



# The Commonwealth of Massachusetts

## AUDITOR OF THE COMMONWEALTH

ONE ASHBURTON PLACE, ROOM 1819  
BOSTON, MASSACHUSETTS 02108

A. JOSEPH DeNUCCI  
AUDITOR

TEL. (617) 727-6200

NO. 2008-0837-16S

INDEPENDENT STATE AUDITOR'S REPORT ON  
CERTAIN ACTIVITIES OF THE  
DEPARTMENT OF EARLY EDUCATION  
AND CARE  
JULY 1, 2006 TO JUNE 30, 2007

OFFICIAL AUDIT  
REPORT  
MAY 1, 2008

---

## TABLE OF CONTENTS/EXECUTIVE SUMMARY

---

### INTRODUCTION

1

The Department of Early Education and Care (EEC), established by Chapter 15D of the Massachusetts General Laws, is responsible for the licensing of early education and care programs, and for providing financial assistance for child care services to low-income families, providing information and referral services, providing parenting support for families, and providing professional development opportunities for staff in the early education and care field. These services are administered through five regional offices. During fiscal year 2007, EEC administered approximately \$460 million, of which federal funds totaled approximately \$300 million. In accordance with Chapter 11, Section 12, of the General Laws, we conducted a review of EEC in conjunction with the Single Audit of the Commonwealth of Massachusetts for the fiscal year ended June 30, 2007.

---

### AUDIT RESULTS

4

#### 1. MONITORING OF SUBRECIPIENTS NEEDS IMPROVEMENT

4

Our audit identified a number of issues relating to EEC's subrecipient monitoring process. Specifically, EEC (1) suspended on-site monitoring of providers and Child Care Resource and Referral Agencies, (2) did not follow-up on certain provider findings involving potential ineligible costs, and (3) did not conduct financial reviews or follow up on A-133 audit findings. In addition, we reviewed 18 of the 31 on-site visits performed during the fiscal year and noted that five reviews did not have supporting documentation regarding follow-up on provider findings, and that two provider on-site review files that had identified ineligible costs and other noncompliance issues had not calculated amounts due back to EEC in a timely manner. In its response to our report, EEC indicated it has filled the Director of Audit Resolution position, extended an offer of employment for one of the Contract Monitoring Coordinator (CMC) positions, and was in the process of interviewing candidates for another CMC position. Additionally, EEC stated that the Director of Audit Resolution would be developing a comprehensive system of internal controls to ensure compliance with the mandated monitoring and reporting requirements relative to subgrantees, as the lead agency in grants and contracts for approximately 300 contracted social service providers receiving funds.

#### 2. INADEQUATE INTERNAL CONTROL OVER ACCOUNTS RECEIVABLE

12

EEC, contrary to Office of the State Comptroller requirements, utilizes neither the Commonwealth's Billing and Accounts Receivable Subsystem (BARS) nor an acceptable independent accounts receivable system for its detailed accounts receivable system. Instead, EEC maintains an Excel spreadsheet primarily to record total repayments made by contractors. Based upon data appearing on the spreadsheet, EEC has identified approximately \$32,000 as possible accounts receivable. However, this accounts receivable figure, combined with approximately \$275,500 of ineligible costs identified in EEC's on-site monitoring, results in an accounts receivable balance of approximately \$308,000. Also, our audit disclosed that contractor recoupments were deposited into the Commonwealth's General Fund, with no consideration given to the fact that some

portion of these recouped funds are likely federal funds. In its response to our report, EEC stipulated that it has started to implement the Commonwealth's BARS system to collect all outstanding debt, thereby enabling it to better monitor, track, and ensure all funds owed to the Commonwealth are collected. EEC also stated that it would update its Internal Control Plan to include procedures already implemented for maintaining, monitoring, and reconciling accounts receivables and to ensure that contractor recoupments are distributed in compliance with state and federal regulations. Additionally, EEC stated that Child Care Development Fund (CCDF) regulations state that grantees must re-obligate certain unliquidated or recouped funds within the year the award is made or within the succeeding fiscal year. As such, EEC will use the Commonwealth of Massachusetts Information Warehouse to track recoupments entered into BARS, and any recoupments that are recorded in BARS that are not within the allowable federal timeframe will be returned to the federal government.

---

**3. NONCOMPLIANCE WITH REQUIRED COMPETITIVE CONTRACT PROCUREMENT 16**

---

Our review of EEC identified four instances in which competitive bids for child care services did not take place in a timely manner. According to records maintained by EEC, four Request for Responses (RFR) were originally issued during the period 1998 through 2001. Under state procurement regulations, EEC was required to perform a new procurement for the four federally funded child care programs once the contracts and extensions expired on June 30, 2005. However, as of the date of our fieldwork, EEC had not yet initiated a new procurement. EEC responded that a procurement management team has been formed to reprocur child care services and expects to bring the new RFR criteria to its board for a vote in early 2008 and release the RFR shortly thereafter, with awards expected in the summer of 2008.

---

**APPENDIX 22**

---

**Chapter 647, Acts of 1989, An Act Relative to Improving the Internal Controls within State Agencies 22**

---

## INTRODUCTION

### *Background*

The Department of Early Education and Care (EEC), established by Chapter 15D, Section 2, of the Massachusetts General Laws, serves as the lead state education agency for the administration of public and private early education and care programs and services under federal laws. EEC's mission is to ensure that Massachusetts children and families are helped to reach their full potential by providing and coordinating a range of services and assistance to continuously improve the quality, affordability, and accessibility of early education and care. EEC is responsible for seeking, applying for, and encouraging the use of federal funds for early education and care services, and facilitates the coordination of federal, state, and local policies concerning early education and care. EEC is governed by a nine-member board, which sets policies and establishes regulations related to early education and care programs and services.

The creation of EEC has unified the early education and care funding streams that were formerly administered by its two predecessor agencies, the Office of Child Care Services (OCCS) and the Early Learning Services Division (ELS). As a result, EEC is now responsible for administering Child Care and Development Fund (CCDF) funds, Temporary Assistance for Needy Families (TANF) transfer funds, and state funding and administrative responsibility for Head Start, which were formerly administered by OCCS, as well as state funds for services for families with preschool-aged children and federal special education funds, which were formerly administered by ELS. EEC's responsibility for all of these funding streams allows for greater coordination with and more efficient use of CCDF funding.

EEC is responsible for the licensing of early education and care services, and issues licenses through its five regional offices (Quincy, Salem, Worcester, Taunton, and Springfield) to providers throughout the Commonwealth. In addition, EEC provides financial information and referral services, parenting support to families, and professional development opportunities for employees in the early education and child care field of work.

In fiscal year 2007, EEC administered approximately \$460 million, of which approximately \$300 million represented federal funds.

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

In accordance with Chapter 11, Section 12, of the General Laws, we conducted a review of EEC for the period July 1, 2006 to June 30, 2007. We conducted our review in conjunction with the Single Audit of the Commonwealth of Massachusetts for the fiscal year ended June 30, 2007. The Commonwealth's Fiscal Year 2007 Single Audit Report consists of the following volumes:

- Statutory Basis Financial Report
- Comprehensive Annual Financial Report
- Reports on Compliance and Internal Controls in Accordance with Governmental Auditing Standards and Requirements of the Office of Management and Budget (OMB) Circular A-133 and the Schedule of Expenditures of Federal Awards

The audit results contained in this report are also reported in the Fiscal Year 2007 Single Audit of the Commonwealth of Massachusetts Reports on Compliance and Internal Controls in Accordance with Governmental Auditing Standards and Requirements of the Office of Management and Budget (OMB) Circular A-133, and the Schedule of Expenditures of Federal Awards mentioned above.

Our review was conducted in accordance with applicable generally accepted government auditing standards and standards set forth in OMB Circular A-133, revised June 27, 2003, and the American Institute of Certified Public Accountants' (AICPA) Audit and Accounting Guide, Audits of State and Local Governments. Additionally, our review evaluated EEC's compliance with Office of the State Comptroller (OSC) policies and procedures; Massachusetts General Laws; and other applicable laws, rules, and regulations.

In performing our review of EEC's activities, we referred to OMB Circular A-133, and the March 2007 Compliance Supplement to determine the compliance requirements that must be considered in an audit conducted under OMB Circular A-133. Based upon our review, we determined requirements applicable to the Child Care Mandatory and Matching Funds of Child Care Development Funds and Child Care Development Block Grant (Discretionary) programs, and designed appropriate tests to determine EEC's compliance with these requirements.

Specifically, our objectives were to:

- Assess the internal controls in place at EEC during the review period.
- Assess and evaluate the program for compliance with the requirements of the Compliance Supplement, the Federal Department of Health and Human Services, and the OSC.
- Determine the status of prior audit results, if any.

The criteria for our review were drawn from OMB Circular A-133 and the March 2007 Compliance Supplement, the Code of Federal Regulations, and the OSC's Internal Control Guide. Those criteria dealt with EEC applicable 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, Suspension and Debarment  
Program Income  
Reporting  
Real Property Acquisition and Relocation Assistance  
Subrecipient Monitoring  
Special Tests and Provisions

We examined, on a test basis, evidence about EEC's compliance with the applicable requirements and performed such other procedures as we considered necessary. Based on these tests, we have concluded that, except as reported in the Audit Results section of this report, EEC had adequate internal controls in place and complied with the requirements of the Federal Department of Health and Human Services, the OMB Circular A-133 Compliance Supplement, and all applicable laws, rules, and regulations for the areas tested.

---

## AUDIT RESULTS

### 1. MONITORING OF SUBRECIPIENTS NEEDS IMPROVEMENT

The Department of Early Education and Care (EEC) needs to improve its monitoring of subrecipients to ensure that federal funds are spent in accordance with contract requirements. The Child Care Bureau of the Administration for Children and Families (ACF), a component of the U.S. Department of Health and Human Services (HHS), awards Child Care and Development Funds (CCDF) to states. During state fiscal year 2007, EEC received more than \$195 million in CCDF grant funds. EEC, acting as the pass-through entity, disburses these federal funds to contracted child care providers and Child Care Resource and Referral Agencies (CCR&R) (subrecipients) for early education and child care services. In addition, EEC received approximately \$136 million in a suballocation from the Department of Transitional Assistance, \$122 million to be used by the CCR&Rs to provide daycare services for Temporary Assistance for Needy Families (TANF) eligible families. During our field work EEC had contracts with 237 child care providers and 13 CCR&Rs.

All CCR&Rs and providers assist families in determining their income eligibility for early education and care financial assistance. To maintain uniformity when determining income eligibility, providers and CCR&Rs are required to use statewide eligibility criteria established by EEC. To ensure that CCDF funds are disbursed only for eligible early education and care services, consistent with program requirements, it is essential that the initial eligibility determinations and required periodic redeterminations be conducted according to the established EEC criteria. Although EEC makes no income eligibility determinations for CCDF-funded early education and child care services, as the pass-through entity, it maintains direct accountability for the appropriate use of the funds. It is therefore necessary that EEC maintain appropriate oversight of its subrecipients to ensure, among other things, that eligibility determinations are properly conducted.

Generally, to be eligible for subsidized child care, a family, in addition to meeting service need requirements, must meet the following criteria:

*At the time the family first enrolls in a subsidized child care slot, the family's gross monthly income must be at or below 50% of the State Median Income (SMI). The family will remain eligible for subsidized child care as long as the family's gross monthly income*

*is at or below 85% of the SMI. Income eligibility is based on the income of family members and the size of the family.*

*Service need is also considered when determining eligibility and priority for CCDF child care services. Examples of service need include, but are not limited to, parents participating in full-time or part-time job training or educational programs, working parents, and special needs children.*

Families are eligible for supportive child care services when they have active protective needs documented in a supported report of abuse or neglect within the previous 12 months, or when there is a determination of need to begin or combine supportive child care at a Department of Social Services (DSS) Progress Supervisory Review.

Office of Management and Budget (OMB) Circular A-133, Subpart D, requires pass-through entities such as EEC to perform the following for the federal awards they administer:

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

Additionally, 31 USC Chapter 75 - Requirements For Single Audits, states, in part:

*(2) Each pass-through entity shall -*

*(A) provide such subrecipient the program names (and any identifying numbers) from which such assistance is derived, and the Federal requirements which govern the use of such awards and the requirements of this chapter;*

*(B) monitor the subrecipient's use of Federal awards through site visits, limited scope audits, or other means;*

*(C) review the audit of a subrecipient as necessary to determine whether prompt and appropriate corrective action has been taken with respect to audit findings, as defined by the Director, pertaining to Federal awards provided to the subrecipient by the pass-through entity; and*

*(D) require each of its subrecipients of Federal awards to permit, as a condition of receiving Federal awards, the independent auditor of the pass-through entity to have such access to the subrecipient's records and financial statements as may be necessary for the pass-through entity to comply with this chapter.*

Our audit identified a number of issues relating to EEC's subrecipient monitoring process. Specifically, EEC (a) suspended on-site monitoring of providers and CCR&Rs during state fiscal year 2007, (b) did not follow-up on certain provider findings involving potential ineligible costs, and (c) did not conduct financial reviews or follow up on A-133 audit findings, as discussed below.



**a. Suspension of EEC On-Site Monitoring Program**

On-site monitoring of contracted child care providers and CCR&Rs is conducted by contract monitoring coordinators (CMC) within EEC's Purchased Service Department (PSD). We found that during January 2007 EEC's Associate Commissioner for Purchased Services suspended all such scheduled on-site monitoring activity. Further, no on-site visits were conducted at any of the 13 CCR&Rs, which received approximately \$11 million in Child Care Development Funds and \$122 million in TANF funds during state fiscal year 2007.

When questioned on the suspension of on-site monitoring, EEC staff informed us that expanded desk reviews for CCR&Rs would be done in place of the annual on-site reviews. However, when further questioned as to how eligibility would be assessed, EEC staff stated that eligibility for CCR&Rs was going to be reviewed during desk reviews. EEC staff indicated that the expanded desk reviews would be initiated sometime during state fiscal year 2008.

The decision to postpone on-site monitoring activity was based on the need to (1) award \$4.6 million of new pilot implementation grants (to provide preschool programs and services to children from two years, nine months until they are kindergarten eligible) within a very tight timeline and (2) regroup to restructure the monitoring process to include the \$100 million grant funding that was merged into the agency. EEC management determined that the CMCs were needed to participate in this award process, and they did so from January 2007 through May 31, 2007. In May 2007, the monitoring function of the PSD lost one of the three CMCs, and in June 2007, the Assistant Director of Audit Resolution, who supervised the monitoring staff, left EEC. Due to the reduction of staff, the Associate Commissioner for Purchased Services decided to extend the suspension of site visits and concentrate on desk reviews for CCR&Rs and contract providers until the positions were filled. During our audit fieldwork, and after the extension of the on-site visit suspension, a second CMC resigned in September 2007, leaving EEC with one CMC.

The postponement of on-site monitoring of EEC subrecipients is of consequence because EEC on-site (contracted care provider) visits have been very effective at identifying questionable costs. Based on the EEC contract monitoring schedule, there were 31 on-site visits conducted at contract providers during the first seven months of fiscal year 2007.

Our examination of the site visit files for 18 of the 31 providers reviewed by EEC's CMCs disclosed that the CMCs reviewed a total of 387 income eligible client files for compliance with federal program eligibility requirements. Of the 387 files reviewed, 168 files (43%) were initially found to be deficient (insufficient documentation to support client eligibility). Additionally, 87 supportive care (Department of Social Services clients who are eligible for early education and care slots) files were reviewed, and 62 of these files (71%) were initially found to be deficient. The deficient files were related to one or more of the following eligibility issues: intake/reassessment documentation, client documentation, and fees and income verification/calculation. CMCs also noted other various programmatic noncompliance issues: (e.g., distribution of the Tiered Rate Increase, specifically the Professional Development/Salary Initiative and the Fiscal Year 2004 and 2005 Retroactive Rate Increase Initiatives -- expenditures for salaries, benefits, and stipends for professional development of early education and care workers, or programmatic quality improvements).

The EEC contract monitoring procedures allow providers the opportunity to address initial findings identified during on-site visits. Following an on-site visit, the CMC prepares a site visit report and mails it to the provider. The site visit report includes a summary of findings, recommendations, and a listing of the specific findings and recommendations for each client file reviewed. The provider is required to respond to all findings, in the form of a corrective action plan (CAP), within 30 days of receipt of the site visit report. In many instances, the provider rectifies identified questionable costs by obtaining the necessary documentation to verify client eligibility. After receipt of the provider's CAP, the CMC may accept, partially accept, or reject the provider's response. Ultimately, when required eligibility documentation cannot be obtained, or when it is determined that fee miscalculations or other program non-compliances occurred, the provider (subrecipient) is required to reimburse EEC for the resultant ineligible costs.

For example, one site visit report cited a provider for having deficiencies in 28 of 28 client files reviewed. The report cited all 28 files for lack of documentation essential for determining client eligibility. Additionally, the report cited the provider for not demonstrating the proper use of rate increase funding intended to support the provider's recruitment and staff-retention efforts. A review of the provider's corrective action plan (CAP) for the 28 deficient files follows:

Result of Provider's CAP in Response to Site Visit Report	Number of Files
• Client file questionable costs were adequately addressed by submitting the required eligibility documentation.	19
• Client services were terminated (no repayment requested).	4
• Client files remained deficient. EEC requested repayment for ineligible costs totaling \$50,683.80.	<u>5</u>
	<u>28</u>

Following a review of the provider's CAP, the CMC mailed a response letter to the provider requesting repayment of \$98,355.45 (\$50,683.80 for ineligible costs and \$47,671.65 for unsupported use of Fiscal Year 2006 Rate Increase Initiative funds). In response to EEC's request for repayment, the provider submitted additional documentation to rectify the questionable costs identified in two more of the deficient income eligible client files.

Result of Provider's Response to Repayment Request	Number of Files
• Client file questionable costs were adequately addressed by submitting the required eligibility documentation.	21
• Client services were terminated (no repayment requested).	4
• Client files remained deficient. EEC requested repayment for ineligible costs totaling \$25,015.20.	<u>3</u>
	<u>28</u>

The EEC contract monitoring process ultimately afforded this provider sufficient time to produce the required documentation to support the eligibility of clients contained in 21 of the 28 files initially identified as deficient. EEC correspondingly reduced the repayment total and on September 11, 2007 mailed a revised recoupment letter to the provider requesting repayment of \$72,686.85 (\$25,015.20 for ineligible costs and \$47,671.65 for unsupported use of Fiscal Year 2006 Rate Increase Initiative funds).

We questioned EEC personnel on whether payments had been made to the four provider files deemed ineligible, client services terminated. The CMC who conducted the on-site visit indicated that EEC decided not to pursue recoupment of funds for the ineligible services provided to these four clients because the clients had received services for a short period of time and the clients' services had all been terminated. However, due to an error interpreting client "service period" information available in EEC's Electronic Child Care Information Management System (ECCIMS), two of the four clients had not actually been terminated, and the provider

continued to bill for these clients' services throughout fiscal year 2007. Our examination of the provider's fiscal year 2007 payment history identified a total of \$19,796.40 in questionable costs associated with these four clients.

As further evidence of the need for on-site monitoring, one provider's operations were found to be so deficient that its contract with EEC for early education and child care was allowed to expire, and EEC requested a repayment totaling \$218,786 from this provider. Moreover, for the first seven months of fiscal year 2007, EEC identified and requested repayment for approximately \$334,000 in ineligible costs from contracted providers.

Without providing adequate subrecipient monitoring, EEC cannot assure itself or the federal granting authorities that providers are being paid only for eligible costs, and that expenditures of grant funds are being made in accordance with grant requirements.

#### **b. Lack of Follow-Up on Findings Identified at Certain Providers**

For the 18 providers we reviewed as of September 14, 2007, we found:

On-Site Visit Result as of September 14, 2007	Number of Providers
• Combined total of \$334,070.75 owed to EEC from providers due to ineligible costs and other program noncompliance issues..	4
• No record of follow-up on provider findings that involved potential ineligible costs.	5
• Providers identified with ineligible costs and/or other non compliance issues – reimbursement amount not yet calculated.	2
• Providers had no findings requiring a corrective action plan or repayment.	<u>7</u>
	<u>18</u>

We reviewed the five instances in which there was no record of EEC follow-up for provider findings and found that the responsible CMC also did not follow up on a timely basis, that corrective action plans and other correspondence submitted by the providers may have been misplaced after the responsible CMC resigned from EEC in May 2007, and that records may have been misplaced during the subsequent relocation of the CMC's regional office.

Our review found that site visit reports were completed for all five of the providers who had received site visits between August 8, 2006 and January 26, 2007. The contract monitoring schedule maintained by all CMCs indicates that four of the five reports were mailed to the

respective providers; however, EEC has no record of provider corrective action plans, any EEC response to these plans, or requests for recovery of funds from these providers. Moreover, the CMC contract monitoring schedule did not indicate whether the fifth report was ever mailed to the provider. As a result of not following up on these five provider reviews, EEC has no way of knowing whether the provider initiated corrective action on noted deficiencies or noncompliance issues, and whether ineligible costs exist and reimbursement is due.

**c. EEC Has Not Conducted Financial Reviews or Follow-up Reviews on the Office of Management and Budget (OMB) Circular A-133 Audit Findings**

EEC's written contract monitoring process states that financial reviews should be conducted at least annually for each EEC provider and CCR&R. EEC CMCs are responsible for conducting these reviews. Financial reviews are intended to ensure that providers can maintain their programs on a sound financial footing, that families will not unexpectedly lose their child care slots, and that resources are being maximized to serve children. The result of a financial review should be incorporated into an EEC desk review and risk assessment.

In addition to assessing an entity's financial strength, another objective of the financial review is to verify that the entity has submitted an OMB Circular A-133 Single Audit Report to the Operational Services Division (OSD), as required. The A-133 audit is an audit of an entity's financial statements, internal controls, and compliance with applicable federal laws, regulations, and the provisions of contracts or grant agreements. If an entity spends more than \$500,000 in federal funds in a fiscal year, it is required to have an A-133 audit conducted by an independent auditor for that fiscal year. If required, A-133 audit reports are to be submitted, and available for EEC review, on the OSD website.

OMB Circular A-133, Part 3, Section M – Subrecipient Monitoring Compliance Requirements, states:

*A pass-through entity is responsible for -*

*Subrecipient Audits – (1) Ensuring that subrecipients expending \$500,000 or more in Federal awards during the subrecipient's fiscal year for fiscal years ending after December 31, 2003 (or \$300,000 prior to that date) as provided in OMB Circular A-133 have met the audit requirements of OMB Circular A-133... and that the required audits are completed within 9 months of the end of the subrecipient's audit period; (2) issuing a management decision on audit findings within 6 months after receipt of the subrecipient's audit report; and (3) ensuring that the subrecipient takes timely and*

*appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.*

Our review disclosed that EEC's Assistant Director of Audit Resolution, who left EEC in January 2007, was the only EEC employee who conducted financial reviews. Our review further disclosed that, for the 18 contract providers in our sample, not one of the provider files contained evidence of a financial review for fiscal year 2007. In fact, our review disclosed that only one provider file contained a financial review that was conducted in fiscal year 2006.

Additionally, we researched the OSD website to determine whether a particular provider from our sample of 18 had filed the required A-133 audit. Although our review indicated that no 2006 A-133 audit had been filed, we did note that this provider's 2005 A-133 audit, filed with OSD, indicated material instances of noncompliance regarding child care eligibility. There was no documentation in EEC files that indicated EEC was aware of the noted instances of noncompliance with child care eligibility requirements, or that the provider took timely and appropriate corrective action concerning the cited instances. As of the end of our fieldwork, this provider had still not filed the required fiscal year 2006 audit report, and EEC had not taken any steps to ensure that the report is filed. In addition, EEC had not conducted a follow-up review to determine whether corrective measures were taken for the instances of noncompliance reported in the provider's fiscal year 2005 A-133 audit report.

Without conducting financial reviews, EEC has no assurance that providers are able to maintain their programs on a sound financial footing, thereby assuring continuity of care. Additionally, EEC is not in compliance with subrecipient monitoring requirements as required in OMB Circular A-133, Part 3, Section M. Furthermore, it cannot assure itself or the federal granting authorities that providers are expending grant funds in accordance with grant requirements, or that providers are taking appropriate corrective measures to remedy any and all audit findings.

### ***Recommendation***

EEC should:

- Conduct on-site visits at providers and CCR&Rs, as necessary, to ensure that federal and state funds are used only for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements.

- Discuss with its governing board additional allocation of resources to the monitoring function.
- Request provider repayments of \$19,796.40 for ineligible costs incurred in fiscal year 2007 for clients that were terminated (or thought to be terminated) without a request for provider reimbursement, and reassess these clients' records to determine whether additional recoupments are warranted.
- Develop a plan to proactively transition active cases from one CMC to another for events such as a leave of absence, job transfer, or termination of employment.
- Perform a follow-up review of all site visits conducted in state fiscal year 2007 to ensure that all findings have been properly addressed and any ineligible cost are recouped.
- Ensure that annual provider financial reviews are performed and that providers' A-133 audit reports are submitted, as required. To comply with OMB Circular A-133 requirements, EEC must review provider and CCR&R A-133 audit reports and follow up to ensure timely and appropriate corrective measures are taken to address all cited areas of noncompliance.

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

In its response, EEC stated:

*As of October 15, 2007, the Department has filled the Director of Audit Resolution position, extended an offer of employment for one of the CMC positions, and is in the process of interviewing candidates for another CMC. The Director of Audit Resolution will be developing a comprehensive system of internal controls to ensure compliance with the mandated monitoring and reporting requirements relative to sub-grantees as the lead agency in grants and/or contracts for approximately 300 contracted social service providers receiving these funds. These controls will ensure that federal and state funds are used only for their authorized purposes and in compliance with relevant laws and regulations.... EEC intends to build upon the strengths of its current on-site monitoring procedures in developing future policies and controls.*

*Included in these controls will be policies and procedures to specifically address ... concerns regarding the timeframes for on-site monitoring and follow-up, eligibility, financial review, recoupment, and case management.*

## **2. INADEQUATE INTERNAL CONTROL OVER ACCOUNTS RECEIVABLE**

EEC, contrary of the Office of the State Comptroller (OSC) requirements, utilizes neither the Commonwealth's Billing and Accounts Receivable Subsystem (BARS) for its detailed accounts receivable system or an acceptable independent accounts receivable system. Instead, EEC maintains an Excel spreadsheet primarily to record total repayments made by contractors.

Each agency is responsible for accounting for, recording, reporting, and depositing funds for all services. Departmental revenues that are not collected at the point of service are generated through the initiation of billings by departments. As part of the accounting cycle, once bills are generated, departments must maintain accurate records for all payments made to the Commonwealth, as well as all unpaid bills. These unpaid bills represent an accounts receivable balance on the Commonwealth's BARS or the agency's accounting system. Accounts receivable balances must be managed, monitored, and "aged," a process by which all unpaid bills are categorized by the number of days each billing has been outstanding or unpaid. All long-outstanding accounts receivable that are past-due should be aggressively pursued by departments so that the accounts do not become uncollectible and have to be written off, since the older a receivable gets, the less likely it will be collected.

According to regulations promulgated by the OSC, state departments are required to follow certain procedures relative to the collection of outstanding debt. In this regard, the OSC's 815 Code of Massachusetts Regulations (CMR) 9.05, Department Internal Debt Collection Obligations, discusses diligent efforts for collecting, dunning notices, and collection agencies, as follows:

*Departments are responsible for making diligent efforts to collect legislatively authorized accounts receivable and debts due the State. Departments shall maintain detailed records for all accounts receivable, debts and other legislatively authorized charges for goods and services.*

Moreover, according to 815 CMR 9.05 (2):

*(d) Dunning Notices. If the initial bill is not paid in full by the debtor by the payment due date, and the debt has not been disputed by the debtor, a Department must demonstrate diligent efforts to collect the debt. Diligent efforts shall include at a minimum, but shall not be limited to, three written billing and dunning notices in addition to the initial billing, and a final notice as follows...*

*(f) Final Notice. The final 90 days past due notice outlined in 815 CMR 9.05(2)(d)4 shall contain language notifying the debtor that the debt has been referred for either intercept or to a Collection Agency for collection, or both.*

The standard dunning notice developed by OSC for outstanding debts for more than 90 days is as follows:

*Please be advised that your account has been deemed delinquent for failure to pay and has been referred for assessment of late charges, intercept of state payments, including*



*state tax refunds under MGL [Chapter] 62D, and referral to a collection agency under MGL [Chapter] 7A and 815 CMR 9.00 Multiple Notices of your right to dispute this debt or submit a written request for a MGL [Chapter] 30A hearing have been provided. Please call the contact person for further information.*

BARS, a statewide centralized automated billing and collection subsystem fully integrated into the Massachusetts Management Accounting and Reporting System (MMARS), provides decentralized access to Commonwealth departments, while also providing for uniform non-tax revenue processing. Departments may use BARS to administer the Commonwealth's non-tax revenue billing process. BARS provides departments a mechanism to bill, collect revenue, provide customer statements, send delinquent notices to customers, and initiate the collection and intercept systems established by the Commonwealth. Moreover, the BARS system will automatically track and age all outstanding accounts receivable balances, and historical billing information can be tracked for all department billings, which is known as "detail reporting."

Although departments may have an independent accounts receivable system, they are required to use BARS to provide monthly accounts receivable information to the OSC. For departments that maintain their own system, the OSC must review each system to determine whether they meet the standards for reporting accounts receivable data. Each month these departments enter the summary transactions that represent the total of the month's billing and collections as an adjustment to their accounts receivable balances on the BARS subsystem, which is known as "summary reporting." Summary reporting does not provide an aging of the receivable balance, only an adjusted balance each month. No historical information is contained within BARS; each agency is responsible for maintaining and monitoring its aged receivables.

As previously disclosed, EEC utilizes neither BARS nor an acceptable independent accounts receivable system for its detailed accounts receivable system. Instead, EEC maintains an Excel spreadsheet primarily to record total repayments made by contractors. However, this spreadsheet does not provide comprehensive accounts receivable information. Based upon data appearing on the spreadsheet, EEC identified approximately \$32,000 as possible accounts receivable. Combined with the \$334,000 of ineligible costs identified in its on-site monitoring during the first seven months of fiscal year 2007, minus approximately \$58,500 in offsets attributable to the \$334,000, the EEC accounts receivable balance is at least \$307,500. In addition, according to the Excel spreadsheet, for fiscal year 2007, EEC collected \$110,736 from

contractors (repayments) and offset (reduced) other contractor payments by about \$6,000, for a total recoupment of approximately \$117,000.

EEC's Internal Control Plan (ICP), Section 16, Recoupment of Contractor Funds, provides the department with some guidance in handling contractor recoupments. However, the ICP does not reference OSC requirements, basic requirements of an accounts receivable system (such as aging), or the process for making diligent efforts to collect accounts receivable. Maintenance of a detailed or approved independent accounts receivable system provides a department with assurance that accounts receivable are accounted for, recorded, reported, monitored, and efficiently and effectively collected, and whether it is in compliance with applicable laws, rules, and regulations.

Our review further noted that contractor recoupments are deposited into the Commonwealth's General Fund with no consideration given that some portion of these recouped funds are likely federal funds. Title 2 of the Code of Federal Regulations (2 CFR), Subtitle A, Chapter II, part 225 – Cost Principles for State, Local, and Indian Tribal Governments (OMB Circular A-87), Appendix A – General Principles for Determining Allowable Costs, states in part:

*C. Basic Guidelines. (4.) Applicable credits.*

- a. Applicable credits refer to those receipts or reduction of expenditure-type transactions that offset or reduce expense items allocable to federal awards as direct or indirect costs... To the extent that such credits accruing to or received by the government unit relate to allowable costs, they shall be credited to the Federal award either as a cost reduction or cash refund, as appropriate.*

The reimbursement of all funds owed to the Commonwealth's General Fund presumes all recouped funds were only state funds, and does not consider the reimbursement of federal funds awarded to EEC. EEC's process of reviewing information related to collected revenue does not consider the review and appropriate credit distribution of recouped funds to all funding streams, and EEC does not have a process in place to review and credit a federal grant or the need to return funds to the federal government.

***Recommendation***

EEC should --

- Develop and maintain a detailed accounts receivable tracking and reporting system. Accounts receivable records should include, but not be limited to, such information as amounts owed, payments received, any adjustments made, and balance due.
- Update its ICP to include a detailed procedure for maintaining, monitoring, and reconciling accounts receivable.
- Review and document its process for crediting contractor recoupments to ensure the applicable federal or state funding source is credited.

***Auditee's Response***

In its response to the report, EEC stipulated that it began implementing BARS to collect all outstanding debt, thereby enabling it to better monitor, track, and ensure all funds owed to the Commonwealth are collected. EEC also stated that it would also update its Internal Control Plan to include procedures already implemented for maintaining, monitoring, and reconciling accounts receivable, and to ensure that contractor recoupments are distributed in compliance with state and federal regulations. Additionally, EEC stated that CCDF regulations require grantees to re-obligate certain unliquidated or recouped funds within the year the award is made, or within the succeeding fiscal year, and that as such, EEC will use the Commonwealth of Massachusetts Information Warehouse to track recoupments entered into BARS. EEC also indicated that any recoupments recorded in BARS that are not within the allowable federal timeframe will be returned to the federal government.

**3. NONCOMPLIANCE WITH REQUIRED COMPETITIVE CONTRACT PROCUREMENT**

Our review identified four instances in which competitive bids for child care services did not take place in a timely manner. According to records maintained by EEC, four Request for Responses (RFR) were issued during the period 1998 through 2001. These RFRs, issued by EEC's predecessor agency, the Office of Child Care Services (OCCS), were as follows:

<u>Request for Responses File Number</u>	<u>Total Anticipated Contract Duration</u>	<u>Type of Service</u>	<u>Estimated Annual Contract Value</u>
1998OCCS13	09/01/98 to 06/30/03	Income Eligible Child Care	\$200,000,000
1998OCCS14	10/01/98 to 06/30/03	Child Care Resource and Referral Services	\$24,000,000

---

2000OCCS04	01/01/00 to 06/30/04	Supportive Child Care	\$47,204,544
2001OCCS23	06/01/01 to 06/30/04	Non-Traditional Hours Child Care	\$624,000

Each of these RFRs, in accordance with the initial terms of the contract, were extended through June 30, 2003 or June 30, 2004.

However, in December 2002, the OCCS requested the Operational Service Division's (OSD) support for delaying the issuance of new RFRs for Income Eligible Child Care and Child Care Resource and Referral Services that would otherwise have been needed as of July 1, 2003. The primary reason for delaying this procurement was to allow sufficient time to plan for the issuance of a more comprehensive and all-inclusive child care service delivery system that would include Supportive Child Care as well as the two above-referenced services. OCCS indicated that a Procurement Management Team (PMT) had been meeting to analyze and identify the best procurement approach for child care services and that it had identified several goals for improving the existing service delivery model, including the development of a procurement strategy that increased flexibility between contract and voucher child care and across different types (income eligible and supportive) and age groups (infant, toddler, and school-age).

When the PMT began meeting to develop this solicitation, the benefits of consolidating all child care services within one large procurement were evaluated and identified as a priority outcome. Given that underutilization of child care slots and the moving of resources across and within contracts had been a historical problem, resolving it through consolidation of services made a great deal of sense. The additional time needed to both process the proposed consolidation with the child care community and to develop an automated system to track child care slots seemed warranted and well justified.

In its response to OCCS's request to delay the issuance of a procurement, OSD stated:

*Even though the amount of time being requested exceeds the three month time frame for interim contracts specified in the Procurement Policies and Procedures Handbook, given the complexity of the issues and magnitude of the procurement, it is consistent with best value principles. OSD supports this request, and by copying the Office of the Comptroller in this memo, notifies that office of our approval. Since there are a large number of FY 2004 contracts that will be impacted by this interim contract extension, I would suggest that you contact the Comptroller and discuss the best way to identify the affected contracts to ensure a smooth submission and approval process.*

During the summer of 2003, OCCS requested an additional year's extension for the procurement of child care and related services. OCCS indicated that it would be important to include the Early Education and Care Council's recommendations in the new bid. OCCS also stated the delay made sense in light of the Executive Office of Health and Human Services (EOHHS) Purchase of Service reform work, which was ongoing, and the implementation of the new MMARS. In its request, OCCS stated it had discussed the postponement with officials at EOHHS and that they had concurred. Further, OCCS stated that it planned to release the RFR for contracted child care and resource and referral services during the late summer/early fall of calendar 2004.

In its response to OCCS' second request, OSD stated, in part:

*...had an opportunity to review this request and discuss it with OSD's Quality Assurance team. As you know, OCCS' request for an extension in the procurement of child care and related services represents the second such request and as such, OSD had some initial concerns. However, there are extenuating circumstances this year which support OCCS' decision to again delay the issuance of this procurement. OCCS has indicated to OSD that there would be no additional extension requests and that, in fact, this delay is due primarily to circumstances beyond its control including:*

- 1. a legislatively established and required Early Education and Care Council, with representation from three Commissioners (OCCS, DSS and DOE) that is holding a series of public forums across the state, and is required to submit recommendations to the legislature by February 1, 2004.*
- 2. system of care consolidations currently being reviewed and implemented by EOHHS, which supports this extension request. The review and consolidation process currently underway may significantly change the consolidation of services provided under child care and impact the child care solicitation.*
- 3. staffing changes in OCCS' accounting, budget and contracting units which will result in a consolidation of those functions and possibly re-deployment of current OCCS to other offices. Until the consolidation of administrative functions is complete and the impact assessed, OCCS will be unable to assure that there will be sufficient resources to adequately manage a procurement of this scope.*

*Given this and because OCCS has a history documented through Quality Assurance site visits of demonstrating strong compliance with procurement and contracting requirements, OSD will support this request for an additional year extension. OSD expects that all child care contracts, including income eligible, supportive, non-traditional and Child Care Referral and Resource Agencies will be bid with a contract start date no later than July 1, 2005. ...understand that additional services, such as Teen Parent and Specialized Child Care for Homeless Families may also be included in this procurement, as well as any additional services identified by the Early Education and Care Council and by legislative action.*

The implementation of child care contracts, including income eligible, supportive, non-traditional and Child Care Referral and Resource agencies, became problematic when the OCCS was abolished and EEC was created effective July 1, 2005. With the creation of EEC, all duties, responsibilities, and obligations of the former OCCS became those of EEC. Although EEC assumed responsibility for providing child care services, the contractual procurement of these services did not take place in accordance with the requirements of 801 CMR 21.00: Procurement of Commodities or Services, Including Human and Social Services.

801 CMR 21.06, Competitive Procurement Standards, stipulates:

(2) *Duration. The duration of any Contract procured or executed under 801 CMR 21.00 shall include the initial duration of a Contract, either less than one fiscal year, a single fiscal year or multiple fiscal years, and any options to renew beyond the initial duration of the Contract. The duration established for a Contract shall be the period determined by the Procuring Department to be reasonably necessary to obtain the required Commodities or Services, or both, at the Best Value for the Procuring Department and the State...*

Additionally, 801 CMR 21.05, Competitive Procurement Exceptions, states:

(5) *Interim Contracts. An Interim Contract may be used to prevent a lapse of Contract performance in the following circumstances...*

(b) *Delayed Competitive Procurement. ...An Interim Contract may be used to extend the current Contract(s), under the same terms and conditions, only for the period necessary to complete the competitive Procurement, including the execution of new Contracts.*

Furthermore, 815 CMR 2.00, Grants and Subsidies, addresses EEC's responsibility to have an open and competitive process for federal grants. Specifically, 815 CMR 2.04 (7) states:

*Grants of discretionary funds shall be disbursed through an open and public competitive process, as determined appropriate by the department, and in accordance with the department's ...federal grant.*

Finally, 45 Code of Federal Regulations (CFR) Subtitle A – Department of Health and Human Services, Part 92, Uniform administrative requirements for grants and cooperative agreements to States, local and tribal governments, states:

*Section 92.36 - Procurement.*

(a) *States. When procuring property and services under a grant, a State will follow the same policies and procedures it uses for procurements from its non-Federal funds.*

---

*The State will ensure that every ...contract includes any clauses required by Federal statutes and executive orders and their implementing regulations.*

Whereas OCCS was only granted authorization by OSD to extend the four RFRs through June 30, 2005, EEC, as the new agency assuming child care responsibilities, should have procured a competitive bid process for the four RFRs. Without procuring the new RFRs, EEC cannot be assured that it has obtained quality child care services at the best value for the state. Additionally, EEC has not requested any extension of the four RFRs, and as a result, these RFRs could be deemed as expired and could be terminated.

### ***Recommendation***

With its responsibility to provide quality child care services at “best value,” it is imperative that EEC immediately establish a procurement management team to review, analyze, and identify the best procurement approach for child care services. After identifying the best procurement approach, EEC must competitively bid RFRs in accordance with the requirements of 801 CMR 21.00 for these child care services.

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

Responding to the report, EEC indicated:

*In May 2007, the Department formed a procurement management team to re-procure child care services for approximately 15,000 income eligible children through contracts with center based child care providers and family child care systems for an anticipated total of more than \$100 million statewide. EEC's new procurement is using current data and research to generate best quality and economic value while serving families in locations where the greatest need exists. We will be bringing the Request for Response criteria to our Board for a vote in early 2008, and anticipate releasing the RFR shortly thereafter, with awards expected in the summer of 2008.*

*New payment, quality, and reimbursement policies established through this procurement will provide the key foundation for the re-procurement of all EEC's contracted services over the next two years. These other contracted services include the Child Care Resource and Referral Services (subsidized voucher care management), Supportive Child Care Services, Homeless Child Care Services, Non-Traditional Hours Child Care Services. These new bids will be informed by the audit findings, as well as by the mission and goals of our new Department, the first of its kind in the country to establish a coordinated, comprehensive system of early education and care services. This groundbreaking work requires EEC to find solutions that put children and families first. It requires us to deftly balance the need to hold families and providers accountable for the funding they receive with the flexibility to ensure that all children, regardless of income or circumstance, have the best learning opportunities available to them....*

*EEC recently achieved a critical milestone toward accomplishing our mission, one that will have broad implications across the Department, and will be pivotal for us to be most responsive to our findings. After contracting with CSC, an internationally known consulting firm, at the beginning of this year, we conducted a thorough audit of our information technology needs, and applied to the Commonwealth's Information Technology Division (ITD) for a \$10 million three-year overhaul of our outdated and disconnected payment, monitoring, and information systems. Just last week, we ...learn[ed] that ITD was very impressed by our application and awarded EEC \$1.8 million to begin work immediately. They also committed to the remainder of the funding over the next two fiscal years.*

*This is a tremendously important step for the Department as we develop a new way of thinking about how to coordinate information and services for children and families, and for the agencies, providers and educators who work with them. For the first time, EEC will be able to track and report real-time information regarding spending, contract utilization, and quality. This project will have an enormous positive influence on our ability to award, pay, and monitor our appropriations in a way that not only meets the needs of the state and federal audit requirements, but also the needs of children, families, providers, and policymakers.*



## APPENDIX

Chapter 647, Acts of 1989, An Act Relative to Improving the  
Internal Controls within State Agencies

H 5

Chapter 647

THE COMMONWEALTH OF MASSACHUSETTS

*In the Year One Thousand Nine Hundred and Eighty-nine*

AN ACT RELATIVE TO IMPROVING THE INTERNAL CONTROLS WITHIN STATE AGENCIES.

*Be it enacted by the Senate and House of Representatives in General Court assembled, and by the authority of the same, as follows:*

Notwithstanding any general or special law to the contrary, the following internal control standards shall define the minimum level of quality acceptable for internal control systems in operation throughout the various state agencies and departments and shall constitute the criteria against which such internal control systems will be evaluated. Internal control systems for the various state agencies and departments of the commonwealth shall be developed in accordance with internal control guidelines established by the office of the comptroller.

(A) Internal control systems of the agency are to be clearly documented and readily available for examination. Objectives for each of these standards are to be identified or developed for each agency activity and are to be logical, applicable and complete. Documentation of the agency's internal control systems should include (1) internal control procedures, (2) internal control accountability systems and (3), identification of the operating cycles. Documentation of the agency's internal control systems should appear in management directives, administrative policy, and accounting policies, procedures and manuals.

(B) All transactions and other significant events are to be promptly recorded, clearly documented and properly classified. Documentation of a transaction or event should include the entire process or life cycle of the transaction or event, including (1) the initiation or authorization of the transaction or event, (2) all aspects of the transaction while in process and (3), the final classification in summary records.

(C) Transactions and other significant events are to be authorized and executed only by persons acting within the scope of their authority. Authorizations should be clearly communicated to managers and employees and should

## Chapter 647, Acts of 1989, An Act Relative to Improving the Internal Controls within State Agencies

11 5

Include the specific conditions and terms under which authorizations are to be made.

(D) Key duties and responsibilities including (1) authorizing, approving, and recording transactions, (2) issuing and receiving assets, (3) making payments and (4), reviewing or auditing transactions, should be assigned systematically to a number of individuals to ensure that effective checks and balances exist.

(E) Qualified and continuous supervision is to be provided to ensure that internal control objectives are achieved. The duties of the supervisor in carrying out this responsibility shall include (1) clearly communicating the duties, responsibilities and accountabilities assigned to each staff member, (2) systematically reviewing each member's work to the extent necessary and (3), approving work at critical points to ensure that work flows as intended.

(F) Access to resources and records is to be limited to authorized individuals as determined by the agency head. Restrictions on access to resources will depend upon the vulnerability of the resource and the perceived risk of loss, both of which shall be periodically assessed. The agency head shall be responsible for maintaining accountability for the custody and use of resources and shall assign qualified individuals for that purpose. Periodic comparison shall be made between the resources and the recorded accountability of the resources to reduce the risk of unauthorized use or loss and protect against waste and wrongful acts. The vulnerability and value of the agency resources shall determine the frequency of this comparison.

Within each agency there shall be an official, equivalent in title or rank to an assistant or deputy to the department head, whose responsibility, in addition to his regularly assigned duties, shall be to ensure that the agency has written documentation of its internal accounting and administrative control system on file. Said official shall, annually, or more often as conditions warrant, evaluate the effectiveness of the agency's internal control system and establish and implement changes necessary to ensure the continued integrity of the system. Said official shall in the performance of his duties ensure that: (1) the documentation of all internal control systems is readily available for examination by the comptroller, the secretary of administration and finance and the state auditor, (2) the results of audits and recommendations to improve departmental internal controls are promptly evaluated by the agency management, (3) timely and appropriate corrective actions are effected

**Chapter 647, Acts of 1989, An Act Relative to Improving the Internal Controls within State Agencies**

H 5

by the agency management in response to an audit and (4), all actions determined by the agency management as necessary to correct or otherwise resolve matters will be addressed by the agency in their budgetary request to the general court.

All unaccounted for variances, losses, shortages or thefts of funds or property shall be immediately reported to the state auditor's office, who shall review the matter to determine the amount involved which shall be reported to appropriate management and law enforcement officials. Said auditor shall also determine the internal control weaknesses that contributed to or caused the condition. Said auditor shall then make recommendations to the agency official overseeing the internal control system and other appropriate management officials. The recommendations of said auditor shall address the correction of the conditions found and the necessary internal control policies and procedures that must be modified. The agency oversight official and the appropriate management officials shall immediately implement policies and procedures necessary to prevent a recurrence of the problems identified.

House of Representatives, December 21, 1989.

Passed to be enacted, *George J. Livanos*, Speaker.

In Senate, December 22, 1989.

Passed to be enacted, *William W. Burgin*, President.

January 3, 1990.

Approved,

*Richard H. Kohn* Governor.