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INDEPENDENT STATE AUDITOR'S REPORT  
ON THE ACTIVITIES OF THE  
COMMITTEE ON CRIMINAL JUSTICE

OFFICIAL AUDIT  
REPORT  
FEBRUARY 24, 2003

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The Executive Office of Public Safety (EOPS) oversees 21 agencies, boards, and commissions. The Committee on Criminal Justice (CCJ), within the EOPS Program Division, is the state planning agency responsible for applying for and administering Federal and State criminal justice grants. In accordance with Chapter 6A, Section 18 1/2, an undersecretary within the Executive Office of Public Safety is responsible for overseeing the function and administration of CCJ. In accordance with Chapter 11, Section 12 of the Massachusetts General Laws, we conducted a review of CCJ in conjunction with the Single Audit of the Commonwealth of Massachusetts for the fiscal year ended June 30, 2002.

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CCJ did not maintain adequate documentation for salaries charged to federal awards and there is no process to determine that salaries charged to a federal program reflect the employee's actual hours spent on that program. CCJ does not maintain periodic payroll certifications or personnel activity reports nor do they have a cost allocation system to compare actual employee's hours to hours charged to the program. Salaries, related fringe benefits, and indirect costs are charged to each grant based on a budget developed at the beginning of the fiscal year. In response to our audit, CCJ indicated that to ensure that salaries charged to a federal award accurately reflect hours spent on that program for the remainder of fiscal year 2003 and all subsequent

fiscal years, the department will track hours charged to an award for each employee the first full week of each state fiscal quarter. Also, the findings of that week will be used to calculate the salaries charged against each award for that quarter. This process will allow for modifications to annual salary plans.

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CCJ pays federal funds to subrecipients for reimbursement of program and administrative expenses without sufficient documentation supporting the expenditures. As a result, 34 transactions tested totaling \$958,147 in grant payments to subrecipients for fiscal year 2002 were inadequately supported. In response to the audit, CCJ indicated that it will include a certification statement with the quarterly fiscal reports indicating that expenses are used in compliance with applicable program requirements. In addition, subrecipients will be required to periodically submit additional supporting documentation, e.g., invoices, to justify expenditures charged to a grant program during a given quarter.

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CCJ, in order to enforce the contract requirement of receiving quarterly programmatic and financial reports for federal monitoring purposes, delayed payments to subrecipients and changed the dates on Payment Vouchers (PV) when inputting the information into the Massachusetts Management Accounting and Reporting System (MMARS). In response to the audit, CCJ indicated that to ensure that dates on PVs accurately reflect the corresponding payments to vendors/subrecipients, a new payment voucher policy will be implemented.

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Our review noted that \$584,226 in Federal funds was drawn down against a closed 1998 Juvenile Accountability Incentive Block Grant during May and July 2001. Funds were to be drawn down from 1999 grant funds, but could not be processed and released because certain grant conditions had not been accomplished by the Committee. The Federal Funds were inadvertently drawn against a closed 1998 grant which had a remaining balance that the federal government did not deobligate. In response to the audit, CCJ indicated that in order for the department to avoid this problem again, fiscal staff will notify the appropriate person at the State Treasurer's Office, both verbally and in writing, when a grant is closed.

## INTRODUCTION

### *Background*

The Executive Office of Public Safety (EOPS) oversees 21 agencies, boards, and commissions. The Committee on Criminal Justice (CCJ), within the EOPS Program Division, is the state planning agency responsible for applying for and administering Federal and State criminal justice grants. In accordance with Chapter 6A, Section 18 1/2, an undersecretary within the Executive Office of Public Safety is responsible for overseeing the function and administration of CCJ.

A key federal grant program administered by this office is the Edward Byrne Memorial State and Local Law Enforcement Assistance Program (the Byrne Program). The Byrne Program, created by the Anti-Drug Abuse Act of 1988 (Public Law 100-690), places emphasis on drug-related crime, violent crime, and serious offenders, as well as multi-jurisdictional and multi-State efforts to support national drug control priorities. The Bureau of Justice Assistance makes Byrne Program Formula Funds available and are awarded to states, which then make sub-awards to state and local units of governments.

The Byrne Formula Grant Program is a partnership among federal, state, and local governments to create safer communities and improved criminal justice systems, with emphasis on violent crime and serious offenders, and to enforce state and local laws that establish offenses similar to those in the federal Controlled Substances Act. Grants may be used to provide personnel, equipment, training, technical assistance, and information systems for more widespread apprehension, prosecution, adjudication, detention, and rehabilitation of offenders who violate such state and local laws.

The Juvenile Accountability Incentive Block Grant (JAIBG) program is administered by the Office of Juvenile Justice and Delinquency Prevention (OJJDP). Through the JAIBG program, funds are provided as block grants to States that have implemented, or are considering implementation of legislation and/or programs promoting greater accountability in the juvenile justice system.

In fiscal year 2002, CCJ administered approximately \$50 million, of which \$27 million was in federal funds.

***Audit Scope, Objectives, and Methodology***

In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, we conducted a review of CCJ for the period July 1, 2001 to June 30, 2002. We conducted our review in conjunction with the Single Audit of the Commonwealth of Massachusetts for the fiscal year ended June 30, 2002.

Our review was conducted in accordance with applicable generally accepted government auditing standards and standards set forth in the Office of Management and Budget (OMB) Circular No. A-133, Revised June 24, 1997, Audits of States, Local Governments, and Non-Profit Organizations. Additionally, our review evaluated CCJ's compliance with Office of the State Comptroller (OSC) policies, Massachusetts General Laws, and applicable laws, rules and regulations.

In performing our review of CCJ's activities, we referred to OMB Circular A-133 Appendix B: March 2002 Compliance Supplement (Supplement) to determine the compliance requirements that must be considered in an audit conducted under OMB Circular A-133. Based upon the review, we determined requirements applicable to the Byrne Formula Grant Program and Juvenile Accountability Incentive Block Grant Program and designed appropriate tests to determine CCJ's compliance with these requirements.

Specifically, our objectives were to:

- Assess the internal controls in place at CCJ during the review period;
- Assess and evaluate the program for compliance with the requirements of the Supplement, the Federal Department of Health and Human Services, and the OSC.

The criteria for our review were drawn from OMB Circular A-133, the Supplement, the Code of Federal Regulations, and the OSC's Internal Control Guide. Those criteria dealt with CCJ's responsibility for compliance with laws and regulations governing:

Activities Allowed or Unallowed  
Allowable Costs/Cost Principles  
Cash Management  
Davis-Bacon Act  
Eligibility  
Equipment and Real Property Management  
Matching, Level of Effort, Earmarking  
Period of Availability of Federal Funds  
Procurement and Suspension and Debarment  
Program Income  
Reporting  
Real Property Acquisition and Relocation Assistance  
Subrecipient Monitoring  
Special Test and Provisions

We examined, on a test basis, evidence about CCJ's compliance with those requirements and performed such other procedures as we considered necessary in the circumstances.

Except as reported in the Audit Results Section of this report for the areas tested, we have concluded that CCJ had adequate internal controls in place, complied with the requirements of the Federal Department of Health and Human Services, OMB Circular A-133 Compliance Supplement, and all applicable laws, rules and regulations.

## AUDIT RESULTS

### 1. MONITORING OF SUBRECIPIENTS NEEDS IMPROVEMENT

The Committee on Criminal Justice (CCJ) needs to improve its financial monitoring procedures of subrecipients to ensure federal funds are spent in accordance with contract requirements, as well as federal and state regulations, and to ensure that they have adequate systems of accounting and internal controls.

CCJ disburses federal funds to subrecipients for the Byrne and Juvenile Accountability Incentive Block Grants. According to OMB Circular A-133, Subpart D, Section 400 (d)(3), the responsibilities of pass-through entities include:

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

The Circular, Subpart D, Section 400(d)(), also states:

*“A pass-through entity shall . . . for the Federal awards it makes . . . (5) Issue a management decision on audit findings within six months after receipt of the subrecipient’s audit report and ensure that the subrecipient takes appropriate and timely corrective action.”*

OMB Circular A-133, March 2002 Compliance Supplement, Part 3, Section M. Subrecipient Monitoring, further states that:

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

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

*“The Commonwealth has a responsibility to conduct monitoring and evaluation of the commodities and services it purchases. These activities can assist in identifying and reducing fiscal and programmatic risk as early as possible thus protecting both public*



*funds and clients being served. Contract managers are responsible for monitoring contractor performance and other issues that arise during the life of the contract. In developing monitoring and evaluation procedures, the Commonwealth, through its departments should strive for methods that rely on, among other things, national or industry standards and which are coordinated, cost efficient and appropriate to the level of risk to the Commonwealth in the purchase of the commodities or services."*

The CCJ issues grants to cities and towns for certain law enforcement activities. If a grantee meets the criteria for having an OMB Circular A-133 audit conducted, the CCJ requires that the audit be submitted so that CCJ can monitor the subrecipient's financial activities. However, CCJ does not have a system in place to determine which grantees are required to submit an OMB Circular A-133 audit.

The Subrecipients are required by their contracts to obtain and submit annual financial statement audits to comply with OMB Circular A-133, if applicable. Although CCJ relies on audit reports for monitoring activities, it did not receive reports from all the subrecipients that were required to submit them. CCJ personnel also indicated that there is no process to review financial records maintained at subrecipients that are not subject to A-133 audits. The officials explained that over five years ago, they had a financial evaluation unit which reviewed subrecipients' accounting system and internal controls, but they no longer have staff that perform this function.

CCJ officials stated that they conduct financial monitoring activities through quarterly financial reports submitted by subrecipients; a quarterly programmatic report; on site programmatic reviews; and phone contacts. However, there is no process to review financial records to ensure that subrecipients have an adequate system of accounting and internal controls.

By not monitoring subrecipient financial activity, including receiving all required audit reports, CCJ cannot ensure that federal awards are used for authorized purposes in compliance with contracts, laws, and regulations, or that fiscal records are being maintained and that subrecipients have adequate systems of accounting and internal controls.

***Recommendation***

CCJ needs to establish and implement a process to (1) perform financial reviews of subrecipient records to ensure that they have adequate systems of accounting and internal controls, (2) perform on site reviews of subrecipient records to ensure federal awards are used for authorized purposes in compliance with laws, regulations and provisions of contracts or grant agreements and that performance goals are achieved; and (3) enforce policies that require applicable subrecipients to obtain and submit annual financial statement audits to comply with OMB circular A-133.

Furthermore, CCJ should review each subrecipient financial statement audit report and evaluate audit findings and the subrecipient corrective action plan. The Committee should issue a management decision on audit findings within six months of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action.

***Auditee's Response***

[CCJ] staff currently conduct on-site visits to both Byrne- and JAIBG-funded programs, complete a written report of the visit that is signed by both the [CCJ] grant monitor and his/her supervisor, and follow up with subrecipients, as necessary, regarding findings during site visits. In preparation for the site visit, the grant monitor reviews the program's original application, including budget and budget narrative, and quarterly programmatic and fiscal reports submitted to date. Any outstanding issues with the contract, application, budget, and/or quarterly reports are raised at the site visit. The site visit consists of verification of programmatic activities in accordance with subrecipients' approved program application; a thorough review of recordkeeping systems including the number, type and demographics of program participants, number and type of specific activities performed, and written policies or materials produced as a result of the program; a tour of program facilities; observation of program operation, if applicable; and attendance at special events and/or trainings offered by subrecipients. With regard to financial monitoring, [CCJ] staff review program staff's time and attendance records; verify equipment purchases by sight and through receipts and invoices, and ensure that equipment is tagged and inventory records are kept; review job

postings and resumes if new staff is hired under program funding; and verify records of federal and matching expenditures. During on-site visits, [CCJ] staff inquire about any programmatic or fiscal problems the subrecipient may be experiencing, and offer technical assistance, as needed. Other fiscal issues may arise during program operation, as a result of quarterly report submissions, program/budget adjustment requests made by subrecipients, and/or on-site visits. [CCJ] staff immediately addressed these issues, and documentation is placed in the individual subrecipient folders. For the record, from July 1, 2001 through June 30, 2002, [CCJ] staff made on-site visits to thirty-three (33) Byrne-funded programs, sixteen (16) of which received a second, follow-up site visit. Twenty-nine (29) JAIBG programs received on-site visits. Due to inclement weather, a desk review was performed on one JAIBG program in western Massachusetts; copies of time sheets and receipts were submitted to [CCJ] via mail.

Although site visits cannot be made to all Byrne and JAIBG subrecipients, [CCJ] is instituting a policy to conduct a random sample of on-site visits each year to at least ten percent (10%) of subrecipients. For each program, site visits will be made to at least one of the following: grantees receiving less than \$50,000; grantees receiving more than \$50,000 and less than \$250,000; and grantees receiving more than \$250,000. Also, on-site visits will be made to targeted programs that have exhibited problems or meet certain conditions, such as chronic late/non-reporting of fiscal or programmatic quarterly reports, late/slow start-up, first-year programs, and/or agencies/subgrantees implementing multiple [CCJ] funded programs. Information on site visit reports will be expanded upon to include a description of the documents reviewed by monitoring staff and review of subrecipients' audit report findings. Copies of receipts, time sheets, and other pertinent documents will be copied and attached to the signed site visit reports. Subrecipients are advised of their responsibilities for maintaining adequate systems of accounting and internal controls via the [CCJ] subgrant conditions.

To comply with Subpart D sec. 400 (d) of OMB A-133, the responsibilities of a pass-through entity, the department will include language in the special conditions of grant awards notifying subrecipients of their responsibility to comply with Subpart B sec. 200(a) of OMB

A-133, the audit requirements for Non-Federal entities that expend \$300,000 or more a year in Federal awards.

***Auditor's Reply***

We agree that CCJ conducts site visits that focus on the verification of programmatic activities, however, there is no review of the financial activities or records, including the accounting of receipts and expenditures, cash management, and the maintenance of financial records for the subrecipient. Effective monitoring should include a review of the financial records to ensure that adequate supporting documentation exists to ensure that subrecipient funds are being spent in accordance with program requirements. It should also include a review of internal controls to determine adequate systems are in place to safeguard funds against loss, or misuse.

**2. IMPROVEMENTS NEEDED OVER FIXED ASSETS INTERNAL CONTROL**

CCJ has not established adequate controls over fixed assets. Specifically, contrary to state regulations, CCJ does not maintain a fixed assets listing which includes historical costs and did not perform an annual inventory. In addition, some fixed assets lacked an individual property control identification tag number.

In accordance with the Massachusetts Management Accounting and Reporting System (MMARS) Fixed Asset Subsystem User Guide, the Committee is required to properly manage and safeguard Commonwealth assets including establishing and maintaining a fixed assets listing (property and equipment) by location including historical costs, conducting a physical inventory of all property and equipment verified and accounted for annually, and reconciling to department records. By not maintaining proper controls over fixed assets and records, there is no assurance that property and equipment is adequately safeguarded against loss, theft or misuse.

The American Institute of Certified Public Accountants (AICPA) Codification of Statements on Auditing Standards (SAS) defines an adequate internal control structure and what is required to properly safeguard the assets of an organization. Specifically, SAS No. 78 states:

*management is responsible for adopting sound accounting policies and for establishing and maintaining internal controls that will, among other things, record, process, summarize and report financial data that is consistent with management assertions embodied in the financial statements. One of the specific objectives management may wish to consider including in its internal control is that access to assets is permitted only in accordance with management's authorization. The recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action taken with respect to any differences.*

CCJ was not maintaining detailed records of its fixed assets that clearly lists the historical costs and did not affix identifying tags to all of its furniture and equipment items. In addition, the last annual physical count of furniture and equipment for comparison to fixed asset records was conducted about May 2001, however no record of actual dates are noted on the records.

Ten items were selected for our review from the property listing. We located the items. Two items lacked a property identification tag. This was brought to the CCJ officials' attention and subsequently corrected. We could not determine whether there were any other inventory items that were not accounted for on the property listing.

CCJ's Internal Control Plan Section D.4 states:

*"(D) A property officer is designated to provide proper accountability and to facilitate coordination of inventories.*

*(E) All equipment is tagged with a number when received and entered into inventory records by Fiscal Specialist.*

*(G) An annual inventory report is prepared in accordance with GAAP."*

**Recommendation**

CCJ should establish controls to ensure that its fixed assets are properly safeguarded, valued and reported and that they are in compliance with State and AICPA requirements. These controls should include the maintenance of a cumulative fixed assets listing including historical cost and location. In addition, all equipment should be properly inventoried and tagged with an individual property identification number and an annual physical inventory should be conducted.

***Auditee's Response***

[CCJ] will establish and maintain a fixed assets listing by location and, whenever permissible, by historical cost. Maintaining and updating the listing will be in compliance with Section D.4, as referenced by the audit results, of [CCJ]'s Internal Control Plan.

**3. SALARIES ALLOCATED TO FEDERALLY-FUNDED PROGRAMS ARE NOT SUPPORTED BY PROPER DOCUMENTATION**

CCJ did not maintain adequate documentation for salaries charged to federal awards and there is no process in place to determine that salaries charged to a federal program reflect the employee's actual hours spent on that program. The chart below shows the number of employees and the related salary, fringe benefit and indirect costs charged to the Byrne Formula Grant (BFG) and the Juvenile Accountability Incentive Block Grant (JAIBG). A review was conducted of 11 employee payroll transactions, including a review for compliance with OMB Circular A-87 requirement for periodic payroll certifications for individuals charged to one federal program or personnel activity reports for individuals charged to multiple programs. CCJ does not maintain periodic payroll certifications or personnel activity reports, nor do they have cost allocation system to compare actual employees' hours to hours charged to the program. Salaries, related fringe benefits and indirect costs are charged to each grant based on a budget developed at the beginning of the fiscal year. As a result, CCJ was not in compliance with OMB Circular A-87 requirements.

OMB Circular A-87 states, in part:

*"Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.*

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

*coincide with one or more pay periods and d) They must be signed by the employee."*

Also, we observed during our audit that two employees (not included in our sample) were not properly charged to the Federal Byrne grant. One person was allocated 100% to the Byrne grant but did not work solely on that grant. This person was CCJ's Director of Program Marketing. The program was also charged an excess of \$1,436 over the Fiscal Year 02 budgeted allocation to the Byrne grant.

Because of the lack of documentation for salaries and a process to determine the actual salaries to be charged to the two grants, costs are questioned for the period July 1, 2001 to June 30, 2002 as follows:

<u>Grant</u>	<u>Number of FTE's Charged</u>	<u>Salaries</u>	<u>Fringe Benefits</u>	<u>Indirect Cost</u>	<u>Total Questioned Cost</u>
BFG	7.60	\$283,524.53	\$62,375.40	\$51,475.80	\$397,375.73
JAIBG	3.47	169,039.05	37,188.59	27,485.75	233,713.39
		<u>\$452,563.58</u>	<u>\$99,563.99</u>	<u>\$78,961.55</u>	<u>\$631,089.12</u>

Management was aware of these federal requirements. However, the party responsible for monitoring compliance with this requirement left the agency in June 2001 and no one was assigned the responsibility to continue to monitor the process.

### ***Recommendation***

CCJ should establish policies and procedures that require proper support for salaries and wages charged to federal programs, including periodic certifications and personnel activity reports, to comply with OMB Circular A-87, and assign the responsibility of monitoring the process to a staff member to ensure continuity of the process.

### ***Auditee's Response***

In prior years [CCJ] tracked employee hours on a quarterly basis to verify that salaries were being charged to corresponding appropriations. A new secretary of public safety was appointed September 17, 2001 and, as a result, the [CCJ] CFO took over the responsibilities of CFO for EOPS proper. [CCJ] was without a CFO from September 2001 to October 2002. In addition, during the changing of secretaries, the executive director of the [CCJ] also

became the assistant secretary of programs and administration. The audit results made reference to the “website manager” (official title: Director of Program Marketing) being allocated 100% to the Byrne grant. This portion of the finding is incorrect. On October 4, 2002, the Byrne administrative account was reduced 20% of said employee’s salary and the cost was shifted to the state administrative account. The federal fiscal year 1999 Byrne funds do not expire until December 31, 2002. The transaction was valid and reflects accurate salary allotment.

To ensure that salaries charged to a federal award accurately reflect hours spent on that program for the remainder of fiscal year 2003 and all subsequent fiscal years, the department will track hours charged to an award for each employee the first full week of each state fiscal quarter. The findings of that week will be used to calculate the salaries charged against each award for that quarter. This process will allow for modifications to annual salary plans.

***Auditor’s Reply***

We respectfully disagree that a portion of this finding is incorrect. This finding was brought to the attention of department officials during the course of the audit field work. At the close of the audit, June 30, 2002, although requested, we received no documentation to support the above mentioned adjustment. While the grant does not close until December 31, 2002 and the referenced adjustment was made on October 4, 2002, it is still essential that a mechanism to track individual time charged to grants be implemented during the course of the year in order to ensure accurate records and charges to grants.

**4. INADEQUATE SUPPORTING DOCUMENTATION FOR EXPENDITURES**

CCJ pays federal funds to subrecipients for reimbursement of program and administrative expenses without sufficient documentation supporting the expenditures. As a result, 34 transactions tested totaling \$958,147 in grant payments to subrecipients for fiscal year 2002 were inadequately supported. The total federal funds awarded by CCJ through contracts with subrecipients under the Byrne Formula Grant Program and the Juvenile Accountability Incentive Block Grant Program (JAIBG) was over \$5.1 million for July 1, 2001 to June 30, 2002.



The Commonwealth of Massachusetts Procurement Policies and Procedures Handbook, Chapter 5, Contracts Execution and Management: Payments, states, in part:

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

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

Subrecipients submit payment vouchers for reimbursement of expenses classified on a quarterly financial report. However, without supporting details such as payroll, supplies and equipment on the monthly invoices, CCJ cannot be assured that federal funds were disbursed for authorized purposes. Our review found that 34 payment transactions totaling \$958,147 to subrecipients during fiscal year 2002 were inadequately supported, as outlined below:

Grant	Number of Expenditures	Total Questioned Costs
BFG	19	\$523,302.56
JAIBG	<u>15</u>	<u>434,844.28</u>
	<u>34</u>	<u>\$958,146.84</u>

### ***Recommendation***

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

### ***Auditee's Response***

Please refer to response to Finding 1 above regarding verification of program expenditures via on-site visits. Currently, quarterly fiscal and programmatic reports must be submitted as justification of program expenditures. These reports are reviewed by [CCJ] staff to ensure that they reflect the program activities and budget categories in the subrecipient's approved

original application and program amendments to date. Currently, JAIBG quarterly financial reports contain the following: *“I certify that this report, schedules, statements and the expenses for which payment is requested are true, correct, and complete and were made in accordance with the appropriate Federal and State regulations and that the articles or services listed were (or will be) necessary for, and are to be used solely for the purpose specified in the award for this project.”* This is followed by space for an authorized official to sign the document. The original, signed document is submitted to [CCJ]. This certification will be added to the Byrne quarterly fiscal reports, as well. In addition, subrecipients will be required to periodically submit additional supporting documentation, e.g., invoices, to justify expenditures charged to a grant program during a given quarter. [CCJ] staff will continue to verify that expenditures are being made in accordance with the original, approved budget categories. [CCJ] subgrant conditions will be modified to include specific language about subrecipients’ responsibilities concerning records retention.

#### **5. PAYMENT VOUCHERS DATE CHANGED**

[CCJ], in order to enforce the contract requirement of receiving quarterly programmatic and financial quarterly reports for federal monitoring purposes, delayed payments to subrecipients and changed the dates on Payment Vouchers (PV) when inputting the information into the Massachusetts Management Accounting and Reporting System (MMARS).

The Office of the Comptroller (OSC) MMARS Memo #289, Commonwealth’s Bill Paying Policy, states that it is the goal of the Commonwealth’s Bill Paying Policy to pay its bills in 30 days via Electronic Funds Transfer (EFT). The policy states that, in the absence of a specific contractual or regulatory payment date, the payment date will be approximately 29 days after the (a) date services are rendered, goods received or (b) receipt of invoice, whichever is later. The policy also requires that all invoices be date stamped as soon as they arrive on Commonwealth property.

Furthermore, the MMARS Memo #289 policy states:

*The department has fifteen (15) days from the receipt of an invoice to notify the vendor with written reason(s) why an invoice has been rejected and identifying requirements to cure the deficiency. If the invoice is incorrect or cannot for good reason be accepted, it should not be held by the department and negotiated, it should be returned to the vendor immediately. The payment day count will begin again from the beginning when a corrected invoice is received by the department.*

Of the 50 transactions selected for testing two payment vouchers had the date crossed out and changed to a later date. The dates were changed by five and 83 days later than the original payment voucher date.

CCJ personnel stated that the information received from the subrecipients is frequently late and they change the dates on the payment vouchers to coincide with the late received information. This information is necessary for reports that CCJ submits to the Department of Justice (DOJ).

***Recommendation***

CCJ should not change PV dates and it should review the PVs noted and determine if there is any support for the changes. Additionally, it should document the reason for withholding payments and promptly notify subrecipients in writing of the documentation that is missing and a request a new PV that accurately reflects the date of the completed transaction.

***Auditee's Response***

To ensure that dates on PVs accurately reflect the corresponding payments to vendors/subrecipients, a new payment voucher policy will be implemented. [CCJ] will notify a vendor/subrecipient, via a phone call, within two days of receipt that a PV is incomplete and cannot be processed. If the information required to complete the PV is not submitted to [CCJ] staff within ten days of the preliminary phone call, staff will send back the original with an attached check list that specifies what needs to be completed for the transaction to be processed.

## 6. CONTRACT AND PAYMENT VOUCHERS NOT IN COMPLIANCE WITH COMMONWEALTH POLICIES

CCJ contracted with a municipal police department for the establishment of a Drug Task Force. The Task Force work began seven months before there was a fully executed contract. As a result, the dates of services on the payment vouchers prepared by CCJ personnel were falsified to generate a payment to the police department because the work was started prior to the execution of the contract. MMARS will not accept a payment transaction with service dates prior to the effective date of the contract.

According to the contract, the Task Force was to provide services from November 1, 2000 to September 30, 2001. The authorized representative from the task force signed the contract on March 19, 2001, and the Executive Director of CCJ signed the contract on June 20, 2001.

The Commonwealth's standard contract form requires the contract to be signed prior to the start date of the contract and prior to services being rendered as follows:

*"Notwithstanding verbal or other representations by the parties, or an earlier start date indicated in a Contract, the effective start date of performance under a contract shall be the date a Contract has been executed by an authorized signatory of the Contractor, the Department, a later date specified in the contract or the date of any approvals required by law or regulation, whichever is later."*

The Office of the State Comptroller requires Payment Vouchers (PV) to list the beginning and ending dates of the services rendered. The chart below indicates that the actual dates of service were not reflected on the PV and that the work was started prior to execution of the contract.

Service Dates Per Expenditure Report	Payment Voucher Dates of Service	CCJ Approved Payment Voucher Date	Amount
10/01/00 – 12/31/00	06/20/01 – 06-20/01	06/29/01	\$ 5,091.60
01/01/01 – 03/31/01	06/21/01 – 06/21/01	06/29/01	6,219.88
04/01/01 – 06/30/01	04/01/01 – 06/30/01	08/21/01	<u>8,076.27</u>
Total			<u>\$19,387.75</u>

***Recommendation***

CCJ should ensure that the standard state contract is signed prior to the start date of the contract and prior to the services being rendered. Accurate information reflecting the actual dates of service should be input to the Commonwealth's MMARS accounting system.

***Auditee's Response***

The Byrne Task Force Program is unique because the four-year limitation on funding has been eliminated by federal authorities, in acknowledgement of the fact that ongoing enforcement entities of this nature are an integral component of each state's anti-drug and anti-crime strategy, hence the presumption that task force projects will be supported on an ongoing basis, year to year. Although [CCJ] attempts to adhere to the federal fiscal year as the required timeline for these projects, certain delays such as those caused by delay in notification of federal award and delays caused by lack of timely and complete response by applicants are inevitable.

The Byrne Program is a reimbursement program by nature, with payments available on a quarterly basis, triggered by submission by the sub-grantee of all required reporting and PV forms. Based upon a program start date of October 1, regardless of actual contract date, the presumption is that the task force has remained active during this interim, has engaged in activities and incurred expenses, and has used matching funds until the first reimbursement possible is made at the conclusion of the first quarter (December 31, with reports due January 15).

With regard to conflicts between the "service" or performance periods and the actual contract dates, and of reimbursement prior to contract, [CCJ] has continued this practice with task forces based on the clarification provided recently by the Office of the State Comptroller on these same issues for the state-funded Community Policing (CP) Grant Program. The Office of the State Comptroller provided language to insert in the CP scope of services that indicated as follows:

*Grantees may use grant funds as reimbursement ... even if (services were) performed prior to the actual execution date of the contract or notice of annual award...*

In the foreseeable future, representatives from the [CCJ] will meet with the Office of the State Comptroller to address the above issues in light of the special conditions of the Byrne Task Force Program. In the meantime, the timeline for the Byrne Task Force application process will be modified to ensure that contracts are completed in time for an October 1 start up.

## **7. IMPROPERLY CLASSIFIED TRANSACTION**

CCJ improperly classified a transaction on the Massachusetts Management Accounting and Reporting System (MMARS) to pay a vendor in Norway, at the request of the vendor who did not want to be paid from the Commonwealth's accounting system. CCJ purchased 365 copies of a handbook for a program funded with Byrne Formula Grant Program funds to be used for a model program on dealing with Bullying and Antisocial Behavior. The 365 handbooks were purchased at a cost of \$21 each or a total of \$7,665. However, the original purchase price for the 365 handbooks was \$10,950 (\$30 each). The cost reduction was due to price negotiation. The reduced price was for one original copy of the handbook and the rights to make 365 copies of the handbook.

CCJ disbursed funds for two payment vouchers dated October 22 and 24, 2001 totaling \$10,950 to the its Executive Director. The two payment vouchers were classified in MMARS as conference travel expense reimbursements, training and registration and out of state travel – airfare, hotel/lodging, other. CCJ's Executive Director disbursed a personal check for \$7,665 to the vendor in Norway who owns the copyright to this handbook. The Executive Director then disbursed a personal check for \$3,285, to return excess funds received, to the Commonwealth of Massachusetts dated January 25, 2002 -- approximately three months after the first payment vouchers. The return of these excess funds was entered to MMARS as a Cash Deposit (CD) on January 29, 2002. This refund was made to credit to the government for funds that had been drawn down from the Byrne Grant.

The Commonwealth of Massachusetts Expenditure Classification Handbook states in part:

*The object codes in this Handbook are used for all expenditures of the Commonwealth regardless of whether the payment is to employees, contractors, individuals, recipients, beneficiaries, political sub-divisions, another Department, etc.*

Further, Chapter 647 of the Acts of 1989 also states:

*all transactions and other significant events are to be promptly recorded, clearly documented, and properly classified.*

***Recommendation***

CCJ should consult with the Office of the State Comptroller with regard to payments to vendors who are not on the MMARS system.

Payments made through the MMARS system should be properly classified and be paid to the actual provider of services to the Commonwealth.

***Auditee's Response***

The finding in the audit results does not accurately portray the events leading up to the transaction in question. The department purchased books from a vendor in Norway for the bullying prevention program. The original price of the books was \$30 a piece for 365 books totaling \$10,950. Two payment vouchers were disbursed to the executive director; one dated October 22, 2001 for \$5,950 and the second dated October 24, 2001 for \$5,000. On November 2, 2001, the executive director was informed of a problem with the shipment, and renegotiated the price of the books to \$21 a piece for an electronic copy. The new cost would be \$7,665, for a savings of \$3,285. However, [CCJ] would have to print out the 365 copies once they received the electronic version. A personal check for the new cost was sent by the executive director on November 16, 2001. As of January 7, 2002, the delivery of the electronic copy had still not been made. Once the electronic copy was received and the executive director was ensured that printing costs could be processed through the state finance system, he returned the difference between the original price and the renegotiated price in a check for \$3,285, dated January 25, 2002. The Programs Division used the state's central reproduction/graphic unit to print the hard copies of the book at a total cost of \$1,949.74. The net savings to the Commonwealth was \$1,335.26. This process was well

documented and information pertaining to the purchase process was made available during the audit.

In the future for transactions with vendors not on the MMARS system, the department will consult with the Office of the State Comptroller to ensure proper payment classification.

***Auditor's Reply***

As discussed at the exit conference, the cost of these books to the program is not in question, nor is the documentation to support the purchase. The transactions in question were classified as conference travel expense reimbursements, training and registration, and out of state travel on the MMARS system, rather than the appropriate classification for the purchase. All transactions should be classified accurately on MMARS to reflect the type, time and amount of purchases.

**8. BUYBACK OF LEAVE TIME FOR EARLY RETIREMENT CHARGED TO FEDERAL FUNDS**

CCJ charged the Byrne Formula Grant \$697.60 in July 2002 to buyback a retiring employee's allowable unused leave time. This amount represented one third of a three-year buyback of which the remaining amounts are scheduled for payment in July 2003 and 2004. The leave time buyback was charged to the 1999 Byrne Formula Grant on July 16, 2002 and federal funds were drawn down on July 31, 2002. This was not in compliance with Office of Management and Budget (OMB) Circular A-87, Cost Principles for State, Local and Indian Tribal Governments, section 11(d)3 which states in part as follows:

*...Payments for unused leave when an employee retires or terminates employment are allowable in the year of payment provided they are allocated as a general administrative expense to all activities of the governmental unit or component.*

In order to comply with OMB Circular A- 87, the Office of the State Comptroller (OSC) issued guidance through MMARS Memo No. 316 which indicates that departments should not draw down federal funds and directly charge grants because these costs will be recovered through the allocation in the statewide fringe benefit rate. The OSC Policy Memo #316 states, in part:



- *this document is to inform departments that the direct charge of terminal leave benefits (vacation and sick leave buy out of terminating employees) to federal funds is not an allowable cost...*
- *departments should pay expenditures for terminal leave from federal grants first and then immediately transfer those expenditures to a central account managed by the Comptroller's Office via PCRS.*
- *Departments seeking reimbursement for terminal leave costs through a subsequent billing to their federal grantor should not include these costs in their billings.*
- *The Commonwealth will...insure recovery of these costs is accomplished through allocation in the statewide fringe benefit rate.*

CCJ did not transfer this expenditure to the central account managed by the OSC due to lack of knowledge regarding MMARS Memo No. 316.

***Recommendation***

CCJ should consult with the OSC and take the necessary steps to correct the charge to the Byrne Formula Grant and reimburse the federal government's 1999 Byrne Formula Grant for the buyback amount. Further, it should adjust the two other related entries for July 2003 and July 2004 to disburse the remaining two thirds of leave time buyback for this employee. CCJ should ensure the remaining entries are properly paid and accounted for as required by OMB Circular A-87 and MMARS Policy Memo #316 and stress to its fiscal staff the importance of keeping up to date with Comptroller guidance.

***Auditee's Response***

[CCJ] was notified by the Office of the State Comptroller of its noncompliance with policies in MMARS Memo #316 on October 15, 2002. Fiscal staff corrected the transaction and transferred the funds drawn against the federal grant to the state central reserve account on October 15, 2002, and the transactions were approved on October 18, 2002. During a phone conversation with [an official] in the Office of the State Comptroller on October 15, 2002, fiscal staff was notified that the transfers for buyback leaves for fiscal years 2003 and 2004 cannot be corrected until the close of said fiscal years.

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**9. FEDERAL FUNDS DRAWN DOWN AGAINST CLOSED FEDERAL GRANT**

Our review of documentation provided by the CCJ, the Massachusetts Management Accounting and Reporting System (MMARS) and the U.S. Department of Justice's Letter of Credit Electronic Certification System (LOCES), which is the federal fund draw down system, disclosed that \$584,226.27 in federal funds were drawn down against a closed grant (98JBVX0025) during May and July 2001.

Funds were to be drawn down from 1999 grant funds, but could not be processed and released because certain grant conditions had not been accomplished by CCJ. Inadvertently the funds were drawn against the closed 1998 grant, which had a remaining balance that the federal government did not de-obligate. CCJ closed the 1998 Juvenile Accountability Incentive Block Grant (JAIBA) by issuing the Financial Status Report in February 2001, as required by the federal government. CCJ was not aware that \$579,391.18 was drawn against the closed grant, until the Department of Justice notified them that federal funds were drawn against a closed grant. However, CCJ also processed 2 draw downs totaling \$4,835.09 in July of 2001 against the closed grant. CCJ does not have a system in place to ensure they do not approve charges to closed federal grants. Furthermore, they did not prepare reconciliations of the MMARS system with reports from the LOCES System which they must request from the Office of the State Treasurer. A reconciliation of these reports would have identified the drawdown against the closed grant in a timely manner.

Chapter 647, the Internal Control Act, requires "periodic comparison shall be made between resources and the recorded accountability of the resources to reduce the risk of unauthorized use or loss and protect against waste and wrongful acts."

***Recommendation***

CCJ should develop internal controls and procedures to ensure federal funds are not approved or drawn down against a closed federal grant. Additionally, they should prepare timely monthly reconciliations between the MMARS system and the U.S. Department of Justice's LOCES system to ensure accuracy of charges to grants. The Committee should

take the steps necessary to obtain the LOCES reports from the Office of the State Treasurer.

CCJ should document procedures reflecting improvements to this process to ensure that this situation does not reoccur. Further, they should develop procedures to notify the Office of the State Treasurer of federal grants closed in a timely manner to ensure that federal funds are not drawn against closed grants.

***Auditee's Response***

The finding in the audit results is due to a timing issue between a department closing a grant and the State Treasurer's Office marking said grant as inactive. Fiscal staff for [CCJ] closed grant 98JBVX0025 and sent a check, dated March 2, 2001, back to the federal Office of Justice Programs for the remaining unspent balances of the grant. After this check was sent back, the Treasurer's Office drew down the amount referenced in the audit results. [CCJ] then corresponded with [an official] of the Office of the Comptroller/Office of Justice Programs on how to rectify the problem. All this information is well documented and was reviewed during the course of the audit.

In order for the department to avoid this problem again, fiscal staff will notify the appropriate person at the state Treasurer's Office, both verbally and in writing, when a grant is closed.

***Auditor's Reply***

During the field work phase of the audit, we received certain documentation supporting correspondence between the department and the Federal government. However, we received no documentation indicating that the matter had been resolved. Further, in addition to communicating with the Office of the State Treasurer regarding closed grants, a timely reconciliation should be performed between CCJ records, the MMARS system, and the U.S. Department of Justice's LOCES system in order to avoid the issue in the future.