations and management controls at Warren Housing Authority. Although certain important areas, such as tenant selection, unit turnover, and rent redeterminations, were adequately administered, several financial, managerial, and oversight deficiencies were noted, as summarized below.

- The Authority's Board of Directors did not fulfill its fiduciary responsibilities, including reviews of financial statements, budgets, and expenditures. During the audit period, the Board cancelled ten of its 25 meetings and members were unaware of the substantial internal control and administrative weaknesses identified in the audit. As a result, the Authority lacked strong governance and fiscal oversight that might have prevented these deficiencies.

- The Authority did not have general ledger postings or completed financial statements subsequent to December 31, 2003. In addition, contrary to state regulations and the terms of his contract, the Authority's fee accountant did not submit fiscal year 2003 Balance Sheets and Operating Statements to the former Executive Director until May 2005. Without up-to-date, accurate accounting records, the Authority cannot accurately assess financial conditions or potential operating deficits. In addition, although the Authority withheld some payments, it appears that its officials paid approximately \$2,000 for services not rendered.
- Among other weaknesses in administrative and accounting controls, the audit noted that check register balances were not reconciled with bank statements and were not correct; laundry receipts were not monitored; and payroll checks were signed without supporting documentation.
- The Authority failed to perform the annual inspection of its units scheduled for the fall of 2004. These inspections are required in order to schedule maintenance and repair work and help to assure that tenants are provided with safe and sanitary housing.

### ***Prolonged Apartment Vacancies***

OSA reviews disclosed that a number of housing authorities did not move expeditiously to fill vacant apartments. As a result, during the audit period, potential rental income was lost and eligible low-income persons were deprived, at least temporarily, of needed housing. Examples of these findings are detailed below.

- ***Athol Housing Authority*** lost the opportunity to earn approximately \$26,611 in potential rental income because its vacated units were not reoccupied within the 21-day timeframe established by Department of Housing and Community Development guidelines. Forty-one units were vacant, on average, 116 days, for periods ranging from twelve to 783 days. The Executive Director attributed the delays to maintenance issues, stating that the unit reported vacant for 783 days had extensive damage, the repair of which required supplementary funds.
- ***Dedham Housing Authority*** lost the opportunity to earn approximately \$32,197 in potential rental income by not filling vacated units on a timely basis. Of 107 vacant units, 86 were empty from 22 to 189 days. Authority officials responded that many units required major repairs and that they intended to hire contractors to assist their maintenance staff in readying vacant units.
- ***Hanson Housing Authority*** had fourteen units that remained unoccupied for a total of 940 business days beyond the required timeframe. Consequently, the Authority lost the opportunity to earn approximately \$8,723 in potential rental income between March 1, 2003 and July 31, 2005. In its response, the Authority indicated that it would take corrective actions, including prioritizing vacant unit turnaround assignments and documenting reasons for delays in re-renting apartments.

- ***Ipswich Housing Authority*** lost the opportunity to earn potential rental income of \$29,046 because 66 of the 92 vacant units, or 72%, were not reoccupied within the required timeframe. In its response, the Authority indicated that because of budget restraints and the age of its units, it could not, at present, meet the Department of Housing and Community Development's 21-day reoccupancy requirement.
- ***South Hadley Housing Authority*** had nine units that remained unoccupied for a total of 178 business days beyond the 21-workday turnover period. Consequently, the Authority lost the opportunity to earn approximately \$2,600 in potential rental income between January 1, 2004 and June 30, 2005. The Authority responded that it would review and improve its reoccupancy procedures and the timeliness of readying apartments for rental.



## INITIATIVES

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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 has completed 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. This report, which will be detailed in the next Annual Report, is available online or from the OSA at (617) 727-2075 or (617) 727-6200.

## **AUDIT SUMMARIES**

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### ***Independent Authorities***

Independent entities, including the Massachusetts Turnpike Authority, the Massachusetts Port Authority, and the Massachusetts Water Resources Authority, provide and oversee essential services, such as Central Artery management, airport administration and construction, and the maintenance of public water resources. During the report period, the OSA issued sixteen audit reports regarding independent entities, including reviews of Central Artery/Tunnel insurance costs and Massport contract management. Two additional audits, which examined the Turnpike Authority's Emergency Management Plan and grant management at the Massachusetts Emergency Management Agency, are detailed on pages 41 and 42 in a Special Audit Section on Homeland Security.

## **Central Artery/Tunnel (CAT) Project Insurance Payments**

The OSA's ongoing examination of activities associated with the design and construction of the CA/T Project, as well as the recovery of funds owed to the Project by contractors or public or private agencies, has resulted in twenty interim reports to date. These reports have identified \$592 million in excessive, unnecessary, and avoidable costs, as well as available savings opportunities. During this report period, the OSA evaluated the allocation of insurance costs to third parties in order to determine whether project management collected all insurance premiums due from construction partners who had signed agreements to share insurance costs. As detailed below, the audit found that the project had not received at least \$3 million in insurance payments owed by the Massachusetts Bay Transportation Authority (MBTA).

- The CA/T Project, in 1995, entered into an agreement with the MBTA, which extended the project's insurance program to cover MBTA contractors working on joint construction activities. The MBTA agreed to pay its share of insurance costs within 30 days of the start of a project, as well as to make additional payments if the MBTA's portion of the construction costs increased. The OSA's examination of four Interagency Service Agreements found control weaknesses, including inadequate billing and collection procedures and unreliable project recordkeeping. These deficiencies resulted in underpayments for insurance, by the MBTA, of at least \$3 million. In general, for all four agreements, the MBTA paid its initial insurance obligation, but was not properly billed for and did not pay for increases in insurance costs related to increased construction costs. Furthermore, the responsibility for following up on third-party insurance matters was unclear, increasing the risk that other delinquent insurance debt existed and could go uncollected.
- The OSA recommended that CA/T Project management initiate recovery of the approximately \$3 million owed by the MBTA and that management also review all Interagency Service Agreements to identify and collect any other amounts due for insurance. Project officials responded that they were initiating efforts to recover the unpaid premiums. In addition, in analyzing all interagency contracts with the MBTA, they had identified an additional \$730,000 in insurance debt.

## **The Commonwealth Corporation**

The OSA audit of the Commonwealth Corporation, a quasi-public agency that administers worker training and business assistance programs, reviewed financial and programmatic activities, as well as loans made by the Economic Stabilization Trust. This Trust, which operates as a separate fund of the Commonwealth Corporation, provides high-risk financing to viable but troubled businesses that face employment loss or closure without assistance. The audit found that contract and lobbying issues discussed in a prior audit had been addressed. However, two new findings relative to Economic Stabilization Trust loans were identified, as summarized below.

- Economic Stabilization Trust officials did not file required federal tax forms when they wrote off 22 loans totaling \$2.6 million. As a result, the Trust could face a penalty of \$50 per return for failure to comply with federal tax law. In addition, the companies whose debt was written off may have avoided paying corporate taxes owed. In response to this finding, while the audit was in progress, Trust officials sought guidance on how to comply with the filing requirement.
- Certain loans made by the Economic Stabilization Trust did not comply with the loan criteria stated in its enabling legislation. The OSA identified four loans totaling \$2.55 million made to growth companies rather than “troubled businesses,” as specified in Chapter 23D of the Massachusetts General Laws. In addition, for these four loans, applicants were not required to provide documentation of their failed attempts to get financing elsewhere before turning to the Trust. The Executive Director responded that although there had been discussions about setting up a fund to loan money to companies experiencing liquidity problems because of their growth, Chapter 23D was not amended and the fund was never formally established. He stated further that all growth loan activity has ceased.

### ***Massachusetts Educational Financing Authority***

The OSA audit of the Massachusetts Educational Financing Authority reviewed and assessed internal controls over administrative costs, Board oversight, and educational loan and college savings program operations. As of calendar year 2005, the Authority’s 36 employees administered approximately \$625 million in educational loans. In addition, the Authority offered two college savings programs, investments in which totaled more than \$1.7 billion. Funding for the Authority’s operating costs are derived from net investment earnings, interest on issued loans, and application fees. The review indicated that, except for the administrative cost issues summarized below, the Authority had adequate internal controls and complied with applicable laws and regulations.

- The Authority, contrary to sound business practice, did not have a written policy that establishes eligibility requirements for employee bonus awards. Moreover, substantial employee bonuses ranging from \$1,538 to \$30,100 were issued to all full-time employees, regardless of length of service. As a result, one employee received a bonus after only eight weeks of employment in 2003, and another employee received a bonus after fifteen weeks of employment in 2004. The Authority responded that it is in the process of formally documenting a revised bonus policy.
- The audit questioned the expenditure of \$51,582 for two holiday parties and Board meetings held at a resort facility. Since the Authority did not have a formal written policy for such discretionary expenses and also did not adequately document the business purposes of these particular expenses, there was insufficient assurance that the cited expenditures were allowable, necessary, and consistent with the entity’s overall objectives. Authority officials maintained that the expenditures were proper, but agreed that a formal policy for these types of purchases should be developed.

## **Massachusetts Port Authority**

The OSA conducted an audit of administrative operations and contract management at the Massachusetts Port Authority (Massport). The audit found that the Authority had generally adequate internal fiscal controls and had improved the accuracy and timeliness of its billings for lease rental fees. However, a new lease management issue that could cost Massport millions of dollars in potential rental income was identified, as discussed below.

- Massport awarded a no-bid agreement for development of a 465-unit residential apartment complex and an adjoining 520-space parking garage on two parcels of waterfront property. Because Massport granted these development rights without seeking competing proposals, the Authority could not be assured that it would receive the highest reasonable fees and best contract terms from the selected developer. In fact, the lease terms, more specifically described below, were favorable to the developer at Massport's expense.
- A review of the provisions of Massport's agreement for development of the two parcels indicated that, under a 95-year lease Massport will charge no rent for the first fourteen years for approximately 20,000 square feet of ground-floor retail space at the apartment complex. During this period, the developer will receive rental income of approximately \$400,000 per year, for a total of \$5.6 million, unadjusted for rent increases. Thereafter, Massport will receive only four percent of gross revenues. With respect to the parking garage, Massport will charge no rent for the first twelve years and, thereafter, will receive twenty percent of gross parking revenues. Based on an estimate of \$200 to \$300 per month per space, the parking spaces could generate as much as \$30 million to \$45 million over the first twelve years of the lease, none of which will be paid to Massport. The OSA questioned the rationale for granting such generous lease terms, without a bidding process, to this developer.
- The residential complex and parking garage parcels were originally to be part of a development that included an adjacent hotel on a third parcel. The same developer was given rights to all three parcels, though the third parcel was awarded through a competitive bid process. When the developer was unable to secure a national hotel tenant for that parcel, he sold the development rights for \$4 million, while retaining the rights to the two parcels obtained through the no-bid process. Massport did not share in those proceeds and did not seek reimbursement for the \$1.5 million that the Authority paid to relocate an existing tenant from the site on the developer's behalf.
- The OSA recommended that Massport award all development projects through a fair, open, and competitive process and also include the initial proposed lease payment terms as a major factor for consideration. Massport also needed to improve its leasing procedures and development strategy to ensure that it receives its fair share of all revenues to be realized in the future development of its property.

## ***Massachusetts State College Building Authority***

The OSA conducted a performance audit of the Massachusetts State College Building Authority, which is authorized under state statute to issue bonds to finance development, buy and sell property, oversee design and construction of facilities, and set and collect student rents at the nine state college campuses. As of June 30, 2003, the Authority's total investment in buildings was \$234 million. The audit concluded that, except for the issue summarized below, the Authority maintained adequate controls and complied with applicable laws.

- The Massachusetts State College Building Authority, as part of a plan to restructure its outstanding debt, executed a forward bond purchase option agreement in 1998 on a portion of its funded debt. The Authority was paid \$567,376 by an investment banking firm, which, in return, was given an option to renegotiate this debt in the future, if interest rates were favorable for doing so. In undertaking this transaction, the Authority was speculating that interest rates would increase in relation to the negotiated rate of 6.7% and the investment firm would not exercise its option. Conversely, the investment firm speculated that interest rates would decrease below the contracted rate. The investment firm's forecast was correct and, in 2004, it exercised its option to reissue the bonds. As a result, it received \$3,255,478 from its \$567,376 investment, for a net profit of \$2,688,102 resulting from the new bonds paying at a higher interest rate than the prevailing rate in 2004, which was 3.8%. In addition, because the option contract specified that the re-issued bonds would not be callable prior to their 2015 and 2016 maturities, the Authority cannot take advantage of any future declining interest rates on these bonds.
- The Authority generally accepted the audit results, although officials stated that, based on economic information available in 1998, they made an informed decision. However, Authority officials provided only minimal documentation regarding deliberations that preceded this financing decision. The Authority's Board of Directors approved the transaction based on a one-page letter from a financial advisor and without the 20-page option agreement before it. The OSA recommended that the Authority not engage in these kinds of risky transactions without the expertise to properly evaluate them.

## INITIATIVES

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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 focused on determining whether contractors are paying the costs, including state employee costs, related to inspecting and repairing leaks in tunnel walls, faulty ceiling panels, and other defects in the Ted Williams Tunnel and the Tunnel Connector. Massachusetts Turnpike Authority oversight of contractor activities will also be reviewed to assess its adequacy and to determine whether Turnpike officials are keeping complete financial records, including records of force accounts and public safety expenditures, to support cost recovery efforts. The OSA's ongoing review of the CA/T project has resulted in twenty 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**

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### ***Judiciary/Law Enforcement***

During fiscal year 2006, the OSA issued 46 audit reports covering 63 judiciary, law enforcement, and public safety entities. These reviews included Homeland Security audits; reviews of financial administration activities at the probate, district, and superior courts; and two 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.



## ***Four Sheriff's Departments***

The OSA conducted audits of the Essex, Franklin, Hampden, and Hampshire sheriff's departments, all four of which were established as independent state agencies when the county government under which each had operated was abolished. The audits assessed internal controls over operations, the appropriateness of expenditures, and the status of certain issues, including deposits and reporting requirements, that have generally presented problems in transferred sheriff's departments. Results of these reviews are summarized below.

- Two sheriff's departments, Hampshire and Hampden, had not implemented a comprehensive internal control plan in accordance with Chapter 647 of the Acts of 1989, the state's Internal Control Statute. This document and related risk assessments are required in order to safeguard assets and minimize administrative and accounting vulnerabilities. Similarly, neither these departments nor the Essex Sheriff's Department submitted to the Office of the State Comptroller (OSC) all of the financial activity necessary to assist OSC in completing the Commonwealth's Comprehensive Annual Financial Report. Furthermore, security was breached and funds stolen at both the Essex and Hampden sheriff's departments. The Essex Sheriff's Department incurred a theft totaling \$9,384 from its Civil Process Division and, at Hampden, \$4,353 in inmate funds was stolen. Both thefts were reported to appropriate law enforcement agencies, but were not reported to the OSA as required under the Internal Control Statute in order to assure a prompt review of control systems, as well as recommendations for corrective action.
- The Franklin Sheriff's Department had not resolved several prior audit issues, including insufficient controls over gasoline usage, inadequate monitoring of employee work and leave time, and the commingling of inmates' personal funds with profits from canteen sales. With respect to the inmate funds, the prior audit had noted a \$12,000 variance between the inmate checking account balance and deposit information, and reconciliation difficulties persisted. Sheriff's Department officials indicated that they will perform the necessary reconciliations and transfer the proper amount to a separate Inmate Benefit Account. Officials also stated that personal account balances would be updated and properly maintained and that funds from inactive accounts that remained unclaimed for more than two years would be forwarded to the Office of the State Treasurer as required.
- The four sheriff's departments reviewed continued to retain both telephone commission revenues and civil processing fees under laws and procedures that governed their operations as county offices. However, since these departments are now state entities, these revenues may fall under a statute requiring that they be deposited into the General Fund. The OSA recommended, as it has in prior audits, that legal clarification be obtained to resolve these issues.

## ***Special Audit Section***

### ***Court System: Financial Administration***

The OSA reviewed internal controls over financial and management activities at twenty district, ten probate and family, and five superior courts. The court audits assessed controls over bail funds, cash management systems, fee and fine collections, and compliance with applicable laws and regulations. In general, the courts complied with regulatory, administrative, and program requirements. However, a number of courts did need to address administrative and financial control issues, particularly with respect to bail fund management and revenue reconciliations. Major findings are summarized below.

- Four district courts and three superior courts needed to strengthen internal controls over the reporting and processing of bail funds. Specifically, Hampshire District Court did not consistently declare bails forfeited or document reasons for not doing so, when defendants failed to appear in court. Similarly, Springfield District Court had an inadequate level of bail forfeiture, reducing funds available to offset costs resulting from continuances, and also did not maintain adequate records for all criminal court cases. Marlborough District Court did not transfer unclaimed bail amounts to the State Treasurer as required; had substantial unreconciled variances between its Detail Account Trial Balance, a required monthly report that itemizes bail funds by case, and bank records; and did not promptly inform defendants, by letter, when their bail funds were available to be claimed. Worcester District Court, in noncompliance with state regulations, did not maintain a separate bail receipt file and did not document in its case papers authorizations to release bail. Finally, the Berkshire, Hampshire, and Worcester superior court departments needed to move more expeditiously to remit forfeited bails to the Commonwealth.
- Fourteen district courts, ten family and probate courts, and four superior courts needed to improve controls over revenues, reconciliations, and fixed assets. More than half of the courts tested had not yet developed and implemented a comprehensive internal control plan or conducted a risk assessment. These documents and activities are required under Chapter 647 of the Acts of 1989, the state's Internal Control Statute, in order to safeguard assets and maximize operational efficiencies. Their absence creates vulnerabilities and may have contributed to noted accounting and administrative weaknesses, as well as to a theft of funds at Worcester District Court. The most frequently cited deficiencies were failure to complete timely bank reconciliations, delayed depositing of revenues, inadequate segregation of duties, outdated and incomplete inventory listings, and inadequate oversight of vending machine contracts and revenues.

- Although Worcester District Court had procedures, based at least partially on verbal policies, for collecting funds and closing cases, a probation officer was able to circumvent established practices and embezzle more than \$14,000 over a two and a half year period. The probation officer, in noncompliance with Court policy that only cashiers receive payments, accepted cash payments from defendants, issued false receipts, and closed out cases through the Clerk-Magistrate's Office without approval from a Judge. This case has been adjudicated, and the former Court employee has a lien on her state retirement account until restitution of all funds has been made. The OSA recommended that the Court formalize its verbal policies prohibiting probation officers from collecting cash and requiring cases to go before a Judge for closure. The audit also noted that a periodic risk assessment might have identified the vulnerability of certain Court collection practices and enabled earlier preventive corrective action.

## ***Homeland Security***

The OSA is continuing 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. As of August 1, 2006, the state had been awarded an additional \$7 million. In the first phase of this OSA audit initiative, an analysis was completed of the amounts and categories of funds Commonwealth entities had received through May 2005. This report is currently being updated for issuance in fiscal year 2007. 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 were also completed. During fiscal year 2006, the OSA issued reports on the Massachusetts Turnpike Authority's Emergency Management Program and the Massachusetts Emergency Management Agency. The OSA also examined safety and security issues as part of a larger audit of the Massachusetts Aeronautics Commission. 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 Massachusetts Emergency Management Agency (MEMA), the entity responsible for coordinating federal, state, local, and private resources to protect the public during disasters and emergencies, received over \$24 million from October 1, 2001 to September 30, 2005 for Homeland Security-related programs. The OSA audit, which examined MEMA's management of these funds, found adequate financial controls and accountability, as well as compliance with readiness and most other requirements of the federal Department of Homeland Security. However, MEMA did not submit, in a timely manner, the required Financial Status Reports for five programs for the federal fiscal year 2005 Emergency Management Performance Grant Program. Three programs were reported on 67 days late, and two programs were reported on twenty days late. In addition, no reports were submitted for MEMA's main homeland security grant. In response to this finding, MEMA officials implemented new procedures to better track grant appropriations and to improve the timeliness of filing all reports.

- The Massachusetts Turnpike Authority spent approximately \$12 million on significant homeland security measures, including increased access control to its roadways and facilities, implementation of a comprehensive security system for Central Artery/Tunnel Project roadways, and appointment of a security director. In addition, Turnpike Authority officials have worked with security consultants and the State Police to identify threats and vulnerabilities and to develop emergency response plans. Among recommendations made by the OSA for further improving the protection of Turnpike Authority assets and roadway users were full implementation of an updated Emergency Management Plan; scheduled training, including drills and exercises; and increased plan oversight through a formal monitoring program.

## INITIATIVES

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

### ***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. Reviews of security initiatives, including grants management, are in progress at the Executive Office of Public Safety and the Department of Public Health. The reports on Homeland Security-related issues completed during this report period are detailed in a Special Audit Section beginning on page 41.

### ***Administrative Office of the Trial Courts (AOTC) and the Division of Capital Asset Management (DCAMM): Capital Improvements***

The OSA is reviewing and examining books and records relating to court construction contracts for two Boston projects, the post-construction expansion of the Edward W. Brooke Courthouse and the rehabilitation of the John Adams Courthouse. The audit, which will focus on the reasonableness of construction costs, including change orders, will assess contract compliance as well as determine whether proper oversight was provided by AOTC and DCAMM officials.

### ***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**

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### ***Financial Management and Other Special Audits***

During fiscal year 2006, the OSA issued 40 audit reports pertaining to 265 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 Sex Offender Registry Board, the Department of Conservation and Recreation Permit Program, and two retirement boards.

## ***Single Audit of the Commonwealth***

The OSA is a partner with 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 2006, 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 and Health and Human Services 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 47 state agencies and four 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 2005 Office of the State Comptroller's year-end closing instructions. Moreover, the Uxbridge District Court, Greenfield Community College, Roxbury Community College, and Worcester State College, which were previously cited for incorrectly processing and depositing certain year-end receipts, had all taken 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.

- Bridgewater State College and Fall River District Court improperly accounted for some fiscal year 2005 revenue. Specifically, the College reported fiscal year 2005 tuition receipts totaling \$4,097 as fiscal year 2006 revenue, and the Court improperly accounted for \$816 in cash received on June 30, 2005. In addition, while the review was in progress, Bridgewater State College, pursuant to Chapter 647 of the Acts of 1989, the state's Internal Control Statute, reported to the OSA missing deposits of \$355,441.
- The Division of Fisheries and Wildlife's Licensing Division did not have the necessary revenue management controls to ensure that all cash receipts due the Commonwealth were properly accounted for and reported or that its licensing agents adhered to required receipt transmittal requirements. As a result, the Division would not have been in compliance with year-end instructions, and licensing sales totaling \$570,177 for June 2005 would have been improperly reported as fiscal year 2006 revenues had OSA auditors not been on site as part of this review. At the close of the audit period, the Division was working with the Office of the State Comptroller to ensure that these funds were properly entered in the state's automated accounting system.
- Westborough District Court's Clerk-Magistrate's Office's primary cashier and bookkeeper duties were performed by the same person. As a result, the Office's financial duties were not adequately segregated, placing Court funds at an increased risk of loss or theft.
- The Division of Marine Fisheries and the Massachusetts Environmental Police were depositing cash receipts on a weekly or bi-weekly basis, rather than daily. The daily depositing of cash is required in order to maximize interest income and reduce the risk of the loss or theft of funds.



- The Massachusetts College of Liberal Arts, contrary to contract requirements, allowed state tuition recoveries to be deposited into the bank account of one of its collection agencies. In addition, this collection agency did not inform debtors that checks were to be made payable to the Commonwealth and did not properly invoice the College for a contingency fee payment totaling \$125. The OSA recommended that the College comply with debt collection regulations by designating a contract manager to monitor collection agency compliance with contract terms and ensure adherence to year-end closing instructions.

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

The OSA reviewed encumbrance transactions at 102 state agencies to determine compliance with the requirement that goods and services purchased with fiscal year 2005 funds be received by June 30 and properly entered into the Massachusetts Management Accounting and Reporting System. The audit also examined advance-fund management activities at 31 state agencies in order to evaluate documentation supporting open encumbrance balances. Agency compliance was very high, with all advance funds and approximately 99% of encumbrance transactions reviewed in compliance with closing instructions. However, some compliance issues were identified, as noted below.

- The Cape and Islands District Attorney's Office, Massachusetts District Attorneys Association, and Massachusetts Office of Travel and Tourism processed a total of three encumbrance transactions that did not comply with the State Comptroller's closing instructions. In each case deliveries of computer equipment arrived after June 30 and, consequently, \$38,122 of fiscal year 2005 funds was used to pay fiscal year 2006 obligations. In addition, three other agencies, the Executive Office of Public Safety, the Berkshire County Sheriff's Office, and the Soldier's Home in Holyoke processed large encumbrances for technological and equipment upgrades close to the June 30 deadline, but, in response to OSA audit work, properly paid for these items with 2006 funds.
- The Department of State Police processed a payment voucher for an encumbrance transaction totaling \$165,151 that was paid twelve days beyond the Commonwealth's 30-day bill-paying policy. Furthermore, the State Police missed an opportunity to take advantage of a vendor-offered 1% discount that would have saved the Commonwealth \$1,652.

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

The OSA, in conjunction with the fiscal year 2005 Single Audit of the Commonwealth, conducted a review of selected transactions at nineteen state entities for the purpose of determining agency compliance with applicable laws, rules, and regulations. The audit found that the Soldiers' Home in Holyoke, which was cited previously for posting and reconciliation deficiencies, had taken all necessary corrective action. Two other entities had only partially addressed prior issues, as summarized below. All other transactions selected for testing conformed with the State Comptroller's policies, procedures, and requirements. These transactions are listed in the audit appendix by type and agency.

- The Department of Mental Retardation (DMR) was continuing to address collection issues relative to room and Board charges for DMR residents and, in particular, an outstanding balance of \$60,557 incurred by a former resident. DMR has updated its internal control manual to include procedures for various types of collections and write-offs, and has been working with the Social Security Administration to become the representative payee for certain clients. DMR's goal is to have its corrective action plan fully implemented during fiscal year 2006.
- Springfield Technical Community College still 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, discrepancies continued to exist between the College's records and the Commonwealth's accounting system. The College did, however, request and receive approval from the Office of the State Comptroller, as required, to write off \$133,349 in uncollectible debt.

## ***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, 2005 of \$17,190,449,563.96 were below allowable state tax revenues of \$20,616,061,092.25 by the amount of \$3,425,611,528.29. Therefore, no excess tax revenues, as defined in Chapter 62F, MGLs, existed for fiscal year 2005.

## ***The Appellate Tax Board***

The OSA conducted an audit of the Appellate Tax Board, the agency that hears cases brought by individuals who appeal tax decisions made by local boards of assessors or, in some cases, the Massachusetts Department of Revenue. The Board, which consists of five Commissioners, is organizationally placed within the Executive Office for Administration and Finance, but is not subject to that entity's control in carrying out its quasi-judicial appeals function. The audit found that the Board had resolved issues discussed in a prior audit by properly maintaining records to support the rationale of its decisions and by providing filing parties with more detailed information on the appeal process. However, certain internal control issues were identified, as summarized below.

- The Appellate Tax Board did not properly maintain time and attendance records for all of its employees. Specifically, certain timesheets were missing supervisory approval and did not include the actual number of hours worked. As a result, there was inadequate assurance that all payroll charges were accurate and represented work actually performed.
- The Appellate Tax Board, which collects fees from individuals filing appeals, did not deposit all receipts in a timely manner. During a four-month period tested, auditors noted 76 instances in which funds should have been deposited but were not, principally because the employee responsible for this task was not in the office. The amounts not deposited in a timely manner ranged from \$10,781 to \$132,485. Daily depositing of receipts is required in order to maximize interest income and protect funds from loss, theft, and misuse.
- Information technology-related controls needed to be strengthened, particularly with respect to developing a business continuity plan for restoring essential functions in the event of lost or reduced processing capability. Action on this matter was made even more critical by the Board's identification of significant risks to its automated tracking and scheduling system, which was outdated and subject to system crashes. The Board indicated that it would continue to advocate for funding to replace the eleven-year old system and was, in the meantime, working with the state's Information Technology Department to back up its system every two hours.

## ***Office of the State Treasurer***

The OSA conducted an audit of financial and administrative operations at the Office of the State Treasurer, which found that effective action had been taken to resolve several issues identified in prior audits. The Treasurer's Office had improved certain aspects of its management of securities being held as abandoned property, implemented an effective internal audit function, and improved its bidding and contract management procedures. The audit noted, in particular, that by adopting an OSA recommendation to develop a policy and initiate a process for liquidating abandoned securities, the Treasurer's Office was able to transfer \$94 million to the General Fund. However, improvements were still needed in cash management procedures, bank reconciliations, and automated systems controls, as summarized below.

## *Other Audits*

- The Office of the State Treasurer's record of accounting transactions was still not properly integrated into the Commonwealth's automated central accounting system, the Massachusetts Management Accounting and Reporting System (MMARS). As a result, the Treasurer's Office had not fully resolved its cash reconciliation issues and numerous monthly adjusting entries were necessary in order to reconcile in-house records with MMARS.
- The Office of the State Treasurer still did not perform a monthly reconciliation of custodial bank statements of abandoned securities to verify the accuracy of the statements and to protect the securities from loss. A partial monthly reconciliation was completed of security receipts and disbursements; however, a process was not in place to confirm that the account holdings are in agreement with in-house records of abandoned securities. The lack of timely reconciliation could result, as it has in the past, in undetected pricing and other errors, misclassifications of stocks and bonds, and inaccurate assignments of value. As of January 31, 2005, the market value of abandoned securities held was \$206,290,674.
- Certain information technology-related controls still needed to be strengthened, particularly with respect to formally documenting a comprehensive Business Continuity Plan to ensure the availability of automated processing and electronic data, should automated systems be unavailable for an extended period.

### ***Retirement Boards: Massachusetts State Board of Retirement and Massachusetts Water Resources Authority (MWRA)***

The OSA conducted reviews of two retirement boards in order to evaluate the adequacy of their internal controls over administrative costs, as well as controls and procedures for ensuring that retirement benefits are accurately calculated and paid only to eligible recipients. In reviewing prior audit issues, the reviews found that the Massachusetts State Board of Retirement had adopted written policies and procedures to address previously cited internal control weaknesses, while the MWRA Retirement Board still did not have a formal documented internal control plan or risk assessment. New issues identified in the current audit are summarized below.

- The Massachusetts State Board of Retirement, contrary to state regulations in force during the audit period, did not request and obtain required eligibility affidavits from retired members and beneficiaries for calendar year 2003. These affidavits verify that a recipient of retirement benefits is living and provide other information deemed necessary to monitor payments. Noncompliance with this benefit verification procedure increases the risk that pension payments will be sent to deceased retirees. The Board responded that Benefit Verification Forms had not been issued in 2003 due to the timing and workload associated with Early Retirement Incentives programs in 2002 and 2003, and also noted that new regulations now allow for affidavits to be collected every two years.

- The Massachusetts State Board of Retirement had accumulated accounts receivable in excess of \$1.8 million as a result of erroneous payments to retirees and their beneficiaries, mostly due to payments after the death of a recipient. The audit noted that, although eligible to do so, the Board was not using the Commonwealth's automated Billing and Accounts Receivable Subsystem (BARS) to properly oversee and collect all funds owed and did not have an alternative formal system to attempt to recoup these overpayments. The OSA recommended that the Board utilize BARS to better manage its receivables; work with the Public Employee Retirement Administration Commission to develop a more comprehensive collection policy, including the write-off of smaller uncollectible accounts, and refer unpaid accounts greater than \$1,000 to a collection agency.
- The MWRA Retirement Board was not properly recording, reconciling, and reporting expenditures. Specifically, general ledger and accounting records for 2002 were missing, including the final balance and adjusting entries; total expenses were understated by \$93,299; and reconciliations were not properly performed. Similarly, numerous transactions had not been posted; expenses were not properly categorized; and financial statements were submitted seven months late. As a result, for the audit period, the Board's financial records could not be adequately audited and the accuracy of required financial reports could not be determined. The Board acknowledged its recordkeeping and reporting problems and said that corrective action had been undertaken, resulting in improved accuracy and timeliness in filing its 2004 final report.
- The MWRA Retirement Board needed to strengthen investment consultant procurement procedures in order to assure that selection criteria and methodology are documented for all contract awards. This documentation is required as part of the process for obtaining the most qualified professional services at the most reasonable costs.

### ***Sex Offender Registry Board***

The OSA conducted an audit of the state's Sex Offender Registry Board, an administrative agency within the Executive Office of Public Safety that works with law enforcement agencies to ensure the proper registration of sex offenders who live, work, or attend school in Massachusetts. In addition to registration responsibilities, the Board classifies each registered sex offender on the basis of risk to re-offend and dangerousness to the public. Those offenders who represent the highest risk to the community are classified as Level 2 or 3 and are required to appear before a designated police department either annually or every 90 days. In addition, the names and addresses of Level 3 offenders are posted on the Internet. Results of this review, including legal obstacles and other external factors that have affected the Board's performance, are summarized below.

- The Sex Offender Registry Board's implementation was delayed from 1996 to 1999 by legal challenges to its enabling statute. Further delays ensued due to the statute's requirement that data recorded on the Board of Probation database for 19,000 offenders, dated back to 1981, had to be reviewed. During the lengthy process of trying to locate these offenders, the Board found that some individuals had pleaded to lesser offenses and were therefore not required to register; others had died, moved out of state, were incarcerated, or had been deported. As of October 2005, 2,372 offenders on the database had not been located. The Sex Offender Registry, once legally permitted to begin the registration and classification process, was also registering new offenders and, as required, was providing all offenders the opportunity to have an evidentiary hearing for classification purposes. The hearing process itself has been another source of delays due to the high number of offenders who appeal their classification, budget constraints, and a lack of available hearing sites.
- The courts have not consistently imposed the penalties specified in the law for offenders who do not register. Of 2,766 arraignments for failure to register, 1,387 cases were dismissed or not prosecuted, 606 resulted in convictions, 23 were found not guilty, and charges were still pending for the rest. Even in cases of convictions, the courts did not consistently impose financial penalties; most often, they only required the offender to register.
- The Sex Offender Registry Board had stopped collecting the statutorily required \$75 sex offender registry fee, believing that the requirement had been eliminated. When informed by the OSA that pending legislation to repeal the sex offender registry fee had not been enacted, the Board mailed 3,439 letters to offenders who had not, up to that point, been billed as required.
- The Sex Offender Registry Board had adopted several initiatives intended to increase compliance with registration requirements. The Board had, for example, won passage of legislation requiring the Registry of Motor Vehicles to suspend the driver's license of offenders who do not register. In addition, the Board established a voluntary program for local police departments to conduct random audits of addresses listed in the registry. Although some police departments are not participating in this program out of a concern that it represents an unfunded mandate, the Board indicated that it would continue to work with state and local law enforcement authorities to increase registration compliance. The audit recognized these efforts and also recommended that the Board consider implementing the sex offender registration process prior to an offender's release from prison; initiate contact with government officials with the intent of resolving, on a national basis, an agreed-upon definition of a sex offender, thereby eliminating conflicts between state definitions; and advocate for designated sites and increased use of state facilities for hearings.

### ***Department of Conservation and Recreation: Permit Program***

The OSA conducted an audit of the Department of Conservation and Recreation's land use program, which allows permit holders to maintain cottages in state parks and forests. The annual costs for these permits range from no charge at Otis Reservoir to \$3,800 in Myles Standish State

Forest in Plymouth. The audit disclosed that problems identified in prior audits, when the parks were under the jurisdiction of the former Department of Environmental Management, were not addressed. Permit holders continued to deny the public full access to various parks and beaches and consistently violated building, health, and safety codes. Major findings are summarized below.

- The Department of Conservation and Recreation had not taken action to stop permit holders from limiting access to recreational facilities in Myles Standish State Forest in Plymouth and Lake Ashmere in Hinsdale. In addition to fences, locked gates, and “No Trespassing” signs, OSA auditors observed docks, decks, and ramps built across the beach that prevented the public from walking, unimpeded, along the water frontage. As a result of these obstacles, the public could not fully enjoy certain state parks’ trails and ponds, in direct contravention of permit conditions and state law. Furthermore, on dozens of occasions, fire trucks and medical vehicles have had to cut through chains or locks in order to respond to emergency calls.
- The Department of Conservation and Recreation was not enforcing state laws and regulations intended to protect health and safety, as well as the environment. Among violations noted were the use by some permit holders of improper and prohibited building materials, such as lumber pressure-treated with hazardous chemicals, and serious noncompliance with electrical codes, which increased the risk of fire within state forests. Furthermore, wastewater from outdoor plumbing at numerous cottages created a contamination threat to ponds and ground water; and septic tank problems noted in prior audits had not been corrected. Finally, auditors observed numerous instances of trash and debris around properties, including an outboard motor that was leaking gasoline into Lake Ashmere, unsecured propane tanks stored against cottages, and old refrigerators with doors still attached. The serious health, safety, and environmental hazards noted posed a threat to the public and created potential liability issues for the state. The audit urged immediate remediation.
- The Department of Conservation and Recreation allowed some permit holders to continue using cottages even though they had not paid the required permit fees. In addition, the Department was not using the state’s automated billing and accounts receivable system to monitor revenue and collection activity and did not have a centralized process in place for the recording, depositing, and reporting of permit fees. Finally, although the Department acknowledged that families have held individual permits for decades, it had no record of when a cottage permit was initially issued to an individual holder. The audit strongly recommended a fairer and more equitable issuance of permits, so a broader range of people can participate in the program.

## INITIATIVES

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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 2007, the OSA will once again partner with a private auditing firm 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, Holyoke Community College, Massachusetts College of Liberal Arts, Middlesex Community College, Northern Essex Community College, Roxbury Community College, and Worcester State College;
- Federal grant programs at the Department of Housing and Community Development;
- Federal grant programs at the Executive Office of Public Safety;
- Federal grant programs at the Department of Social Services; and
- Federal grant programs at the Massachusetts Rehabilitation Commission.

### ***Voluntary Contributions Collected Through State Income Tax Returns***

The OSA is conducting an audit of the voluntary contributions collected through state income tax returns on behalf the Natural Heritage and Endangered Species Fund, Organ Transplant Fund, Massachusetts AIDS Fund, Massachusetts United States Olympic Fund, and Massachusetts Military Family Relief Fund. The audit will identify the balances in the funds as of June 30, 2006 as well as the amounts collected and disbursed during the past five years. It will also follow up on issues identified in a prior report and examine controls over fund disbursements.



## AUDIT SUMMARIES

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### *Information Technology Audit*

During fiscal year 2006, the OSA's Information Technology (IT) Audit Division issued 32 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. The IT Audit Division conducts general and application control examinations that provide independent, objective appraisals of the adequacy of internal controls over and within information systems and IT processing environments. 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 effectively and efficiently uses resources to achieve desired value. 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 examined in integrated IT audits. Audit work during this report period has continued to be focused on evaluating general controls, including security, over and within the IT processing environment and, increasingly, assessing the extent to which entities address IT governance objectives. 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, IT infrastructure management, virus protection controls, and system access security. The following section highlights findings from this report period.

## ***The Child Support Enforcement Division***

The OSA's IT Audit Division completed an audit of IT-related activities at the state's Child Support Enforcement Division within the Department of Revenue. This Division relies heavily on information technology, including the automated Commonwealth of Massachusetts Enforcement and Tracking System, to carry out its mission, which is to help ensure the economic well-being of children by enforcing parents' financial responsibilities. During fiscal year 2005, the Division collected more than \$495 million in child support for Massachusetts families and was supported by a budget of approximately \$64 million. The OSA examination included, among other issues, an assessment of enforcement actions which, as detailed below, found that the Division needed to be more proactive in initiating procedures to encourage parents to provide delinquent child support payments. Such procedures would include suspending the driver's licenses of individuals in substantial arrears for child support payments.

- The Child Support Enforcement Division was underutilizing its authority to seek suspension of the driver's licenses of non-custodial parents who were seriously delinquent in their child support obligations. Certain actions to enforce compliance with orders of support, such as tax refund interceptions, were automatically generated on the basis of information entered on the tracking system. License suspension warnings, however, were implemented manually and occurred solely by caseworker initiative. Following this procedure, the Division had sent warning letters to only three percent of the nearly 27,000 parents who were subject to license suspension in that they were at least 56 days delinquent in their payments or owed more than \$400 in back child support. Noting that these cases represented over \$560 million in arrearages, the audit emphasized that whether or not a license is ultimately suspended, warnings are an important tool for encouraging those in arrears to work out and adhere to a payment schedule. Division officials agreed with the OSA finding and made the changes in their software necessary to automatically issue warning letters. Officials also noted that past-due collections reached an all-time monthly high of \$2.5 million in March 2006.
- The Child Support Enforcement Division reimbursed IT-contracted employees for questionable and unallowable car rental expenses. The OSA found that for selected months during fiscal years 2004 and 2005, contracted employees used government-funded rental cars for a substantial amount of personal travel. For example, the monthly rental car receipts for two employees staying at a hotel 4.5 miles from their worksite indicated that the employees had traveled 2,000 and 1,964 miles, respectively. The Division approved reimbursement in both of these cases, although documentation of business-related use of the vehicles had not been maintained. In addition, Division policies required that other transportation options such as public transportation and taxi cabs be considered. However, there was no indication that the policy was followed. The OSA recommended that the Division review its car rental reimbursements, which totaled \$171,679 during the review period, to determine whether any of this amount should be repaid to the Commonwealth. The Division responded that it would review these reimbursements for compliance with expense guidelines and possible recovery.

- Regarding the examination of other IT-related activities, the audit found that adequate controls were in place to provide reasonable assurance that information technology-related control objectives would be met with respect to IT organization and management, physical security, environmental protection, on-site and off-site storage of magnetic media, and system access security. However, the Division needed to substantially update its disaster recovery and business continuity plan and strengthen inventory controls over computer equipment. The audit also noted that, contrary to the requirements of Chapter 647 of the Acts of 1989, the state's Internal Control Statute, the Division was not reporting missing or stolen computer equipment to the OSA.

## ***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 and cost required to recover from system disruptions or failure.

- ***Framingham State College*** had not developed a comprehensive business continuity plan. In addition, the College had not conducted a required risk analysis to determine the extent of potential threats and exposures to IT operations or formalized its agreement with an alternate processing site. Without adequate, tested recovery strategies, the College's administrative and academic activities would be seriously disrupted should automated systems be lost for an extended time. The OSA recommended that the College assess the criticality of its computer systems and then develop, review, test, and implement plans and procedures for the timely restoration of business functions.
- ***The Human Resources Division***, which serves as the central personnel department for the Commonwealth and relies heavily on information technology in performing its primary business functions, had not formalized a comprehensive disaster recovery and business continuity plan for restoring processing functions in the event that automated systems were rendered inoperable or inaccessible. The OSA recommended that the Division evaluate the criticality of its automated systems and develop, test, and implement a business continuity plan for required system applications. Once implemented, the plan should be periodically reviewed, updated, and retested for any changing conditions.
- ***The Quincy Mental Health Center*** did not have a formal, tested disaster recovery strategy for restoring processing functions in the event that automated systems were rendered inoperable or inaccessible. As a result, the Center was vulnerable to a loss of the availability of essential and confidential data, including medical and pharmacy information, should a disaster occur. The OSA recommended that the Quincy Mental Health Center, in conjunction with the Department of Mental Health, conduct a risk analysis and, based on the results, develop, test, and implement a written disaster recovery and business continuity plan.

## ***Inventory Controls: IT-Related Assets***

All state entities are required to maintain complete inventories of IT resources, such as computer equipment and software, to ensure that these fixed assets are properly accounted for, safeguarded, and only used for authorized and intended purposes. The absence of complete and accurate records of computer equipment and software hinders the ability of state entities to address IT infrastructure management objectives. As part of an ongoing review of controls over computer equipment at state colleges, the OSA completed five audits, with significant results summarized below.

- ***Framingham State College*** could not provide documentation that an annual physical inventory had been performed. In addition, inventory records did not appear to be adequately reviewed for accuracy and completeness, and an appropriate level of reconciliation was not in place. As a result, the integrity of the inventory system could not be assured. Of 131 items tested, 37 pieces of computer equipment valued at \$30,946 could not be located. A further test of 154 notebook computers indicated that 23 of these computers, valued at \$43,097, also could not be found, because the College did not maintain adequate records for computer equipment loaned to administrators and faculty. Finally, the College did not report to the OSA any computer equipment that had been lost or stolen, contrary to the state's Internal Control Statute.
- ***Middlesex Community College*** lacked formalized inventory control policies and procedures for the proper initial recording of computer equipment, for implementing user responsibility agreements when assigning notebook computers, and for adequately maintaining and reconciling inventory records. As a result, the College's system of record for IT equipment contained errors and was missing data, such as purchase order numbers and related procurement data. The audit noted, for example, that due to recording errors in data input, College officials took six weeks to identify and locate 92 hardware items from a sample audit test. Finally, the College had not complied with Chapter 647 of the Acts of 1989, which requires all state entities to notify the OSA of any missing or stolen property or equipment.
- ***Mount Wachusett Community College*** did not perform an annual physical inventory of computer equipment and did not maintain a complete and accurate inventory listing. As a result, IT assets were exposed to an increased risk of loss, theft, or misuse. Our audit test indicated that 25 out of 75 randomly selected items of equipment were not at their recorded location. Subsequently, management was able to locate sixteen of these computer items; nine items could not be found. Furthermore, twelve of 72 pieces of computer equipment selected for testing from various locations at the College were not recorded on the inventory listing.

- ***Salem State College*** had not performed an annual physical inventory and reconciliation of IT-related assets; had not listed sufficient information, such as cost, date of acquisition, or location, on its inventory record to identify and track its computer equipment; and had not implemented sufficient controls to properly account for its notebook computers. Regarding controls over notebook computers, the College should ensure that all faculty and staff assigned a computer complete sign-out/in forms and that the status of the computers be periodically monitored. As a result of the issues noted, the College was not adequately safeguarding its computer assets or accurately reporting their value on financial statements.
- ***Massachusetts College of Art's*** controls needed to be strengthened to provide reasonable assurance that IT resources would be properly recorded and accounted for. Although the College had appropriate policies and procedures for ordering, purchasing, and receiving IT resources, data integrity needed to be strengthened for its inventory system of record of computer equipment. The College should strengthen controls over the monitoring of its inventory to ensure that all IT-related equipment is adequately accounted for and that an accurate and complete listing of IT-related assets is maintained in a timely manner. In addition, the College did not have adequate controls in place and in effect to monitor the assignment and use of 70 notebook computers.

### ***Environmental Protection Controls and Physical Security***

Proper environmental protection and physical security for data centers and on-site or off-site media storage rooms serve to minimize significant risks regarding staff safety and damage to, or destruction of, the physical plant, equipment, data, and software. In addition, adequate physical security helps 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.

- ***The Plymouth County District Attorney's Office*** needed to strengthen physical security controls at the entrance to its building and for street-level doors and windows. Regarding environmental protection, areas housing original hard copy court records did not have smoke, heat, or fire detection equipment. Office management responded that funding for plant improvements and security enhancement has been requested from the Legislature. Officials also indicated that, should the request not be funded, they would still make nominal improvements within the confines of their budget.
- ***Brockton Multi-Service Center's*** server room did not have adequate environmental protection with respect to electricity generation and water detection. The Center's emergency generator did not provide adequate and continuous power, resulting in a potential strain on key server room components and, at times, a loss of air conditioning in the server room. In addition, condensation from an air conditioning pipe in the ceiling of the server room could potentially drip onto computer equipment. Power outages or water damage in the server room could negatively impact the Center's ability to process client information and access the various systems available to the Department of Mental Health network.

- ***The Dr. John C. Corrigan Mental Health Center*** needed to strengthen certain environmental protection controls. Specifically, the network communication closets did not have adequate air circulation; temperature was not monitored; and, generally, the air temperatures appeared to be above optimal levels for areas housing telecommunication equipment and file servers. The audit also noted the risk of condensation or water problems above the file servers, which could potentially result in damage to computer equipment.

## **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 deactivation 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.

- ***Framingham State College's*** control practices needed to be strengthened regarding the deactivation of logon IDs and passwords, frequency of required password changes, and documentation of access security policies and procedures. The College had no written policies and procedures for deactivating access privileges for users no longer authorized or needing access to its automated system, and audit tests indicated that of 742 authorized users, 246 (33%) were individuals no longer associated with the College, some for over 35 months. When notified of this finding, College officials moved promptly to disable all 246 user accounts. In addition, the College did not require a mandatory timeframe for changing passwords or limit the number of invalid access attempts. Although there was no evidence that any accounts had been used after an individual's departure from the College, information on its systems had been at increased risk of unauthorized access and alterations.
- ***The Human Resources Division***, contrary to sound access security practices, did not always deactivate user accounts for individuals who were no longer employed by the Division. Tests indicated that fourteen out of 152 user accounts were for staff who were not on the Division's payroll lists. Although five of these user accounts belonged to student interns whose access had not been deactivated because there was a chance of their returning to the Division, the OSA recommended that access be modified or terminated for all individuals no longer requiring access privileges. Division officials agreed with this finding and took prompt corrective action.

## **Special Audit Section**

### **Virus Protection Programs**

The IT Audit Division issued sixteen reports during fiscal year 2006 on technology-related controls for virus protection. These audits were conducted as part of a comprehensive review and assessment of virus protection activities, which began in fiscal year 2005 with the completion of fourteen reports. The focus of this effort, which will result in a 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 sixteen 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 ensure 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 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 non-authorized 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.
- Be aware that, due to the evolution of virus programs and the nature of virus attacks, the risk of virus infection is not eliminated even though entities may have generally accepted virus protection and security controls in place.

## INITIATIVES

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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. Five individual audits were issued during the report period as part of this ongoing initiative. Findings are discussed on pages 59 and 60.

### ***Review of the Commonwealth's Virus Protection Program***

The OSA is continuing 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, 30 of which have been issued during the past two report periods.

### ***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.

### ***Compliance with CORI and SORI Reviews***

The OSA intends to evaluate certain state agency compliance requirements to perform Criminal Offender Record Information (CORI) and Sex Offender Record Information (SORI) reviews. Where applicable, IT audits will determine whether required CORI and/or SORI reviews are being performed, electronic records of the reviews are maintained for evaluation and assurance monitoring, and information obtained remains secure and confidential.

## **BUREAU OF SPECIAL INVESTIGATIONS**

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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 other 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, local police, and administering agencies.

Of special interest, during fiscal year 2006, BSI's new case tracking application and database was developed, with full implementation expected in October 2006. This application will electronically collect investigative data, perform analytical tasks, and help to prioritize casework. This will significantly 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 2006, BSI identified fraudulently obtained cash assistance, Food Stamps, and Medicaid benefits totaling over \$2.3 million. These completed cases were referred to the appropriate agency for prosecution or civil recovery. As of June 30, 2006, BSI had more than 50 cases of identified fraud pending in various courts throughout the Commonwealth. Additionally, in the past year, 35 cases resulting from BSI investigations were successfully prosecuted in federal, state, or county courts. These convictions resulted in court-ordered repayments totaling over \$743,000.

- BSI, during this period, completed 644 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. One case of successfully prosecuted fraud of this type involved a woman who received over \$52,000 in Food Stamps and Medicaid while her spouse, whom she had reported as absent, was residing with her and the children and running a lucrative painting business. Other cases involved unreported income or assets, various eligibility violations, and, as described below, illegal activities such as drug diversions and Food Stamp trafficking.
- During the course of investigating public assistance fraud, BSI has found instances of simultaneously occurring housing, health care, and Food Stamp fraud. One successfully prosecuted case involved a woman who committed housing, health care, Food Stamp, and cash assistance fraud in excess of \$117,000; at the same time she was using the Internet to sell hundreds of thousands of dollars in stolen property. BSI examiners have also worked with federal agencies, including the Department of Homeland Security, in the investigation of combined Medicaid and public assistance fraud totaling an additional \$1.4 million. In one instance, a federal indictment pursuant to the federal False Claims Act for housing, public assistance, Medicaid, and Food Stamp fraud in the amount of \$71,932 resulted in a summary judgment for treble damages in the amount of \$215,797 in Federal District Court.
- 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 or providers who fraudulently obtain certain prescription drugs, which are then either abused 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. In one drug diversion case, BSI examiners worked with the Federal Drug Administration to investigate a family suspected of fraudulently using Medicaid cards to obtain OxyContin and other narcotic drugs. In October 2005, the U.S. Attorney's Office brought charges against three members of the family on 24 counts of fraud, including conspiracy to obtain controlled substances by fraud and identity theft. In another case, BSI investigators worked with the State Police Drug Diversion Task Force and the Hampden District Attorney to obtain a guilty finding against a pharmacist who obtained OxyContin worth \$96,000 by illegally using the Medicaid numbers of seven customers. The pharmacist was ordered to repay \$8,247 to Medicaid and also lost her pharmaceutical license for eight years.

- 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. For example, BSI examiners worked with agents from the federal Office of the Inspector General to investigate and bring charges against a variety store owner in New Bedford whose Food Stamp trafficking involved approximately \$10,000 per month in illegal transactions. Coordinated efforts on this case, which included surveillance operations, subject interviews, and undercover work, resulted in a successful civil prosecution and a \$200,000 lump settlement.
- 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, BSI and the Attorney General's Office have joined in an initiative to investigate major PCA fraud cases. In one such case, an individual conspired with eleven recipients to defraud the MassHealth system of \$330,000. In another case, a man living with his girlfriend was paid to work as her PCA, while also receiving cash, food, and medical assistance benefits. BSI investigators found that the subject, who was inappropriately employed as a PCA for twenty months, earned \$39,326 from MassHealth. He also received public assistance benefits and health services valued at over \$38,000. The subject pled guilty on three counts of larceny, was placed on probation until December 2008, and was ordered to repay \$35,000.
- BSI continues to investigate allegations of fraud in publicly funded childcare programs throughout the Commonwealth. In a recent case, an employed pharmacist, who falsified tax records in order to obtain \$40,000 in day care services for a child, was indicted and arraigned on charges of public assistance fraud brought by BSI staff and the Norfolk District Attorney. Full restitution of funds is being sought in this case.

## **DIVISION OF LOCAL MANDATES**

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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.

## **Chapter 126 Review**

### **Property Tax Exemptions for Senior Homeowners**

During this period, DLM issued a report on the municipal financial impact of state law providing property tax relief for eligible senior citizens. This review spanned ten years of data and encompassed sixteen local option provisions governing senior property tax relief. It also covered the one statewide, state-funded program, known as the Circuit Breaker. Depending upon which options had been adopted in a given community, local tax relief for qualifying seniors ranged from \$175 to \$1,000, and the average Circuit Breaker benefit was \$614 in 2003. In 2004, over 36,000 seniors received local exemptions, and over 38,000 received the state Circuit Breaker credit, for combined relief exceeding \$39 million. Factoring in amounts for the senior tax deferral and “work off” programs, total relief exceeded \$44.6 million.

In 1998, DLM issued a report examining the major provisions for senior property tax relief in effect at that time. Illustrating the effects of inflation, that report documented a progressive decline in the relative value of local exemptions granted and the number of seniors qualifying for this relief. It also documented a progressive increase in the total amount of local exemptions provided without additional state assistance, over \$2 million in 1998. As a result, the Auditor recommended that applicable law be amended to increase the value of local property tax exemptions for seniors, to expand the eligibility criteria, and to increase state reimbursements.

Subsequently, the Legislature amended general law to provide cities and towns with as many as eight new local options to increase the value of senior property tax exemptions and/or eligibility standards. Even though the issue of local reimbursements had not been addressed directly, through the 1999 enactment of the Circuit Breaker tax credits, for the first time the Commonwealth began playing a direct role in assuming financial responsibility for additional tax relief for senior citizens. In light of these amendments, the purposes of the 2005 report were to examine changes in program utilization trends, and to evaluate the effectiveness of the law in achieving the dual objectives of fair property tax relief for seniors and reasonable state reimbursement for cities and towns.

### **Major Findings**

The overall finding of this work was that a complex patchwork of sixteen local option laws to provide property tax relief for seniors has resulted in widespread inconsistencies and inequities in benefits for seniors and in state assistance for cities and towns. Selected additional findings were as follows:

- Over 14,400 fewer seniors received the two primary local property tax exemptions in fiscal year 2004 than ten years earlier.
- A senior who did not qualify for relief in one town might move to a neighboring town and qualify for a 60% tax break – as much as \$1,750 off the 2004 average property tax bill of \$2,891.
- The average local exemption was \$500, relieving about 17% of the average bill.

- At one time fully funded by the Commonwealth, the rate of state reimbursement for local exemptions in 2004 declined to 76%, providing \$12.1 million in state aid for \$16 million in senior tax exemptions granted by cities and towns.
- Outdated reimbursement formulas have led to unintended and uneven results. While most communities receive less aid than what they spend, others (73) received more than their actual expenditures for senior tax relief.

## **Recommendations**

DLM offered two main recommendations to address the inequities documented in this report.

1. The existing menu of local option benefits for seniors should be replaced with a single, standardized, state-funded program, with variables indexed to inflation. In keeping with the original legislative intent, the value of the average benefit should approximate 50% of the state average property tax bill. In 2004, 50% of the average tax bill was \$1,446. Reform should include a hold harmless provision to ensure that no senior that received a benefit under prior law would receive less under the new program. DLM recommended an expansion of the existing mechanisms of the state Circuit Breaker program to accomplish this objective. To achieve an average level of relief at 50%, DLM projected that the net new cost to the Commonwealth would approach \$16 million; 40% relief would require approximately \$9 million in new state spending.

Advantages of this approach over the current law would include:

- The benefit for each senior would be determined by the same factors regardless of where they live.
  - Eligibility criteria would be uniform across the state and easily adjusted for inflation.
  - Nearly \$4 million in local revenue allocated to these relief efforts would become available for other purposes.
2. The local work-off and property tax deferral programs should remain intact, but with greater local flexibility in setting the interest rate charged for tax deferrals. DLM noted that the high, fixed statutory rate of interest charged on deferred property taxes was a major reason for under-utilization of this program. Allowing for a reasonable interest rate would authorize adjustments to reflect market conditions. In May of 2006, the Legislature adopted changes to address these concerns. In addition, DLM recommended that state and local agencies work to increase seniors' awareness of the work-off and tax deferral programs.



## ***Mandate Determinations and Legislative Studies***

### ***The Uniform Statewide Polling Hours Law***

The Division of Local Mandates certified a total of \$1.45 million for distribution to the Commonwealth's cities and towns to cover expanded polling hours costs related to the 2006 September state primary and November elections. A state mandate, Chapter 503 of the Acts of 1983, requires municipalities to keep polling places open from 7 a.m. to 8 p.m. for all state and federal elections, resulting in an additional three hours of polling place operation expenses. Chapter 503 also directs DLM to determine local financial impact of this mandate for each city and town. Communities must document any additional costs and submit them to DLM for certification. The Massachusetts Secretary of State then distributes the funding.

The combined DLM-certified Chapter 503 amounts for the 2006 state fall elections range from \$156,084 for the City of Boston to \$173 for the Town of Cummington. Through 2006, DLM has certified, and the Secretary of State will have distributed, over \$15 million in state funding to cities and towns to comply with the 1983 Act.

### ***Chapter 193 of the Acts of 2004: The Owner's Project Manager Requirements of the Public Construction Reform Law***

In response to a request from the Milford Board of Selectmen, DLM reviewed certain provisions of Chapter 193 of the Acts of 2004, An Act Further Regulating Public Construction in the Commonwealth. Relevant to concerns raised by the Town, this Act added Section 44A1/2 to Chapter 149 of the General Laws requiring that public agencies "contract for the services of an owner's project manager" to perform various consulting and oversight functions for projects estimated to cost \$1.5 million or more. Milford officials estimated that this requirement could result in significant new costs of up to \$100,000 or more should the Town undertake a major public construction project in the near future. Consequently, the Town asked for an opinion on whether the Local Mandate Law applied to this provision.

After reviewing the Town's argument and input from relevant state agencies, DLM determined that, for certain projects, the owner's project manager provision imposed by section 44A1/2 falls within the scope of the Local Mandate Law. Elements leading to DLM's opinion include the fact that the 2004 requirement is clearly a new state law taking effect on or before January 1, 1981, and not a mere clarification of pre-existing legal requirements. DLM also found that it does not allow for local acceptance of the obligation; hiring an owner's project manager is not a voluntary local undertaking. Furthermore, DLM determined that the requirement would impose a more than incidental, direct cost on a city or town obligated to employ a person in this role. However, DLM also informed the Town that in a given case, there may be factors that would lead to a different result, such as conditions imposed in exchange for state financial assistance. An example might be requirements tied to state funding of a local school construction project. Accordingly, DLM concluded that, apart from such special circumstances, the hiring requirement imposed by Section 44A1/2 is subject to the provisions of the Local Mandate Law.

## ***Compliance with the Storm Water Management Plan Requirements of the Federal Clean Water Act***

On behalf of the Town of Reading, Representative Bradley H. Jones, Jr. requested an opinion regarding the Local Mandate Law and certain provisions of the Clean Water Act. As part of this review, DLM staff met with Reading town officials and with representatives of the state Department of Environmental Protection (DEP) to discuss the local financial impact of these requirements and their origins. In the final analysis, DLM concluded that the Local Mandate Law does not apply in this case due to the federal basis of the requirements. DLM's review of relevant federal and state laws and regulations indicated that the National Pollutant Discharge Elimination System permit provisions in question are primarily mandated by the federal Clean Water Act and thus are outside the scope of the Local Mandate Law.

The state Supreme Judicial Court has recognized that the Local Mandate Law does not apply to mandated costs or services that were not initiated by the Legislature and over which it has no control. In the case at hand, since the Congress of the United States enacted the Clean Water Act and a federal agency promulgated the relevant regulations, the Commonwealth is not obligated under the Local Mandate Law to assume the cost of compliance. Although Reading officials enumerated various costly compliance items totaling \$300,000 to \$400,000, all requirements under consideration are federal mandates; DLM found no requirements in related state law or regulation that appeared to exceed the mandates of the federal program. As such, the provisions under consideration are not subject to the Local Mandate Law.

## ***Municipal Waterways Improvement and Maintenance Funds***

In response to a request from Senator Michael W. Morrissey, the Division of Local Mandates undertook a review of municipal activities related to Municipal Waterways Improvement and Maintenance Funds pursuant to General Laws Chapter 40, Section 5G; Chapter 60B, Section 2; and Chapter 91, Section 10A. Specifically, the Senator expressed concern regarding a lack of compliance with the statutory revenue restrictions and reporting requirements relative to boat excise tax and mooring fee collections.

DLM's review included the development of an electronic survey comprised of specific quantitative and qualitative questions concerning Waterways Improvement and Maintenance Funds, boat excise tax, and mooring fee activity. The quantitative questions sought data for fiscal years 2003 through 2005. The survey was transmitted to a sample of 24 cities and towns selected from a ranking of coastal communities with the greatest number of boat registrations. Spreadsheets were designed to display survey data responses with summary financial data and other details calculated for analysis. Highlights of survey results and findings include the following:

- Twenty communities responded that they had established waterways funds as of fiscal year 2005, the majority earlier. This group reported deposits of approximately \$2.9 million into these funds in fiscal year 2005, and expenditures of about \$1.9 million.

- Collectively, this group of twenty reported waterways fund balances of just over \$5.5 million at the close of fiscal year 2005, an increase of approximately \$2.3 million from the close of fiscal year 2003.
- All 24 communities responded that they billed boat owners for excise taxes in fiscal years 2003, 2004, and 2005. Aggregate collections for the group increased by about 20% over the period, from about \$1.6 million in 2003 to almost \$2 million in 2005. The group reported that approximately \$1.6 million (24%) of amounts billed over the three years was not paid.
- Eighteen communities responded that they did collect mooring fees under Chapter 91, Section 10A in fiscal year 2005, and most in earlier years as well. Section 10A mooring fee collections grew from about \$1.6 million in 2003 to approximately \$2.1 million in 2005. The six communities that stated that they did not collect Chapter 91, Section 10A fees may have collected mooring fees under other authority.
- Respondents reported expenditures related to improvement and maintenance of waterways totaling over \$7.4 million in fiscal year 2005. Fifty-eight percent of reported expenditures was for law enforcement and fire prevention; 23% was for maintenance, dredging, cleaning, and improvement of harbors; 14% was for breakwaters, retaining walls, piers, wharves, and moorings; and 5% was related to public access. This level of expenditure indicates that respondents allocated substantial revenues to waterways improvement from sources other than the dedicated waterways funds.
- There are at least two statutory authorizations to establish waterways funds (Chapter 40, Section 5G and Chapter 44, Section 53F1/2), and at least two authorizations to establish mooring fees (Chapter 40, Section 22F and Chapter 91, Section 10A.) Fourteen respondents indicated that they had established Chapter 40, Section 5G waterways funds and collected Chapter 91, Section 10A mooring fees, and were thereby subject to the accounting requirements of those statutes -- to deposit 50% of boat excise tax collections plus 100% of mooring fees into the waterways fund. Under these two provisions, expected deposits to Chapter 40, Section 5G waterways funds would have been approximately \$1.9 million for these fourteen cities and towns in fiscal year 2005. Survey data indicated that the group made deposits to these funds about \$106,000 short of expectations set by statute. Aggregate reported deposits were approximately 95% of expected amounts for the group.

### ***Contributory Group Insurance for Municipal Employees***

DLM issued an opinion in response to a request from Senator Richard T. Moore relative to Article 115 of the Massachusetts Constitution and a proposal to remove local option provisions from Sections 18 and 19 of Chapter 32B of the General Laws governing contributory group insurance for local employees. Currently, Section 18 allows cities and towns (and other political subdivisions) to vote to require their eligible retirees to participate in the federal Medicare program in lieu of the municipal health insurance program. If adopted, a community must provide an extension plan, if necessary, to ensure coverage of comparable value. Section 19 allows cities and towns to vote to provide that the selection of a health insurance carrier be made

with approval of a proportional vote of the employee bargaining units. This contrasts with the standard requirement for unanimous approval of all units.

DLM informed the Senator that it has no specific authority to determine when Article 115 applies. Nonetheless, in light of experience with analogous provisions of the Local Mandate Law, DLM offered observations that led to the conclusion that Article 115 would not apply to law making Sections 18 and 19 mandatory for all communities.

Article 115 essentially provides that any “law imposing additional costs upon two or more cities or towns by the regulation of the compensation, hours, status, conditions or benefits of municipal employment” will be subject to local acceptance unless one of two standards is met. Such a law may be binding if the Commonwealth assumes its cost, or the law is enacted by a two-thirds vote of each branch of the Legislature. In this way, “Article 115 limits the Legislature’s power to regulate the terms of municipal employment.” *City of Cambridge v. Attorney General*, 410 Mass. 165, 170 (1991). However, this restriction does not apply to every type of legislative action that may affect local labor relations. Of particular relevance to the issue at hand, Article 115 applies to state laws that “impose additional costs” on communities.

DLM’s research indicated that it was fully expected that communities would save money by adopting Section 18 and thereby shifting a substantial amount of the cost of retiree health insurance to the federal government. At that point, the experience of the City of Springfield was affirming this expectation, with net first-year savings of approximately \$6 million attributable to the adoption of Section 18. The state Department of Revenue had recently initiated a data collection effort to verify which cities and towns have voted to accept the current, voluntary version of Section 18. The early respondents were showing a growing interest in this provision, with 68 of 71 reporting that they had adopted Section 18. Still, DLM noted that it was possible that these early results may have been skewed by a tendency for those that have voted yes to be the earlier respondents.

Pending the availability of additional data on this matter, DLM suggested allowing for a waiver opportunity in the event that a community could demonstrate a negative financial impact. A waiver provision would ensure that an otherwise mandatory Section 18 would not impose additional costs upon any city or town, and therefore would not raise concerns related to Article 115.

Additionally, there was no expectation that a mandatory version of Section 19 would impose additional costs upon cities and towns. Section 19 would affect the procedures for selecting a health insurance carrier but would not affect the substance of that decision. A change in procedure would not, in itself, impose additional costs. Accordingly, DLM concluded that a law making the provisions of Section 19 mandatory would not be subject to the standards of Article 115.

### ***Transportation of Special Education Students***

DLM responded to a request from the Woburn City Auditor asking whether the increase in the rate of reimbursement to parents who transport their special needs children pursuant to Department of Education regulation 603 CMR 28.07(6) is an unfunded state mandate. DLM explained that although the new rate will increase special education transportation expenses for a

number of school districts, court precedent indicates that this is not the type of cost that is subject to the Local Mandate Law.

In short, this is because the Local Mandate Law applies to cost or service obligations imposed after 1980. The obligation to provide this reimbursement was imposed by pre-1981 regulations, and has not changed substantively over time. Yet, the rate of reimbursement has grown, thereby increasing the cost of the obligation. Nonetheless, upon review of a similar matter, the state Supreme Judicial Court concluded “increased costs, pursuant to rate-setting regulatory changes, for services mandated before 1981 do not constitute unfunded local mandates.”

### ***Legislative Proposal Relative to Ski Helmets***

At the request of Senator Stephen M. Brewer, DLM reviewed a proposal to require students who participate in certain winter sport activities during school outings to wear ski helmets. DLM explained that a key element in a mandate determination is that the law or proposal at issue must require the expenditure of additional local dollars; otherwise there would be no cost for the Commonwealth to assume.

The draft legislation stated: “All schools that have a ski club, group or team will make mandatory the use of ski helmets on any school outing or trip that involves such activities as skiing or snow boarding.” DLM observed that there appeared to be nothing in this text that would obligate schools to supply and pay for the helmets. Rather, this language would seem to require schools to make rules providing that participating students must use helmets. In this case, any costs would be the responsibility of parents or students. Accordingly, there would be no cost imposed on cities and towns, and the Local Mandate Law would not apply.

## **PRIVATE OCCUPATIONAL SCHOOLS**

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In accordance with Chapters 75C, 75D, and 93 of the Massachusetts General Laws, all private, post-secondary, non-degree-granting occupational schools must be licensed by or registered with the Massachusetts Department of Education. As part of the licensure process, the Office of the State Auditor is required to annually evaluate the solvency of each license applicant and determine the appropriate level of tuition protection needed by each school. Such tuition protection may take the form of surety bond, an irrevocable letter of credit, or a term deposit account payable to the Commonwealth. This consumer protection program was established to address potential refunds due to students as a result of fraud, deceptive recruitment practices, or breach of contract by the school.

As of June 30, 2006, there were 192 private occupational schools on the OSA Proprietary School Active File, consisting of 133 private business schools, 50 private trade schools, seven private correspondence schools, and two registered schools. At fiscal year-end, the financial certification process was ongoing for 20 renewal applicants, while the process was completed for 172 schools that were found to be financially eligible to apply for occupational school licensure during the year. The 172 approvals by the OSA during fiscal year 2006 represented 18 original applications and 154 renewals.

Programs of study offered by licensed private occupational schools include appliance repair, bartending, broadcasting, business administration, computer technology, culinary arts, fashion design, floral design, holistic health care, home health aide/certified nurses' assistant training, HVAC/industrial technology, massage therapy, modeling, pet grooming, photography, plumbing, and tractor trailer driving.

# **Appendix**

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## **AUDIT REPORTS ISSUED**

## EDUCATION AUDITS

	<i><b>Audit</b></i>	<i><b>Audit Number</b></i>	<i><b>Issue Date</b></i>
1.	Bridgewater State College - Student Financial Assistance Programs	2006-0177-16S	3/24/2006
2.	Bunker Hill Community College - Student Financial Assistance Programs	2006-0192-7S	3/22/2006
3.	Financial & Management Controls over Operations in the University of Massachusetts Treasurer's Office	2003-1421-3S	8/31/2005
4.	Framingham State College	2005-0179-4T	1/13/2006
5.	Greenfield Community College – Payroll Activities	2006-0194-3S	5/8/2006
6.	Massachusetts Bay Community College	2005-0196-16S	4/19/2006
7.	Massachusetts College of Art	2005-0181-4T	10/5/2005
8.	Massachusetts College of Liberal Arts	2005-0183-16S	4/19/2006
9.	Massachusetts College of Liberal Arts - Student Financial Assistance Programs	2006-0183-16S	3/22/2006
10.	Massachusetts Maritime Academy	2006-0182-15O	2/21/2006
11.	Middlesex Community College	2005-0199-4T	12/27/2005
12.	Middlesex Community College	2005-0199-16S	4/19/2006
13.	Middlesex Community College - Student Financial Assistance Programs	2006-0199-16S	3/22/2006
14.	Mount Wachusett Community College	2006-0200-4T	2/28/2006
15.	Robert M. Hughes Academy Charter School (3 Entities) -Robert M. Hughes Academy Charter School -Department of Education -School Street Properties, Inc.	2004-1534-3C	8/3/2005
16.	Roxbury Community College	2005-0204-16S	4/19/2006
17.	Roxbury Community College - Student Financial Assistance Programs	2006-0204-7S	3/24/2006
18.	Salem State College	2004-0184-4T	3/6/2006
19.	Southampton School Department - William E. Norris School	2005-2103-9O	5/8/2006
20.	Springfield Technical Community College Transition Audit (3 Entities) -Springfield Technical Community College -STCC Foundation -STCC Technology Park	2005-0205-11S	9/19/2005



## EDUCATION AUDITS

<i><b>Audit</b></i>	<i><b>Audit Number</b></i>	<i><b>Issue Date</b></i>
21. Statewide Review of Tuition Remission Policies at Massachusetts Public Colleges and Universities (25 Entities) -Board of Higher Education -University of Massachusetts -Nine State Colleges -Fourteen Community Colleges	2004-5114-3S	2/21/2006
22. University of Massachusetts at Dartmouth-Payroll Activities	2005-0210-3S1	9/27/2005
23. Valley Educational Services, Inc. dba Valley West Day School	2006-4495-3C	5/1/2006
24. Worcester State College	2005-0186-16S	4/19/2006
25. Worcester State College - Student Financial Assistance Programs	2006-0186-7S	3/22/2006

## HEALTH AND HUMAN SERVICES

<i><b>Audit</b></i>	<i><b>Audit Number</b></i>	<i><b>Issue Date</b></i>
1. Administration of the Medicaid Program (3 Entities) -MassHealth -Attorney General's Medicaid Fraud Control Unit -UMass Medical School	2004-1374-3S	10/13/2005
2. Brockton Area Association for Retarded Citizens, Inc.	2006-4151-3C	5/1/2006
3. Brockton Multi-Service Center	2005-0853-7T	12/16/2005
4. CAB Health and Recovery Services, Inc.	2006-4497-3C	5/1/2006
5. Child Development Centers and Systems, Inc.	2005-4491-3C	11/30/2005
6. Community Care Services, Inc.	2005-4493-3C	9/26/2005
7. Cooperative Production, Inc.	2005-4488-3C	9/20/2005
8. Crittenton, Inc.	2005-4489-3C	8/11/2005
9. Department of Mental Health - Metro Boston Area Office: Payroll Activities (7 Entities) -Department of Mental Health-Metro Boston Area Office -Bay Cove Center -Metro Boston Mental Health Units at the Lemuel Shattuck Hospital -Dr. Solomon Carter Fuller Mental Health Center -Eric Lindemann Mental Health Center -Massachusetts Mental Health Center -Cambridge/Somerville Center	2006-0242-3S	2/8/2006
10. Department of Mental Retardation - Southeast Region Office: Payroll Activities (9 Entities) -DMR Southeast Region Office -Wrentham Development Center -Taunton/Attleboro Area Office -Plymouth Area Office -Brockton Area Office -Cape Cod/Islands Area Office -Fall River Area Office -New Bedford Area Office -Weymouth (South Coastal) Area Office	2005-1405-3S	9/16/2005
11. Department of Social Services - Single Audit of the Commonwealth	2006-1058-16S	3/30/2006
12. Department of Social Services – Virus Protection Program	2004-1058-4T	4/3/2006
13. Dr. John C. Corrigan Mental Health Center	2006-0251-4T	6/19/2006
14. Goodwill Industries of the Springfield/Hartford Area, Inc.	2005-4492-3C	10/31/2005
15. Housing Assistance Corporation	2005-4351-3C	11/4/2005

## HEALTH AND HUMAN SERVICES

<i><b>Audit</b></i>	<i><b>Audit Number</b></i>	<i><b>Issue Date</b></i>
16. Human Service Options, Inc. (4 Entities) -HSO -HSO-NHI Associates -HSO-Education and Training Services -Simple LLC	2004-4331-3C	10/12/2005
17. Integrated Clinical Solutions, Inc./ Department of Mental Retardation (2 Entities)	2005-4494-3C	6/8/2006
18. Massachusetts Commission for the Blind	2005-0051-4T	12/22/2005
19. Massachusetts Hospital School - Virus Protection Program	2004-0301-4T	11/21/2005
20. New England Human Services, Inc. / Riverside School	2004-4484-3C	1/9/2006
21. Office of Child Care Services	2006-0837-7S	3/28/2006
22. Quincy Mental Health Center	2005-0265-4T	3/15/2006
23. Review of Mortgage Interest Rates for Vendor-Owned Residential Properties Billed to the Department of Mental Health	2004-5113-3C	8/22/2005
24. Review of Mortgage Interest Rates for Vendor-Owned Residential Properties Billed to the Department of Mental Retardation	2004-5113-3C1	8/22/2005
25. Seven Hills Foundation, Inc./Department of Mental Retardation (2 Entities)	2005-4387-3C	8/3/2005
26. Sex Offenders Registry Board (3 Entities) -Sex Offenders Registry Board -Executive Office of Public Safety -Criminal History Systems Board	2006-1408-3S	6/5/2006

## HOUSING AUTHORITY AUDITS

	<i><b>Audit</b></i>	<i><b>Audit Number</b></i>	<i><b>Issue Date</b></i>
1.	Abington Housing Authority	2006-0591-3A	11/17/2005
2.	Acton Housing Authority	2006-1011-3A	5/25/2006
3.	Arlington Housing Authority	2006-0599-3A	10/31/2005
4.	Ashland Housing Authority	2005-0601-3A	8/3/2005
5.	Athol Housing Authority	2005-0602-3A	10/12/2005
6.	Auburn Housing Authority	2006-0605-3A	5/3/2006
7.	Avon Housing Authority	2005-0600-3A	11/3/2005
8.	Billerica Housing Authority	2005-0614-3A	7/19/2005
9.	Brookline Housing Authority	2006-0623-3A	11/23/2005
10.	Chelmsford Housing Authority	2006-0630-3A1	10/31/2005
11.	Cohasset Housing Authority	2005-0636-3A	5/8/2006
12.	Danvers Housing Authority	2006-0639-8F	4/7/2006
13.	Dedham Housing Authority	2005-0641-3A	9/8/2005
14.	Dudley Housing Authority	2006-0970-3A	5/8/2006
15.	Dukes County Regional Housing Authority	2006-0594-3A	4/25/2006
16.	East Longmeadow Housing Authority	2005-0647-3A	8/22/2005
17.	Essex Housing Authority	2005-0649-3A	8/22/2005
18.	Fall River Housing Authority	2005-0652-3A	10/28/2005
19.	Falmouth Housing Authority	2005-0654-3A	8/26/2005
20.	Foxboro Housing Authority	2006-0657-3A	11/7/2005
21.	Gardner Housing Authority	2006-0662-3A	5/31/2006
22.	Granby Housing Authority	2006-0667-3A	3/28/2006
23.	Groton Housing Authority	2006-1325-3A	5/31/2006
24.	Hampden Housing Authority	2006-0842-3A	5/31/2006
25.	Hanson Housing Authority	2006-0902-3A	6/7/2006
26.	Harwich Housing Authority	2006-0679-11A	6/22/2006
27.	Holden Housing Authority	2006-0676-3A	10/20/2005
28.	Hudson Housing Authority	2006-0682-3A	12/1/2005
29.	Hull Housing Authority	2005-0683-3A	2/22/2006
30.	Ipswich Housing Authority	2006-0685-3A	5/18/2006
31.	Kingston Housing Authority	2006-0686-3A	10/28/2005

## HOUSING AUTHORITY AUDITS

	<i><b>Audit</b></i>	<i><b>Audit Number</b></i>	<i><b>Issue Date</b></i>
32.	Lowell Housing Authority	2006-0696-3A	11/28/2005
33.	Ludlow Housing Authority	2005-0697-3A	9/12/2005
34.	Maynard Housing Authority	2006-0710-3A	5/10/2006
35.	Mendon Housing Authority	2006-0716-3A	6/2/2006
36.	Middleborough Housing Authority	2006-0720-3A1	11/30/2005
37.	Middleton Housing Authority	2006-0721-3A	11/30/2005
38.	Monson Housing Authority	2005-0726-3A	8/25/2005
39.	Needham Housing Authority	2006-0731-3A1	6/28/2006
40.	Newton Housing Authority	2005-0736-8F	10/12/2005
41.	Newton Housing Authority – Virus Protection Program	2004-0736-4T	9/21/2005
42.	Northampton Housing Authority	2005-0740-3A	11/28/2005
43.	Northborough Housing Authority	2006-0744-3A	6/26/2006
44.	Norwood Housing Authority	2005-0748-3A	8/26/2005
45.	Orange Housing Authority	2005-0749-3A	8/25/2005
46.	Pepperell Housing Authority	2006-1071-3A	2/9/2006
47.	Provincetown Housing Authority	2005-1049-3A	7/13/2005
48.	Randolph Housing Authority	2005-0763-3A	2/6/2006
49.	Saugus Housing Authority	2006-0772-3A1	10/31/2005
50.	Shrewsbury Housing Authority	2006-0776-3A	11/10/2005
51.	South Hadley Housing Authority	2006-0782-3A	1/11/2006
52.	Southborough Housing Authority	2005-0875-3A	7/13/2005
53.	Southbridge Housing Authority	2006-0780-3A	6/26/2006
54.	Stow Housing Authority	2006-1336-3A	12/14/2005
55.	Taunton Housing Authority	2006-0794-3A	11/30/2005
56.	Tewksbury Housing Authority	2006-0796-3A	12/14/2005
57.	Topsfield Housing Authority	2005-0859-3A	7/6/2005
58.	Tyngsboro Housing Authority	2005-1072-3A	12/8/2005
59.	Uxbridge Housing Authority	2006-0798-3A	8/26/2005
60.	Wakefield Housing Authority	2006-0799-3A	1/31/2006
61.	Wareham Housing Authority	2005-0803-3A	6/28/2006
62.	Warren Housing Authority	2005-0905-3A	12/21/2005

## HOUSING AUTHORITY AUDITS

	<i><b>Audit</b></i>	<i><b>Audit Number</b></i>	<i><b>Issue Date</b></i>
63.	Wayland Housing Authority	2006-0806-3A	5/31/2006
64.	Webster Housing Authority	2006-0807-3A	6/2/2006
65.	Westford Housing Authority	2006-0812-3A	4/26/2006
66.	Weymouth Housing Authority	2005-0815-4T	10/5/2005
67.	Wrentham Housing Authority	2005-0827-3A	7/13/2005

## INDEPENDENT AUTHORITY AUDITS

	<i><b>Audit</b></i>	<i><b>Audit Number</b></i>	<i><b>Issue Date</b></i>
1.	Brockton Redevelopment Authority	2005-0622-8F	10/6/2005
2.	Brockton Redevelopment Authority	2006-0622-8F	6/28/2006
3.	Cape Cod Commission	2006-1327-3A	5/1/2006
4.	Central Artery/Massachusetts Turnpike Authority's Third Harbor Tunnel's Third Party Agreements (2 Entities) -Massachusetts Turnpike Authority -Massachusetts Bay Transportation Authority	2005-0510-3C	5/17/2006
5.	Commonwealth Corporation/Economic Stabilization Trust (2 Entities)	2005-1326-3A	1/20/2006
6.	Community Economic Development Assistance Corporation	2005-1009-3A	11/23/2005
7.	Disabled Persons Protection Commission - Virus Protection Program	2004-0046-4T	7/19/2005
8.	Martha's Vineyard Regional Transit Authority	2006-1277-6A	2/14/2006
9.	MassDevelopment (formerly Massachusetts Development Finance Agency)	2005-0410-3A	5/2/2006
10.	Massachusetts Educational Financing Authority	2005-1301-3A	12/23/2005
11.	Massachusetts Health and Educational Facilities Authority	2006-0041-3A	2/28/2006
12.	Massachusetts Port Authority	2004-0508-3A	4/19/2006
13.	Massachusetts State College Building Authority	2004-0209-3A	8/4/2005
14.	Massachusetts Turnpike Authority - Virus Protection Program	2004-0509-4T	3/3/2006
15.	Massachusetts Turnpike Authority's Emergency Management Program	2004-0510-3C1	12/5/2005
16.	Massachusetts Water Resources Authority	2004-1323-3A	10/5/2005

## JUDICIARY/LAW ENFORCEMENT AUDITS

	<i><b>Audit</b></i>	<i><b>Audit Number</b></i>	<i><b>Issue Date</b></i>
1.	Attleboro District Court	2005-1194-3S	12/21/2005
2.	Ayer District Court	2005-1149-3O	10/12/2005
3.	Berkshire County Probate & Family Court	2006-1227-3O	11/30/2005
4.	Berkshire Superior Court	2006-1115-3O	6/19/2006
5.	Bristol County District Attorney's Office	2006-1264-3S	1/31/2006
6.	Bristol Probate & Family Court	2006-1231-3O	2/23/2006
7.	Department of Correction - Overtime Payments (18 Correctional Institutions)	2006-0145-3S	6/26/2006
8.	Division of Administrative Law Appeals	2006-0345-3S	3/29/2006
9.	Dudley District Court	2005-1186-3O	9/30/2005
10.	Dukes County Probate & Family Court	2006-1232-3O	12/1/2005
11.	Dukes Superior Court	2006-1120-3O	12/1/2005
12.	Eastern Hampshire District Court (formerly Ware District Court)	2004-1172-3S	10/24/2005
13.	Edgartown District Court	2006-1195-3O	11/30/2005
14.	Essex Sheriff's Department	2004-1433-3S	4/19/2006
15.	Fitchburg District Court	2006-1179-3O	4/26/2006
16.	Framingham District Court	2005-1140-3S	7/8/2005
17.	Franklin County Probate & Family Court	2005-1228-3O	11/4/2005
18.	Franklin Sheriff's Department	2004-1430-3S	12/23/2005
19.	Franklin Superior Court	2006-1116-3O	5/18/2006
20.	Gardner District Court	2006-1183-3O	5/9/2006
21.	Hampden County Probate & Family Court	2006-1225-3O	5/10/2006
22.	Hampden Sheriff's Department	2004-1434-3S	10/20/2005
23.	Hampshire County Probate & Family Court	2005-1226-3O	12/8/2005
24.	Hampshire County Superior Court	2006-1114-3O	5/30/2006
25.	Hampshire Sheriff's Department	2004-1436-3S	9/9/2005
26.	Leominster District Court	2006-1181-3O	2/14/2006
27.	Marlboro District Court	2006-1144-3O	12/15/2005
28.	Massachusetts Commission on Judicial Conduct	2006-1129-7T	6/2/2006
29.	Middlesex County Probate Family Court	2005-1222-3O	3/16/2006
30.	Milford District Court	2006-1180-3O	5/18/2006



## JUDICIARY/LAW ENFORCEMENT AUDITS

	<i><b>Audit</b></i>	<i><b>Audit Number</b></i>	<i><b>Issue Date</b></i>
31.	Natick District Court	2006-1145-3O	12/21/2005
32.	Newton District Court	2006-1143-3O	5/1/2006
33.	Norfolk County Probate & Family Court	2005-1224-3O	11/7/2005
34.	Northampton District Court	2005-1171-3S	8/25/2005
35.	Plymouth County District Attorney's Office	2006-1265-4T	5/3/2006
36.	Plymouth District Court	2006-1197-3O	6/19/2006
37.	Plymouth Probate & Family Court	2005-1234-3O	2/22/2006
38.	Springfield District Court	2004-1166-3S	9/13/2005
39.	Stoughton District Court	2005-1163-3O	11/17/2005
40.	Technical Assistance Provided to the Worcester County District Attorney's Office (-Nashoba Regional School District)	2003-6027-9O	9/21/2005
41.	Technical Assistance Provided to the Worcester County District Attorney's Office (-Town of Sturbridge Little League & Basketball Accounts)	2005-6037-9O	3/29/2006
42.	Westborough District Court	2006-1184-3O	2/28/2006
43.	Winchendon District Court	2006-1182-3O	6/8/2006
44.	Worcester County Probate & Family Court	2005-1229-3O	10/27/2005
45.	Worcester District Court	2005-1178-3S	10/25/2005
46.	Worcester Superior Court	2006-1117-3O	6/19/2006

## OTHER AUDITS

<i><b>Audit</b></i>	<i><b>Audit Number</b></i>	<i><b>Issue Date</b></i>
1. Agency Compliance with the State Comptroller's Policies and Massachusetts General Laws and Regulations: Selected Transaction Testing and Internal Control Review: FY 2005 (22 Entities)	2006-5007-16S	4/19/2006
2. Agency Compliance with the State Comptroller's Year End Closing Instructions for Cash and Revenue Management: FY 2005 (51 Entities)	2005-5002-16S	4/13/2006
3. Agency Compliance with the State Comptroller's Year End Closing Instructions for Encumbrance and Advance Fund Management: FY 2005 (103 Entities)	2005-5001-16S	3/24/2006
4. Appellate Tax Board	2005-0143-3S	3/28/2006
5. Chapter 555 – Determination of Whether Net Tax Revenues Exceeded Allowable State Tax Revenues: FY 2005 (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	2006-5555-16S	9/20/2005
6. Department of Business and Technology	2006-0007-7T	5/25/2006
7. Department of Conservation & Recreation-Compliance with the Office of the State Comptroller's Year-End Closing Instructions	2005-0276-16S	4/19/2006
8. Department of Conservation & Recreation's Skating Rinks and Concessions (40 Entities) -Department of Conservation and Recreation -21 Urban Skating Rinks -18 Rinks Outside Greater Boston	2005-0276-3S2	7/6/2005
9. Department of Conservation and Recreation's Use and Permitting Program of Public Lands (5 Entities) -Department of Conservation and Recreation -Miles Standish State Forest -Lake Ashmere State Reservation -Peddocks Island State Reservation -Otis Reservoir	2005-0276-3S1	7/26/2005
10. Department of Environmental Protection - Review of Out-of-State Travel	2006-0456-3O	4/19/2006
11. Department of Fish and Game-Compliance with the Office of the State Comptroller's Year-End Closing Instructions	2005-0432-16S	4/19/2006

## OTHER AUDITS

<i><b>Audit</b></i>	<i><b>Audit Number</b></i>	<i><b>Issue Date</b></i>
12. Department of Fish and Game - Virus Protection Program	2004-0279-4T	12/22/2005
13. Department of Revenue-Compliance with the Office of the State Comptroller's Year-End Closing Instructions	2005-0142-16S	4/19/2006
14. Department of Revenue -Child Support Enforcement Division	2005-0142-4T	6/29/2006
15. Division of Career Services and the Division of Unemployment Assistance - Virus Protection Program (2 Entities)	2004-0221-4T	8/22/2005
16. Division of Professional Licensure - Virus Protection Program	2004-0105-4T	11/21/2005
17. Division of Standards	2006-0226-3S	2/7/2006
18. Executive Office of Public Safety and Homeland Security-Compliance with the Office of the State Comptroller's Year-End Closing Instructions	2006-0008-16S	3/22/2006
19. George E. Fingold Library - Virus Protection Program	2004-0037-4T	12/22/2005
20. Human Resources Division	2004-0373-4T	2/28/2006
21. Human Resources Division	2006-1413-7T	6/5/2006
22. Joint Legislative Operations - Virus Protection Program	2004-0233-4T	5/11/2006
23. Labor Relations Commission	2006-0230-3S	5/25/2006
24. Massachusetts Aeronautics Commission	2005-0044-3A	12/13/2005
25. Massachusetts Commission Against Discrimination - Virus Protection Program	2004-0045-4T	8/25/2005
26. Massachusetts Emergency Management Agency - Homeland Security Funds-Compliance with the Office of the State Comptroller's Year-End Closing Instructions	2006-0016-3S	6/22/2006
27. Massachusetts Emergency Management Agency - Compliance with the Office of the State Comptroller's Year-End Closing Instructions	2006-0016-16S	3/22/2006
28. Massachusetts Office of Travel & Tourism - Virus Protection Program	2004-0140-4T	11/4/2005
29. Massachusetts State Lottery Commission-Compliance with the Office of the State Comptroller's Year-End Closing Instructions	2005-0089-16S	4/19/2006
30. Massachusetts State Lottery Commission - Virus Protection Program	2004-0089-4T	7/12/2005

## OTHER AUDITS

<i><b>Audit</b></i>	<i><b>Audit Number</b></i>	<i><b>Issue Date</b></i>
31. Massachusetts Teachers' Retirement Board - Virus Protection Program	2004-0163-4T	3/28/2006
32. Massachusetts Water Resources Authority Retirement Board	2004-1322-3A	8/1/2005
33. Office of the State Treasurer and Receiver General (3 Entities) -Office of the State Treasurer and Receiver General -State Board of Retirement -Alcoholic Beverages Control Commission	2005-0085-3S	1/26/2006
34. Registry of Motor Vehicles - Milford Permit Office	2006-0511-12S	6/26/2006
35. Registry of Motor Vehicles-Compliance with the Office of the State Comptroller's Year-End Closing Instructions	2005-0511-16S	4/19/2006
36. Registry of Motor Vehicles	2005-0511-3S	9/9/2005
37. Registry of Motor Vehicles - Virus Protection Program	2004-0511-4T	4/25/2006
38. State Board of Retirement	2004-0088-3A	8/1/2005
39. State Library of Massachusetts (formerly the George E. Fingold Library)	2006-0037-7T	6/28/2006
40. State Office of Minority and Women Business Assistance	2006-0158-3A	5/24/2006