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INDEPENDENT STATE AUDITOR'S
REPORT ON CERTAIN DEPARTMENT
OF EDUCATION EXPENDITURES FOR INFORMATION
TECHNOLOGY
FISCAL YEARS 1999 AND 2000

OFFICIAL AUDIT
REPORT
MARCH 21, 2001

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The state's Department of Education (DOE) was established under Chapter 69, Section 1A, of the Massachusetts General Laws and was placed under the supervision and control of the state's Board of Education by Chapter 15, Section 1. DOE is responsible for providing a quality public education system that extends to all children within the Commonwealth and provides them with the opportunity to reach their full potential. The scope of our audit, which is ongoing, is to evaluate certain activities of DOE during fiscal years 1999 and 2000 relative to its administration of certain agency expenses.

Our audit objectives consist of the following:

- To determine whether DOE has established an adequate internal control structure over agency expenditures that provides reasonable assurance that agency transactions are properly authorized, recorded, and reported, and that agency assets are being properly safeguarded against loss, theft, or misuse.
- To perform testing on samples of various DOE expenditures to determine whether they were properly authorized, recorded, and reported; adequately supported by documentation; and reasonable and allowable in accordance with applicable state laws and regulations.
- To make recommendations, if necessary, on how DOE can improve its internal controls over agency expenses.

During our audit work, we identified a number of significant problems with expenditures being incurred by DOE for Information Technology (IT) related expenses, including DOE's incurring as much as \$3.9 million in unnecessary and wasteful expenses, \$4.9 million in undocumented or inadequately documented expenses, hundreds of thousands of dollars in questionable expenses, and noncompliance with state laws and regulations relative to the procurement of goods and services and the use of consultants. We also found that a DOE consultant authorized \$615,505 in expenses for a company with whom he was employed, and another DOE consultant participated in the procurement of \$2,683,932 in expenses that were passed through his own company, for which his company received an estimated \$243,994 in markups. These deficiencies were the result of DOE's failure to establish adequate internal controls within its IT "cluster" (DOE's term for its various operating groups). Our audit of DOE is ongoing, and additional problems and concerns may be disclosed in our upcoming audit report. At the end of our audit fieldwork, DOE indicated that the department made a number of changes to its IT cluster, which are detailed in the Appendix.

AUDIT RESULTS

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1. **Noncompliance with State Law and Finance Requirements Relative to the Use of Consultants Resulted in Numerous Operational Deficiencies and at Least \$3,652,433 in Unnecessary Consultant Costs:** We found that DOE is primarily using three IT consulting companies as fiscal conduits to hire individuals to work at DOE. Specifically, DOE in many cases, advertises, recruits, interviews, and hires individuals and then subsequently sends them

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to three different IT consulting companies, which put them on their payrolls. These IT consulting firms then send these consultants back to DOE to work and charge DOE an hourly fee plus a mark-up or profit margin for each consultant. For example, during our two-year audit period, DOE paid \$399,950 for one consultant through this method and \$373,016 for another. Because DOE uses these three companies as conduits rather than hiring these consultants directly, DOE incurred at least \$3,652,433 in unnecessary consultant salary expenses. We also found that DOE was violating state law by allowing these consultants to supervise state employees, employing them for extended periods of time (many of these consultants had been working at DOE for over two years), using some of them to fill positions that are normally filled by state employees, and providing some of them with fringe benefits such as health insurance and paid holiday leave. Further, DOE did not execute formal written contracts with these consultants that describe the types of services they are to perform, their rate of compensation, and the duration of their employment.

2. Inadequate Controls over IT Expenses Resulted in over \$3 Million in Undocumented or Inadequately Documented Expenses, Hundreds of Thousands of Dollars in Questionable Expenses, and a Consultant Authorizing \$615,505 in Payments to Himself and the Company that Employs Him:

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DOE has not established adequate controls over the authorization and payment of IT non-personnel expenses, which resulted in numerous discrepancies. First, DOE is using two of its IT consulting firms as conduits to pay many of its own expenses. Managers in DOE's IT cluster send bills for various DOE expenses, such as travel for DOE employees to one of these two IT consulting firms, and instructs them to pay these bills. These consulting firms then send a bill to DOE for the amount of these expenses plus a markup (as much as 10%) for processing these payments. We calculated that DOE may have wasted as much as \$289,587 by using these two companies as fiscal conduits to process agency expenses in this manner. We also found two instances totaling \$288,030 in which DOE used an IT consulting company to purchase office furniture and rent office space rather than competitively procuring these items as required by state regulations. Additionally, we identified thousands of dollars in IT expenses that DOE paid that appeared to be either unnecessary or questionable in that they did not seem to directly benefit DOE's operations. Such questionable expenses included a minimum of \$194,042 for training and conferences for consultants who were purportedly hired for their expertise and should already have been adequately trained to provide these services; \$309,575 in communication costs, including cellular telephones and pagers for consultants and telephone lines in consultants' homes; \$48,381 for food for IT consultant meetings; \$677 for flowers for consultants and their family members; \$1,237 for Christmas parties for consultants; \$202 to repair the windshield of a consultant's automobile; and \$227 in annual fees and finance charges on personal credit cards for two consultants. We also found that DOE had inadequate documentation to support the \$3,245,633 in non-salary IT expenses during our audit period, including \$227,698 for which DOE had no documentation, and instances in which a consultant approved \$615,505 in payments made to himself and the company that employs him. Finally, we found that DOE not only circumvented the State Comptroller's year-end closing instructions and state finance laws by prepaying \$143,530 for IT consultant services before these services were rendered, but also misclassified thousands of dollars in IT expenditures in its reports to the State Comptroller.

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INTRODUCTION

Background

The state's Department of Education (DOE) was established under Chapter 69, Section 1A, of the Massachusetts General Laws and was placed under the supervision and control of the state's Board of Education (BOE) by Chapter 15, Section 1. Section 1 of Chapter 69 requires DOE to "provide a public education system of sufficient quality to extend to all children the opportunity to reach their full potential and to lead lives as participants in the political and social life of the commonwealth and as contributors to its economy."

The BOE, under authority granted to it by Chapter 15, Section 1F, of the General Laws, appoints a Commissioner of Education, who serves as the Secretary to the BOE, its Chief Executive Officer, and the chief state school officer for elementary and secondary education. According to Chapter 69, Section 1A, of the General Laws, the Commissioner of Education is responsible, among other things, for the following:

The commissioner...shall establish such bureaus and other offices and employ such staff and consultants as may be necessary for the proper and efficient administration of the department.

The commissioner shall propose a budget to the board; said budget shall reflect the goals and objectives of the board. Upon approval by the board, the commissioner shall submit the department's budgetary proposals simultaneously to the house and senate committees on ways and means, the joint committee on education, arts and humanities, and to the secretary of administration and finance.

In order to obtain financing for the department, the Commissioner of Education proposes a budget to the BOE that reflects the BOE's goals and objectives. After the BOE's approval, the Commissioner of Education submits the department's budgetary proposals to the House and Senate Committees on Ways and Means; the Joint Committee on Education, Art, and Humanities; and the Secretary of Administration and Finance. This budgetary request must be approved by the state Legislature and the Governor and financed through an annual appropriation act.

DOE's state funding is provided through a series of 66 appropriations, which the agency has grouped together by budget categories. For fiscal years 1999 and 2000, DOE's funding by budget category was as follows:

Summary of Funding by Budget Category
Fiscal Years 1999 and 2000

<u>Budget Category</u>	<u>Fiscal Year 1999</u>	<u>Fiscal Year 2000</u>
Non-Discretionary State Aid and Special Education Services	\$3,003,923,605	\$3,296,026,782
Assessment and Accountability	36,328,798	38,113,880
Teacher Quality Enhancement	3,091,330	3,115,235
Transfers to Other Agencies	5,850,002	4,237,890
Categorical Grant Programs	188,416,559	253,171,287
DOE Administration	<u>10,194,715</u>	<u>11,557,584</u>
Totals	<u>\$3,247,805,009</u>	<u>\$3,606,222,658</u>

For our audit, we are reviewing certain expenditures that were budgeted under DOE Administration.

In October 2000, during the conduct of our audit fieldwork, various newspaper articles questioned DOE's use of Information Technology (IT) consultants. Subsequently, as a result of the concerns raised in these articles, the Secretary of the Executive Office for Administration and Finance (EOAF) requested that staff from the Office of the State Comptroller (OSC) and the state's Operational Services Division (OSD) perform a management review of various procurement and other practices within DOE's IT "cluster" (the term DOE uses to describe its various operating groups). This review focused on contracts with DOE's two major IT vendors: Adept Inc., (Adept) and Nitro Communications, Inc., (Nitro). On November 3, 2000, the State Comptroller submitted a copy of its report to EOAF, which contained the following conclusions:

- There are inadequate controls and safeguards to ensure that all payments under these contracts were for services delivered to DOE in accordance with the terms of the contract.
- There is inadequate separation of duties for key managers of the two contracts distinguishing their role as a vendor supplying services to DOE and their role as a manager within DOE accepting service from a vendor.

- While the lack of documentation attached to most invoices makes it difficult to assess the appropriateness of the services received, a number of charges require further investigation and possible adjustment with the vendor.

The Comptroller's report recommended that the State Auditor's Office conduct a review of these two contracts and related payments in accordance with Chapter 647 of the Acts of 1989, that specific procedures be put in place within the IT group and within the Administration and Finance unit to strengthen controls and procedures, that the \$25,000 encumbrance delegation to DOE be rescinded, and that all contracts greater than \$1,000 be filed with the Office of the State Comptroller.

Audit Scope, Objectives, and Methodology

The scope of our audit is to evaluate certain activities relative to DOE's administration of agency expenses during fiscal years 1999 and 2000. Our audit is being conducted in accordance with applicable generally accepted government auditing standards for performance audits issued by the Comptroller General of the United States and includes procedures and tests considered necessary by the Office of the State Auditor (OSA) to meet these standards.

Our audit objectives consist of the following:

- To determine whether DOE has established an adequate internal control structure over agency expenditures that provides reasonable assurance that agency transactions are properly authorized, recorded, and reported and that agency assets are being properly safeguarded against loss, theft, or misuse.
- To perform testing on samples of various DOE expenditures to determine whether these expenses were properly authorized, recorded, and reported; adequately supported by documentation; and reasonable and allowable in accordance with applicable state laws and regulations.
- To make recommendations, if necessary, on how DOE can improve its internal controls over agency expenses.

In order to achieve our audit objectives, we first obtained an understanding of how DOE is funded and the methods and procedures it utilizes to process agency expenditures. We then reviewed DOE's

budget requests and appropriations for fiscal years 1999 and 2000 and interviewed several members of DOE's administrative staff.

Our initial testing focused on expenditures made by DOE for IT- related services and equipment for fiscal years 1999 and 2000. During these two fiscal years, DOE expended a total of \$8,739,656 to eight companies and \$11,121,955 to 13 companies, respectively, in this area. Initially, we reviewed a judgmental sample of expenses that represented approximately 10% of DOE's total IT expenses during these two fiscal years. However, during our initial testing, we found significant problems relative to these IT expenditures, which are detailed in this report. Consequently, our audit sample was expanded to include a significantly larger sample (approximately 90%) of the IT expenditures made by DOE during these two fiscal years. In addition to reviewing all the documentation maintained by DOE relative to these expenditures, we interviewed over a dozen IT consultants working at DOE and DOE staff members working in the IT cluster. Based on our audit work in this area, we found significant problems relative to these IT expenditures, which we believe warrant the immediate attention of DOE officials. Consequently, we are issuing this interim report for DOE's review and consideration.

This interim report discloses only those problems that we identified relative to IT expenditures made by DOE during our audit period. Our conclusions are based solely on the documentation being maintained by DOE relative to these expenditures and by representations made by responsible DOE officials and consultants working at DOE. Our audit is ongoing, and any additional deficiencies identified may be detailed in a subsequent audit report.

During our audit, when certain potential issues and problems came to our attention, these problems and issues were discussed with DOE officials and consultants working for DOE. The information and explanations provided by these individuals relative to these matters was considered and included as appropriate in drafting this interim report.

AUDIT RESULTS

1. Noncompliance with State Law and Finance Requirements Relative to the Use of Consultants Resulted in Numerous Operational Deficiencies and at Least \$3,652,433 in Unnecessary Consultant Costs

We found that the Department of Education (DOE) is primarily using three Information Technology (IT) consulting companies as fiscal conduits to hire individuals to work at DOE. Specifically, in many instances, DOE advertises, recruits, interviews and hires individuals, and subsequently sends them to three different IT consulting companies, which put them on their payrolls. These IT consulting firms then send these consultants back to DOE to work and charge DOE an hourly fee plus a markup or profit margin for each consultant. Because DOE uses these three companies as conduits rather than hiring these consultants directly, it incurred at least \$3,652,433 in unnecessary consultant salary expenses. We also found that DOE was violating state law by allowing these consultants to supervise state employees, employing them for extended periods of time, using some of them to fill positions that are normally filled by state employees, and providing some of them with fringe benefits and paid leave. Further, DOE did not execute formal written contracts with these consultants that describe the types of services they are to perform, their rate of compensation, and the duration of their employment.

During fiscal years 1999 and 2000, DOE paid eight companies a total of \$14,355,277 in salary expenses for the services of 126 IT consultants. The table below summarizes the companies and the amounts DOE paid these companies for consultant salary expenses.

<u>Company Name</u>	<u>Personnel Costs Fiscal Year 1999</u>	<u>Personnel Costs Fiscal Year 2000</u>	<u>Two-Year Total</u>
Adept Inc.	\$4,759,617	\$4,642,323	\$9,401,940
Eliassen Group, Inc.	845,901	1,509,976	2,355,877
Nitro Communications, Inc.	975,613	711,896	1,687,509
New Media Artists, Inc.	214,774	-	214,774
Ambit Technology, Inc.	-	130,878	130,878
Rapidigm, Inc.	-	25,840	25,840
Oracle Corporation	270,059	212,825	482,884
Sullivan and Cogliano, Inc.	-	55,575	55,575
Total Salary Costs	<u>\$7,065,964</u>	<u>\$7,289,313</u>	<u>\$14,355,277</u>

According to DOE officials and various documentation maintained by DOE that we reviewed, these consultants are being used in a variety of IT-related activities. These activities include providing

network, hardware, and software support to all computer users of DOE; providing support and improving the existing controls over DOE's information systems products and the DOE Web site, including application development; and other administrative activities relative to the operation of DOE's IT cluster. During our audit, we examined the documentation DOE was maintaining relative to the IT consultant salary costs that it paid to three companies—Adept, Inc. (Adept), Eliassen Group, Inc., (Eliassen), and Nitro Communications, Inc. (Nitro)—during fiscal years 1999 and 2000 for the services of 113 IT consultants. These three companies provided approximately 90% (113 of 126) of the IT consultants utilized by DOE during the audit period and received approximately 84% (\$16,724,053 of \$19,861,611) of the total IT payments (including salaries and expenses) made by DOE to IT consultant companies during these two fiscal years.

Listed below are the 15 highest-paid consultants by position that provided services to DOE from these three companies during this two-year period.

<u>Consultant's Title</u>	<u>Company</u>	<u>Fiscal Year 1999 Salary*</u>	<u>Fiscal Year 2000 Salary*</u>	<u>Total Salary</u>
Director of Information Technology and Operations	Adept	\$224,820	\$175,130	\$399,950
Senior Network Engineer	Adept	\$195,944	\$177,072	\$373,016
Senior Developer	Adept	\$98,280	\$233,575	\$331,855
Java Developer	Adept	\$244,293	\$13,420	\$257,713
Consultant Developer	Adept	\$137,310	\$240,752	\$378,062
Web Developer	Adept	\$149,780	\$205,695	\$355,475
IMS Director	Adept	\$215,744	\$35,520	\$251,264
Early Learning Computer Analyst	Adept	\$120,268	\$133,228	\$253,496
Pick Developer	Adept	-	\$273,977	\$273,977
Senior Web Developer	Adept	\$219,390	\$83,116	\$302,506
Senior Developer	Adept	\$216,169	\$192,880	\$409,049
Project Manager	Adept	\$227,641	\$19,688	\$247,329
Web Developer	Adept	\$170,200	\$78,500	\$248,700
Programmer Analyst	Eliassen	\$167,443	\$125,268	\$292,711
Special Project Coordinator	Nitro	\$121,468	\$131,532	\$253,000

* These amounts represent IT salary expenses paid to these companies for these consultant services and not necessarily the total compensation actually received by these consultants.

During our review of this information, we found a number of serious problems with these IT consultant salary expenses, as discussed below:

a. DOE Is Using Some of Its IT Consultant Companies as Fiscal Conduits, Which Has Resulted in at Least \$3,652,433 in Unnecessary Consultant Salary Expenses During Fiscal Years 1999 and 2000:

Prior to fiscal year 1998, the Commonwealth had specific regulations that prohibited state agencies such as DOE from procuring what are referred to as fiscal conduit services. Specifically, 808 Code of Massachusetts Regulations (CMR) 2.03(6), promulgated by the state's Operational Services Division, stated:

- (6) Fiscal Conduits Prohibited. No Purchasing Agency shall award an Agreement:
- (a) To acquire any goods for the Purchasing Agency's use;
 - (b) To defray the expenses of services rendered by individuals hired or supervised in the daily performance of their work by personnel in the classified service of the Commonwealth; or
 - (c) Solely to acquire payroll or fiscal management for a Program of Client services operated by the Commonwealth or any third party.

In April 1997, the Executive Office for Administration and Finance (EOAF) promulgated new procurement regulations, 801 CMR 21.00, that superceded 808 CMR 2.00. Although these new regulations do not specifically prohibit the use of fiscal conduits, there was no program code established in the state's accounting system to allow for the purchase of such services, indicating that the Commonwealth has not authorized state agencies to expend funds for such unnecessary and wasteful services.

During our audit, we spoke with DOE's Director of Information Technology and Operations (IT Director) and the Human Resource Coordinator of DOE's IT cluster (Human Resource Coordinator) regarding how the cluster recruits and hires its IT consultants. In response, these officials stated that approximately half of the IT consultants that work for DOE are in fact recruited, interviewed, and hired by DOE and subsequently sent primarily to three IT consulting companies: Adept, Nitro, and Eliassen. These IT consulting firms then send these consultants back to DOE to work at the agency and charge

DOE an hourly fee that is equal to the individual's salary plus a mark-up or profit margin for the IT consulting company.

We submitted a list of 98 consultants that were provided by three companies--Adept, Nitro, and Ambit Technology, Inc.--to the Human Resource Coordinator and asked this individual to identify which of these consultants had been recruited and hired by DOE and not directly by the IT company that was billing for their services. In response, the Human Resource Coordinator indicated that at least 23 (23.5%) of these 98 consultants had, in fact, been recruited and hired by DOE and then sent to other IT consulting companies, which in turn sent them back to DOE to work.

It is important to note that the Human Resource Coordinator himself is a consultant working for Nitro. In his capacity as the Human Resource Coordinator of the IT cluster, this individual is primarily responsible for hiring staff for DOE's IT cluster and sending them to one of three consulting firms, including Nitro, which then sends them back to DOE. In an October 18, 2000 memorandum addressed to the audit team, the Human Resource Coordinator described this process as follows:

Anyone can identify a hiring need, typically it is a project/team manager and historically it has been most often [the Director of Information Systems] – I then bring it up at the next weekly EdTech managers meeting to see if there is agreement – the 2 key people who need to agree are [the IT Director and DOE's Chief Technology Officer] – that the hire fits with what we are doing and [the IT Director] that we can afford it.

Once we agree on the need to fill a position, I assess which avenue we use – in the past that has been most often contacting our vendor list to bring the person in as an 07 – the most technical positions are almost impossible to recruit directly. Obviously it is never the case that we can fill it as a state position....

Sometimes we can try to fill it as a 03, and we are trying to do this more now. This is suitable if we know someone already who would be appropriate for the job (and if they have let us know they could accept a position without any benefits). If we don't already know of someone, I would place an ad on Monster.

I do the initial analysis on the candidates and I separate out the ones that are obviously unsuitable (either they clearly lack the required qualifications or they are too expensive to consider further) – those that seem to me to have potential or are strong, I forward to the hiring team. Who is the hiring team? It is different for every position, typically the person who would be the immediate supervisor and usually one or more other people who would work closely with the person. In some cases, the supervisor's supervisor will participate as well, depending on how critical the position is.

The decision to hire is generally a consensus decision of the hiring team of which I am a member – though the person who has the most influence in the hiring team is typically whoever would be the supervisor of the person as they best know what skills and abilities they are looking for.

I check references on Monster Board candidates and sometimes (but not always) I check references of candidates that come through an agency – the agencies we work with have their own reference-checking systems, it is one of the services they are providing.

If the candidate came to us direct (not through one of our state vendors) we either hire them as an O3 or [the Chief Technology Officer] decides which agency to put them through – he usually selects Nitro on the basis that it charges the lowest overhead though he sometimes selects Adept as Nitro is not always able to bring on additional staff (Nitro is much smaller than the other vendors and needs to be more concerned with cash-flow and at times cannot add new people to its payroll).

On the subject of Nitro, I should also disclose to you that while I am an employee of Nitro, I do not have any financial stake or ownership in the company nor do I receive any compensation for being involved with someone going on-staff at Nitro, as that would be an obvious and glaring conflict of interest.

In addition to this memorandum, we also requested and received from the Human Resource Coordinator a sample of 10 job advertisements for IT positions placed by DOE during our audit period. Our review of these advertisements revealed that, in every instance, the advertisement was either placed directly by DOE or Nitro, which was then reimbursed by DOE at cost plus a mark-up. The advertisement stated that DOE was the agency seeking to fill the position and required applicants to send their resumes to DOE (often to an IT consultant at DOE), who would be reviewing the application. Two of the 10 advertisements actually stated, “This person will be hired as a W-2 employee of a consulting company placed at DOE as a full-time on-site consultant working on this project. Within a year, we hope to create this as a state position.”

During our audit, we also interviewed six of the 23 IT consultants from Nitro and Adept whom DOE stated it had actually hired. All six of these individuals stated that they were never contacted by anyone from the companies with which they are now employed until DOE hired them. In fact, only one of six IT consultants with whom we spoke had ever been to their employers’ (Nitro’s or Adept’s) place of

business. These individuals told us that they were all interviewed at DOE and that DOE made arrangements with Adept and Nitro for them to be hired and sent back to DOE to work.

Based on the documentation we were able to review and our interviews with DOE staff and consultants, DOE has clearly demonstrated that it can effectively recruit and hire IT consultants. Therefore, there is no need to use companies as fiscal intermediaries (conduits) for this purpose. As previously noted, the consulting firms that DOE uses for this purpose mark up the salary costs of these individuals to include a profit for their companies. The mark-up for the 23 consultants that DOE specifically identified that it directly recruited and hired in its October 6, 2000 response to our memorandum alone totaled \$361,635 during the two-year period of our audit. However, had DOE hired all of its consultants directly rather than primarily using these three companies as fiscal intermediaries and allowing them to charge a fee (mark-up) for those services, it could have saved at least \$3,652,433 in consultant salary costs during the two-year period covered by our review, as indicated in the table below:

Summary of Potentially Excessive Consultant Salary Costs
Fiscal Years 1999 and 2000 Combined

<u>Company Name</u>	<u>Total Salary</u>	<u>Mark-up Percentage</u>	<u>Total Mark-Up</u>	<u>Total Paid by DOE</u>
Adept	\$ 6,913,192 *	36%*	\$2,488,749	\$ 9,401,941
Nitro	1,442,315	17%	245,194	1,687,509
Eliassen	1,437,387	63.9%	918,490	2,355,877
	<u>\$9,792,894</u>		<u>\$3,652,433</u>	<u>\$13,445,327</u>

* DOE's IT Director stated that he estimated that the mark-up being charged by Adept on consultant's salaries to be 21%. However, based on billing information we obtained from Adept through the IT Director, the actual mark-up on salary costs that Adept was billing to DOE during our audit period ranged from 36% to 42%. For our analysis, we used the lowest mark-up figure of 36% and calculated the total salary and total mark-up using this percentage.

Regarding this matter, DOE officials stated that the compensation paid for these individuals was, in their opinion, a fair market rate. These officials stated that they have requested more state positions in their budget, but because DOE was not given these positions, it was forced to fill the positions with consultants.

DOE's IT Director stated that the original bidder for professional services in the IT cluster, a joint venture between Digital and Communica, Inc., not only was more expensive but also ineffective, causing

the Chief Technology Officer (CTO) to cancel the contract and instead choose the combination of vendors (i.e., Adept and Nitro) that currently provide these services.

b. Noncompliance with State Law and Finance Requirements Relative to the Use of Consultants:

Chapter 29, Section 29A, of the Massachusetts General Laws regulates the hiring of consultants by state agencies such as DOE. This law states, in part:

The commissioner of administration shall make, and may from time to time amend, rules and regulations governing the use of consultants in all departments, offices, boards, agencies, commissions and institutions. Such rules and regulations shall establish, after recommendations by the personnel administrator, the rate of compensation of such services and shall provide for the prior approval by the said administrator of the rate for any such service for which no rate has previously been established by such regulation. . . . Such rules and regulations shall also include, but need not be limited to the following requirements none of which shall be waived: (1) a request therefore on a form prescribed by the commissioner of administration specifically setting forth the need for such services; (2) the period of time for which the services are to be engaged or the scope of work to be done and such other information as shall be required to establish the maximum limit of the commonwealth's obligation for the services; (3) a written contract specifically setting forth the duties and responsibilities of the parties; (4) a resume setting forth the qualifications of the proposed consultant as they relate to the terms of the aforementioned contract; (5) a disclosure statement setting forth any other income derived by the proposed consultant from the commonwealth or any of its political subdivisions; (6) a statement setting forth the names and addresses of all persons with any interest in the said contract. No department, office, agency, board, commission or institution within any of the executive offices established by chapters six A and seven shall contract for the provisions of any such services without the prior written approval of such contract by the secretary having charge of such executive office. No payment shall be made to any consultant for any services provided prior to the date upon which the form requesting said services as required by clause (1) has been approved by the secretary having charge of such executive office and a copy of the same has been filed with the comptroller. As used in this section the word "consultant" shall mean any person who, as a nonemployee of the commonwealth, gives advice or service regarding matters in the field of his knowledge or training and whose compensation is payable from a subsidiary account coded under "03" [HH] in the expenditure code manual. No person employed by the commonwealth as a consultant so-called shall directly or indirectly supervise another temporary or permanent employee of the commonwealth. Consultant contracts, whether written with organizations or individuals, shall not be used as substitutes for state positions.

The Expenditure Classification Handbook issued by the Office of the State Comptroller further describes the expenditures for consultant services as follows:

This subsidiary includes expenditures for temporary professional services for specific projects during defined time periods. Services are specialized and are not ordinarily provided by, or available from, state employees. Consultant Contractors (Independent Contractors and Contract Employees) provide advice, develop programs, and provide other services. Consultants do not provide direct services to clients. (For example: under this subsidiary a Department may contract with a physician to review case files and give expert medical advice that will enable employees to develop comprehensive treatment plans. The physician would not, however, treat clients. For direct client services see Subsidiary MM). The use of the term "person" includes firms or companies, as well as individuals....Executive Departments must be in compliance with 801 CMR 21.00 and the Procurement Policies and Procedures Handbook. Departments must verify whether a Statewide Contract is available for the type of procurement desired. Executive Departments must purchase from Statewide Contract, unless the Statewide Contract does not meet the Department's needs....

During our audit, we reviewed the various documents and activities relative to the IT consultants being utilized by DOE and found a number of instances where consultant activities were not in compliance with Chapter 29, Section 29A of the General Laws or state finance requirements as described in the Comptroller's Expenditure Classification Handbook, as follows:

- Consultants Being Employed for Extended Periods of Time: Consultant services are supposed to be temporary in nature, for specific projects and defined time periods. Prior to amending its procurement regulations in 1997, EOAF defined "temporary" in its regulations as not exceeding one year. During our audit, we obtained from the Human Resource Coordinator the dates of hire of the 126 IT consultants utilized by DOE during the two-year period of our audit. The Human Resource Coordinator indicated that he could not accurately identify dates of hire prior to April 1998, which is when he began working at DOE, because DOE did not maintain this information. Therefore, for our analysis, we conservatively used April 1, 1998 as a start date for consultants who began working at DOE prior to this date. Based on our review of this information, we found that 41 (33%) of these consultants had been working at DOE for periods ranging from 13 to 33 months. Moreover, the vast majority (31) of these consultants had been working at a DOE for over two years. Further, we found that DOE did not have any documents (e.g., contracts) that defined a specific project or time period relative to these consultants' employment.
- Consultants Supervising State Employees: Chapter 29, Section 29A, specifically prohibits consultants from either directly or indirectly supervising another temporary or permanent state employee. During our audit, we obtained from DOE's IT Director a copy of the most recent organization chart for the IT cluster. Based on our review of this organization chart, we found that at least 12 of the 17 state employees working in this cluster were either directly or indirectly being supervised by four different consultants.

During our audit, we spoke with three of these 12 state employees, who confirmed that they were being supervised by a consultant. We also found consultants that were performing a variety of other supervisory and/or administrative activities that should be performed by state employees. Specifically, we found numerous instances in which the Human Resource Coordinator and the IT Director, who are both consultants, appeared to have approved the weekly timesheet/payroll records and paid leave requests of the state employees working in the IT cluster by signing the

signature of the unit's Chief Technology Officer (CTO). In so doing, these consultants were not only performing supervisory tasks that should be performed by a state employee but also circumventing an internal control measure by approving their own timesheets.

The Human Resource Coordinator stated that both he and the IT Director did approve the payroll for the state employees working in the IT cluster approximately 90% of the time and that both he and the IT Director signed paid leave requests for state employees because the CTO, who is supposed to authorize these payrolls and paid leave requests, seldom worked on-site at DOE's Administrative Office and therefore was unavailable to perform these tasks.

We also interviewed three state employees and several consultants who work in the IT cluster. Based on our discussions with these individuals and our own observations of the tasks several IT consultants are performing, we determined that several consultants, including the IT Director, routinely assign work to state employees, supervise this work, and perform other administrative activities, such as authorizing the payments of DOE expenses and entering into agreements with companies, that clearly should be performed by state employees.

- Consultants Providing Services That Are Normally Performed by State Employees: As noted above, consultants are supposed to provide specialized services that are not ordinarily provided or available from state employees. However, based on our review of various DOE documents and interviews with various IT cluster staff members, we found at least six consultants who were currently being used by DOE to perform routine agency functions that could be or were currently being performed by state employees within the agency, as follows:

Summary of Consultants in State Positions

<u>Position/Service Type</u> <u>As of October 31, 2000</u>	<u>Number of Consultants</u>
Human Resource Director	1
Administrative Assistant	2
Procurement Coordinator	1
Business Analyst	2

- Consultants Provided Benefits: By the nature of their employment, consultants should only be paid for services they provide. However, during our audit, we found that a number of the consultants being utilized by DOE are being provided paid leave and, in some instances, fully paid health insurance. Specifically, DOE's IT Director stated that consultants provided by Nitro to DOE are considered "salaried employees" and are paid the same rate of pay on a bi-weekly basis for 50 weeks each year, regardless of the time they actually work. In fact, during the period covered by our audit, DOE did not maintain any time and attendance records for Nitro consultants. Therefore, the actual hours worked by these consultants could not be demonstrated. Consequently, we reviewed all the payments made by DOE to Nitro for the approximately 10 Nitro consultants that worked at DOE during the period of our audit. We then selected seven holidays--Thanksgiving Days 1999 and 2000, Christmas Day 2000, New Years Day 1999, Memorial Days 1999 and 2000, and Independence Day 2000--that fell on weekdays when state offices would have been closed and, therefore, when these consultants could not have worked. Based on our review, we found that none of these consultants' bi-weekly compensations were reduced to reflect this fact. Moreover, during our review of IT expenses reimbursed by DOE to

Nitro, we also noticed some expenses for insurance for consultants. For example, on February 10, 2000, DOE reimbursed \$6,505 to Nitro for an expense from United of Omaha. According to the IT Director, this expense was for health insurance for a Sullivan and Cogliano consultant whose services were being billed through Nitro. The IT Director told us that he pays for health insurance for consultants who come from companies (e.g., Sullivan and Cogliano) that do not provide their employees with this benefit. However, the information being maintained by DOE relative to IT expenses was not sufficient to identify the total amount of funds that DOE expended to pay for health insurance for IT consultants.

c. DOE Does Not Execute Formal Written Contracts with All IT Consultants and Does Not Maintain Complete Consultant Files: As previously noted, Chapter 29 of the General Laws and state regulations require that state agencies execute formal written contracts for consultant services that contain certain information, including the length of service of the consultant and a maximum obligation for the services. This law also requires that state agencies maintain the resumes of these consultants on file. Companies who do business with the Commonwealth are required to sign a Master Service Agreement (MSA). The purpose of the MSA is to have qualified vendors with approved rates available to meet the needs of the state. There are two types of MSAs: a statewide MSA, which is awarded by the state's Operational Services Division (OSD) through an open competitive bid and can then be utilized by all state departments, and a department MSA, which is bid and awarded by a department for its specific use and is not available for use by other departments. Once the MSA is executed, state agencies can purchase goods or services from this vendor that are detailed in the MSA without having to seek competitive bids.

The MSA process allows state agencies to use the services of vendors that have been procured and put on the Office of the State Comptroller's (OSC) approved vendor list. Each of the vendors on this list signs a Standard Contract Form (SCF), which is a form that is jointly issued by EOAF and OSC. This SCF lists various contractor information such as the contractor's name, address, and phone number and the start and termination dates of the contractor. The contractor also agrees to comply with all applicable state and federal laws and the terms and conditions of all state contracts. However, the SCF is general in nature and does not identify the specific scope of services to be provided by each consultant or the actual

rate of compensation that is to be provided to each consultant within a range established by the MSA. Consequently, the SCF requires state agencies to enter into specific contracts with each consultant by stating, in Section 2:

The Contractor shall only be compensated for performance delivered and accepted by the Department in accordance with the specific terms and conditions of a Contract....

However, we found that DOE does not have contracts with its IT vendors other than the general SCF. Further, DOE does not have any documentation on how much each consultant is to be paid, how these rates were established, the mark-up rates that each IT consulting company can charge, the types or maximum amounts of expenses that can be reimbursed, and the length or term of employment of each consultant. The IT Director stated that he had verbal agreements concerning mark-up rates for personnel services and expense items but no written contracts that describe this compensation. Consequently, the appropriateness of the amounts being paid to the IT consulting companies that DOE was utilizing could not be determined.

We also reviewed the personnel information DOE was maintaining relative to the 126 consultants that DOE utilized during our audit period. Based on our review, we found that DOE did not have any personnel information on 60% of these consultants, no resume on file for 80% of these consultants, and no documented duties or responsibilities for any of these individuals. Regarding this matter, DOE's IT Director told us that he did not know why this information was not being maintained by the Human Resources Department. The Human Resources Coordinator, who is responsible for maintaining this information, stated that he was currently in the process of developing consultant files, which include job descriptions and resumes. He also stated that he had attempted to create such files shortly after he was hired in April 1998, but for one reason or another, had abandoned this effort.

By allowing consultants to make management decisions and conduct operational activities, DOE has clearly abdicated its responsibility of ensuring that agency transactions are conducted in accordance with

applicable laws and regulations. This lack of control has resulted in the uneconomical, inefficient, and questionable activities we identified in DOE's IT cluster.

Recommendation: DOE should cease using IT consulting companies as fiscal intermediaries to procure IT consultants. Moreover, DOE should take sufficient measures to ensure that it fully complies with all the requirements of Chapter 29, Section 29A of the General Laws and state financial requirements. Finally, EOAF should amend its regulations to specifically prohibit the use of fiscal conduits by state agencies as was the case prior to April 1997 in 808 CMR 2.03(6).

2. Inadequate Controls over IT Expenses Resulted in over \$3 Million in Undocumented or Inadequately Documented Expenses, Hundreds of Thousands of Dollars in Questionable Expenses, and a Consultant Authorizing \$615,505 in Payments to Himself and the Company that Employs Him

DOE has not established adequate controls over the authorization and payment of IT non-personnel expenses, and, as a result, we found numerous problems with these expenses. First, DOE is using two of its IT consulting firms as fiscal conduits to pay many of its own expenses. Managers in DOE's IT cluster send bills for various DOE expenses, such as travel for DOE employees, to one of these two IT consulting firms and instructs them to pay these bills. These consulting firms then send a bill to DOE for the amount of these expenses plus a mark-up (as much as 10%) for processing these payments. We calculated that DOE may have wasted as much as \$289,587 by using these two companies as fiscal conduits to process agency expenses in this manner. We also found two instances totaling over \$288,030 in which DOE used an IT consulting company to purchase office furniture and rent office space rather than competitively procuring these items as required by state regulations. Additionally, we were able to identify thousands of dollars in IT expenses that DOE paid that appeared to be either unnecessary or questionable in that they did not seem to directly benefit DOE's operations, including a minimum of \$194,042 for training and conferences for consultants who were purportedly hired for their expertise and should already have been adequately trained to provide these services; \$309,575 in communication costs, including cellular telephones and pagers, for consultants and telephone lines in

consultants homes, \$48,381 for food for IT consultant meetings, \$677 for flowers for consultants and their family members, \$1,237 for Christmas parties for consultants, \$202 to repair the windshield of a consultant's automobile; and \$227 in annual fees and finance charges on personal credit cards for two consultants. We also found that DOE had inadequate documentation to support the \$3,245,633 in non-salary IT expenses during our audit period, including \$227,698 for which it had no documentation, and instances in which a consultant approved \$615,505 in expenses payable to himself and the company that employs him. Finally, we found that DOE not only circumvented the State Comptroller's year-end closing instructions and state finance law by prepaying \$143,530 for IT consultant services before these services were rendered, but also misclassified thousands in IT expenditures in its reports to the State Comptroller.

DOE does not have any written policies and procedures relative to the authorization and approval of IT expenditures. Further, DOE has tacitly delegated the responsibility of the authorization of these expenses to an IT consultant. Although, based on our observations, this consultant is attempting to operate the IT cluster in an effective and efficient manner, DOE, and in particular its Finance cluster, did not take measures to ensure that the activities conducted by this consultant were done in a manner that is consistent with state accounting practices and regulations. Consequently, during our audit we found numerous problems with the IT (non-salary) expenses that were paid by DOE through consultants during our audit period, which totaled \$3,245,633, as indicated below:

Summary of IT Non-Salary Expenses
Billed Through Adept Inc., and Nitro Inc.
Fiscal Years 1999 and 2000

<u>Expense Type</u>	<u>Fiscal Year 1999</u>		<u>Fiscal Year 2000</u>		<u>Total</u>
	<u>Nitro</u>	<u>Adept</u>	<u>Nitro</u>	<u>Adept</u>	
Subcontracted Services	\$266,142	\$ 59,533	\$836,640	-	\$1,162,315
Equipment	87,400	-	31,377	-	118,777
Software Licenses	154,745	56,080	228,036	-	438,861
Programming	107	-	-	-	107
Training	44,624	16,311	8,294	\$ 59,664	128,893
Food/Catering	7,402	18,923	7,658	14,398	48,381

Travel	11,301	-	13,085	-	24,386
Parking/Tolls	533	3,151	102	693	4,479
Conference/Registration/ Meetings	45,275	13,106	4,752	2,016	65,149
Furniture	39,802	-	12,844	-	52,646
Publication/Books	20,183	2,199	8,003	742	31,127
Communications	131,097	7,948	160,921	9,609	309,575
Classified Ads/Job Posting	519	3,253	2,145	774	6,691
Temp. Help	5,719	-	31,254	-	36,973
Supplies	484	11,868	582	8,309	21,243
Space Rental	25,732	51,924	108,966	48,762	235,384
Maintenance, Repairs, and Renovations	2,172	-	-	-	2,172
Miscellaneous	23,408	27,971	279,895	109,706	440,980
Adjustments/Undercharges	(31,666)	-	70,502	-	38,836
Mileage Allowance	-	39,161	-	36,698	75,859
	-	571	-	1,324	1,895
	-	184	-	43	227
	-	615	-	62	677
Totals	<u>\$834,979</u>	<u>\$312,798</u>	<u>\$1,805,056</u>	<u>\$292,800</u>	<u>\$3,245,633</u>

The specific problems we identified are described in detail in the following sections:

a. DOE Used Consulting Companies as Fiscal Conduits to Pay Agency Expenses, Which Resulted in Unnecessary Costs Totaling As Much As \$289,587: We found that DOE would routinely have one of two IT consulting firms pay for DOE expenses and then submit a bill to DOE for these expenses, including a percentage mark-up of the actual cost. By not paying these expenses directly, during fiscal years 1999 and 2000 DOE incurred as much as \$289,587 in unnecessary expenses due to mark-up costs to these consultant companies, as detailed below:

<u>Company Name</u>	<u>Fiscal Year 1999</u>		<u>Fiscal Year 2000</u>	
	<u>DOE Expense Paid</u>	<u>Mark-Up Amounts</u>	<u>DOE Expenses Paid</u>	<u>Mark-Up Amounts</u>
Nitro	\$ 878,874	\$ 79,898	\$1,805,058	\$164,096
Adept	<u>322,112</u>	<u>23,860</u>	<u>293,393</u>	<u>21,733</u>
Totals	<u>\$1,200,986</u>	<u>\$103,758</u>	<u>\$2,098,451</u>	<u>\$185,829</u>

During our audit, we attempted to fully analyze all the non-personnel IT expenses paid by DOE during our audit period. However, the information maintained by DOE relative to these expenses was not sufficient to demonstrate an accurate total for all the agency expenses that DOE processed through these IT companies. Nevertheless, we were able to identify numerous instances totaling thousands of dollars in

which DOE used these two IT consulting companies as conduits to pay for routine agency expenses, including the following:

- DOE paid for thousands of dollars in travel expenses for full-time DOE employees, including DOE's Commissioner, the Chief Technical Officer (CTO), and other state employees working in the IT cluster. For example, on August 29, 1999, DOE processed a payment through Adept for \$436 for airfare for the CTO to attend a MacWorld conference in New York.
- On May 25, 2000, DOE processed a payment totaling \$154,500 through Nitro for a software-consulting firm based in India (Choice Solutions) that DOE directly hired.
- On October 28, 1999, DOE processed a payment of \$561 to the Central Plaza/Milken through Nitro for travel expenses for DOE's Commissioner.
- On November 1, 1998, DOE processed a payment of \$930 through Adept for a Sony Digital Camera for DOE's Adult Education Program.
- On May 13, 1999, DOE processed a payment totaling \$17,367 for Dell through Nitro for five laptop computers for DOE's Grants Division.
- On June 11, 1999, DOE processed a payment totaling \$3,082 for Dell through Nitro for a laptop computer for DOE's Commissioner.
- On April 15, 1999, DOE processed a payment totaling \$4,732 for Dell through Nitro for a computer for DOE's Commissioner's Office.
- On December 13, 1998, DOE processed \$973 in expenses for its Early Learning Services Division through Adept.
- We found instances in which DOE was paying the salaries of IT consultants whom it had hired from other companies through Adept. For example, on September 9, 1999, DOE paid an invoice from Adept for 240 hours of a consultant's services billed at a rate of \$125 per hour. However, the backup documentation for this payment was copies of timesheets from another company, Network Masters, Inc., for this individual. DOE's IT Director told us that this consultant, in fact, works for Network Masters but DOE passes this consultant's expenses through Adept.
- During fiscal year 2000, an Adept consultant expensed \$352 and used these funds to reimburse two DOE employees for travel expenses.

The IT Director stated that it was easier to process these and other payments through one of these consulting companies rather than trying to have DOE pay for them directly. He stated that, in his opinion it was more cost-effective and expedited the payment process. However, the facts do not seem to support these assertions.

b. Thousands of Dollars in Questionable IT Consultant Expenses: As mentioned above, DOE was not maintaining adequate documentation that would allow a full and complete assessment of its IT non-

personnel expenses. However, based on the information we reviewed, we identified thousands of dollars in IT expenses that appeared to be either unnecessary or not related to DOE's operations and, therefore, should not be borne by the taxpayers of the Commonwealth. Examples of these types of expenses follow:

- DOE paid these two consulting companies a total of \$128,893 for training consultants and an additional \$65,149 for consultants to attend conferences during the two years covered by our audit. Since by definition consultants are hired to provide expertise, we do not believe that the Commonwealth should be paying to train consultants who were hired to provide this expertise. Clearly, these consultants should have been adequately trained to provide the services for which they are being compensated without training.
- During the two fiscal years covered by our audit, DOE paid these two consulting companies a total of \$309,575 for communications-related expenses, including cellular telephones and service for consultants, purchases and rentals of pagers for consultants, and Internet connections and telephone lines for consultant's homes. Examples of these expenses include: on June 16, 2000, an Adept consultant working at DOE expensed \$205 to install a new phone line from Bell Atlantic; on October 25, 1998, an Adept consultant working at DOE expensed \$204 for the purchase of a Motorola Advisor Elite pager; on April 21, 2000, an Adept consultant working at DOE, expensed \$24 for a monthly internet service charge with America Online; on October 18, 1998, an Adept consultant working at DOE expensed \$113 to purchase a beeper and beeper service from Page New England; on January 28, 2000, an Adept consultant working at DOE expensed \$202 for the installation of a second phone line; on one invoice dated April 14, 2000, Nitro charged \$240 for Nextel for Mobile Communication Usage, \$9,115 for Bell Atlantic for Mobile Communication Usage, and \$1,221 to Skytel for Mobile Communication Usage; on January 28, 2000, an Adept consultant working at DOE expensed \$167 for "telecommunications" (with no explanation as to the nature of this expense); and on October 29, 1998, Nitro submitted an expense voucher that contained a charge for \$1,675 for Nextel Mobile Communication Usage. Based on the documentation maintained by DOE, it could not be determined to what extent these costs were associated with DOE services. Further, DOE did not have any documentation detailing the need for these items, nor was it possible to determine who had possession of all of this equipment (e.g., pagers) that were purchased for use by these consultants with state funds. Moreover, we question why these costs were being borne by DOE and not by the consulting companies.

During the two years covered by our audit, DOE reimbursed these two consulting firms a total of \$48,381 for food for IT cluster staff. Examples of these expenses include the following: on July 1, 1999, an Adept consultant working at DOE expensed \$218 in meals for an IT/IS staff meeting; on December 13, 1999, an Adept employee expensed \$350 for an IS cluster lunch; on December 1, 1999, an Adept consultant working at DOE expensed \$254 for a Christmas lunch; on March 10, 2000, an Adept consultant working at DOE expensed \$419 for a lunch for all IT teams at the Artichoke's Restaurant in Malden; on May 25, 1999, an Adept consultant working at DOE

expensed \$45 for a board meeting lunch at the Silver Lounge in Falmouth; on June 13, 2000, an Adept consultant working at DOE expensed \$144 for a Directory Administration lunch meeting at Rasoi's of India in Malden; on December 18, 1998, an Adept consultant working at DOE expensed \$509 for a team dinner at Bickers Restaurant in Greenfield; on December 19, 1999, an Adept consultant working at DOE expensed \$474 for a team dinner at the French King Restaurant in Irving; on July 7, 1999, an Adept consultant working at DOE expensed \$151 in meals for an IT staff meeting with interns; on May 13, 1999, Nitro expensed \$828 for food from Food Glorious Food for a meeting; and on August 20, 1999, Nitro expensed \$260 for food from Rebecca's for an IT senior staff meeting. Paying for meals for consultants is not a necessary or prudent expense that should be borne by the taxpayers of the Commonwealth.

- Nitro expensed \$2,513 for "meeting facilitation," with no explanation or detail as to the business nature of this expense.
- During fiscal years 1999 and 2000, two Adept consultants expensed a total of \$677 for flowers for occasions such as funerals, births, and hospitalizations for other consultants. Since these expenses were not related to DOE's operations and were personal in nature, state funds should not have been used for these purposes.
- During fiscal year 1999 and 2000, two Adept consultants expensed a total of \$227 in personal credit card annual membership fees and finance charges. Since these expenses were personal in nature, state funds should not have been used for this purpose.
- In fiscal year 1999, an Adept consultant expensed \$202 in window glass repair for another Adept consultant's car. Since this is a personal expense of a consultant, state funds should not have been used for this purpose.
- During fiscal years 1999 and 2000, two Adept consultants expensed a total of \$4,028 for costs they incurred relative to recruiting additional contract employees through sources like the internet and newspapers. It could not be demonstrated whether these costs were associated with recruiting consultants who ultimately worked at DOE.
- In fiscal years 1999 and 2000 two Adept consultants expensed a total of \$1,237 for Christmas parties for Adept consultants. This expense should have been clearly borne by Adept and not the taxpayers of the Commonwealth.

DOE's IT Director stated that expenses for items such as food and flowers are, in his opinion, a cost of doing business and are necessary to keep parity with private employers. However, after this matter was raised by the audit staff, the IT cluster discontinued paying for these purportedly "necessary" expenses. Regarding the credit card costs, the IT Director stated that to his knowledge he is the only person to have a credit card that is used to make purchases in the IT cluster, that this card was issued to him with the understanding that it was only to be used for business purposes, and that any other personal charges that may appear on the card had to be paid back.

c. Use of Consulting Firms as Conduits to Procure Commodities Totaling as Much as \$288,030 in Violation of State Laws and Regulations: EOAF has promulgated 801 CMR 21.00, relative to the procurement of commodities and services with which all state agencies, including DOE, must comply. These regulations require state agencies to use a competitive procurement process when procuring goods or services over \$1,000. Additionally, under Chapter 7 of the General Laws, the state's Division of Capital Asset Management and Maintenance (DCAMM) is responsible for acquiring leased real property on behalf of the Commonwealth for use by state agencies such as DOE. Under this law, DCAMM is designated as the central repository for all rental agreements and is required to retain copies of all disclosure statements of persons having a beneficial interest in the properties the department leases on behalf of state agencies. Further, DCAMM is required by this statute to maintain an accurate listing of all of the Commonwealth's active rental agreements and for filing periodic reports to the state Legislature on the Commonwealth's leasing activities. Under this statute, the Commissioner of DCAMM can delegate to an agency the authority to acquire leased space providing that the Commissioner approve each transaction.

During our review of the \$3,245,633 in non-salary expenses billed by Adept and Nitro during the two fiscal years covered by our audit, we found at least two instances in which DOE used these vendors to pass through DOE agency expenses and in doing so circumvented state regulations and the requirements of Chapter 7 of the General Laws. These instances are as follows:

- During fiscal years 1999 and 2000, DOE reimbursed Nitro a total of \$52,646 for furniture purchases, as indicated in the table below:

Summary of Furniture Purchases through Nitro Inc.
Fiscal Years 1999 and 2000

<u>Invoice Date</u>	<u>Amount</u>	<u>Description</u>
September 2, 1998	\$ 4,794	Office Furniture
September 2, 1998	1,165	Office Furniture
September 2, 1998	165	Office Furniture
September 10, 1998	624	Office Furniture
September 16, 1998	1,408	Desk Unit

October 1, 1998	787	Computer Furniture
October 1, 1998	11,000	Computer Furniture
October 21, 1998	11,000	Computer Furniture
October 21, 1998	929	Computer Furniture
October 21, 1998	420	Office Equipment
October 21, 1998	1,123	Office Equipment
December 23, 1998	1,367	Computer Furniture
December 23, 1998	4,307	Computer Furniture/Equipment
June 24, 1999	713	Furniture
February 10, 2000	6,050	Furniture
March 16, 2000	6,112	Furniture
March 16, 2000	<u>682</u>	Furniture
Total	<u>\$52,646</u>	

Moreover, of the \$52,646 in furniture purchases we were able to identify as listed in the preceding table, at least \$37,968 in merchandise was purchased from a vendor who was not on the State Comptroller's list of vendors that were qualified to do business with state agencies. Nitro charged DOE an additional \$6,124 for furniture purchases that are included in this \$52,646, but did not identify the vendor from which this furniture was purchased on its invoice to DOE. Therefore, it could not be demonstrated whether these purchases were made from qualified vendors. Regarding this matter, DOE's IT Director told us that this furniture was purchased for IT consultants hired by DOE to use at DOE. DOE's Chief Financial Officer told us that, in his opinion, although this furniture was purchased through this consultant, these furniture items "really" belonged to DOE. However, the department does not maintain an inventory of these items. If this is in fact the case, then DOE was required to procure most of these items by using a competitive bidding process as required by 801 CMR 21.00 and should not have used this vendor as a conduit to make these purchases. Further, the argument of ownership and title is difficult when an intermediary makes the purchase.

- During fiscal years 1999 and 2000, DOE paid Nitro and Adept a total of \$77,656 and \$157,728, respectively, for the rental of office space. DOE rents space in Malden where its administrative offices are located which, according to the IT Director, consists of a training lab and a development lab in the basement of this building. Both areas are rented by Adept and charged back to DOE at a mark-up of 8%. DOE also rents space at two external locations: a development lab on Pleasant Street in Malden and a development lab on Main Street in Malden. Both are rented by Nitro and charged back to DOE at a mark-up of 10%. During our audit, we reviewed the limited information DOE was maintaining relative to these expenses and noted some inconsistencies in this information. For example, on an invoice dated January 21, 1999 from Nitro, there was a charge of \$20,013 for rental space. However, the invoice appeared to indicate that, although DOE was reimbursing Nitro for the rental space costs, the space was being utilized by a group called New Media. When asked about this matter, DOE's IT Director stated that this space is really being rented by DOE to provide workspace for the hired IT consultants. He said that it was easier, primarily for accounting purposes, to pay these rental costs through these companies. The IT Director added that no state employees worked at these sites. Rather various consultants from Nitro, Adept, and other companies may have been working at sites for which either Nitro or Adept was reimbursed. During our audit, we attempted to determine if the amounts DOE was paying for this rental space were reasonable, but DOE did not have any documentation (e.g., copies of leases, square footage cost estimates, or any market rent analysis) to explain these costs. The IT Director told us that two Nitro consultants working at DOE, the

Human Resource Coordinator and the Procurement Coordinator (also the President of Nitro), were responsible for locating the rental space needed by the cluster. The IT Director told us that, typically, both he and the CTO developed a set of requirements for space that was needed by the cluster and then gave these to the two consultants who were responsible for finding space that met these requirements. The actual rental agreement was entered into by Nitro, and the landlord and Nitro charged DOE the cost of this rental space plus a mark-up. Since DOE is renting this space, DOE should clearly have followed the requirements of Chapter 7 of the General Laws when leasing this space.

d. Inadequately Documented and Undocumented Expenses Totaling \$3,245,633: As previously mentioned, during the two-year period of our review, DOE paid two consulting companies a total of \$3,245,633 for non-salary IT consultant-related expenses. During our audit, we found that DOE pays these expenses without requiring adequate supporting documentation from the IT consultant companies. Rather, these two companies merely send DOE an invoice indicating the general nature of the expense (e.g., "travel"), with no detailed explanation and no supporting documentation to demonstrate that these costs were related to DOE business. For example, on July 25, 1999, Adept submitted an expense report to DOE for \$1,686, which simply said "American Express bill." DOE paid this invoice without asking for supporting documentation relative to this expense. Another example of inadequate documentation was from a vendor that sold computer equipment to DOE. On March 15, 2000, Micro Warehouse submitted an invoice to DOE for \$49,536. The invoice simply states, "many items sold to[o] many to list," yet DOE paid this invoice without requesting supporting documentation. We found that DOE does not have adequate documentation relative to any of the \$3,245,633 in expenses that it reimbursed to these two IT consultant companies during fiscal years 1999 and 2000.

During our audit we requested DOE's IT Director, who is an employee of Adept, to obtain all the supporting documentation for the \$615,505 in expenses that were billed by Adept during fiscal years 1999 and 2000. We compared the total amount of the consultant expense reports that Adept provided to us as supporting documentation for its billings to DOE to the actual billings Adept submitted and found that, although the payment vouchers submitted totaled \$615,505, the consultant expense reports provided by Adept as supporting documentation totaled only \$387,807 (a \$227,698 variance). Also, the

documentation provided by Adept was inadequate in that it merely consisted of copies of the summary expense vouchers submitted to it by consultants that were working at DOE and did not contain any supporting documentation (e.g., original receipts) that supported these expenses.

During our audit, we also asked DOE officials to obtain from Nitro supporting documentation for 22 expenses totaling \$94,413 for furnishing and equipment items that were paid by DOE to Nitro during fiscal years 1999 and 2000. We reviewed this documentation and found several problems. First, Nitro did not provide us with original receipts for five of these expenses totaling \$14,597. For four other expenses, one for office furniture totaling \$6,050 and three for mobile communication hardware totaling \$6,875, DOE could not identify the location of these items. Two expenses seemed more questionable in that they did not appear to be related to activities performed by Nitro or DOE's IT cluster. These two expenses included a \$182 expense on October 21, 1999 to Bell Atlantic for mobile communication hardware as a Teacher Of The Year gift and an April 28, 1999 expense for \$1,039 to Circuit City for computer hardware as a Milken Educator gift. Finally, DOE could not identify the serial number for the furnishings and equipment items totaling \$40,440 that were purchased on 15 of these 22 expense vouchers, indicating that they did not have adequate control over their items.

Since DOE was not requesting supporting documentation for the IT consultant expenses that were billed by Nitro and Adept, DOE and the Commonwealth cannot be assured that all of these expenses were reasonable and proper. Regarding this matter, DOE's IT Director told us that an error had been made if bills were paid without adequate documentation. However, we questioned DOE's Budget Director about processing invoices for payment without adequate support and were told that, if the invoice is approved by the CTO, it is paid without question and it is assumed that the IT cluster has the supporting documentation. In this regard, it is DOE's responsibility to demonstrate that its expenditures are legitimate; however, without obtaining and maintaining appropriate supporting documentation, it is unable to do so.

e. A Consultant Approved at Least \$615,505 in Expenses Payable to Himself and the Company That Employs Him: According to generally accepted accounting principles, an important internal control in an organization is to ensure the proper segregation of duties. An effective internal control structure ensures adequate segregation in the duties and responsibilities of individuals involved in the custody of assets, the authorization and recording of transactions, and the reconciliation of records. During our audit, we reviewed the \$10,028,092 in invoices for personnel costs and related expenses submitted by Adept during the period of our audit. As previously mentioned, the individual functioning as DOE's IT Director is a consultant working for Adept. Based on this review, we found that the IT Director had approved at least \$615,505 of these expenses for himself and his own company. According to the IT Director, because the cluster's CTO is frequently working offsite, it is necessary for him at times to approve payments. He said that, prior to fiscal year 1998, he used to approve all the expenses made in the cluster, but DOE's legal staff advised him that, as a consultant, he was not supposed to perform this activity. Subsequently, the IT Director said that he only approved expenses when the CTO was not available.

f. DOE Circumvented the State Comptroller's Year-End Closing Instructions and State Finance Laws by Prepaying \$143,530 for IT Consultant Services before These Services Were Rendered: Each year, the Office of the State Comptroller (OSC) issues a set of instructions to each state agency as to how they must close their annual agency accounting records. These closing instructions explain specific procedures (e.g., determining the proper amount of funds to encumber for accounts payable) that state agencies must follow in order to produce accurate and consistent accounting records for the Commonwealth's financial statements. All state agencies, including DOE, are required to comply with these closing instructions. Regarding each agency's accounts payable account, the closing instructions stipulate that goods or services must be received by a state agency by no later than June 30 (the last day of the state's fiscal year) in order to be classified as an allowable expense for that fiscal year. All encumbrances that do not relate to specific payables lapse at year end and must be returned by the agency

to the state's General Fund and are no longer available to the agency in accordance with Chapter 29, Section 12, of the General Laws, which states, in part:

Appropriations by the general court, unless specifically designated as special, shall be for the ordinary maintenance of the several departments, offices, commissions and institutions of the commonwealth and shall be made for the fiscal year unless otherwise specifically provided therein.

Further, each department is required to conduct a detailed analysis of its encumbrances required for accounts payable to support its reserve of encumbered funds.

During our review of DOE's IT consultant expenses, we found that on August 25, 1999, DOE paid an invoice for consultant services totaling \$143,530 from Eliassen. However, unlike other invoices from Eliassen that provided the names of consultants and the hours worked, this invoice only indicated "Consulting Services" as the reason for the billing.

We brought this matter to the attention of the IT Director, who told us that this payment represented an unexpended appropriation balance that was paid in "advance" to Eliassen during the Commonwealth's fiscal year ended June 30, 1999 accounts payable period, with the understanding that DOE would be credited in full during fiscal year 2000. The IT Director further explained that, had these funds not been expended, DOE would have had to revert them to the General Fund of the Commonwealth. Consequently, DOE's IT Director contacted Eliassen and requested that it make up an invoice for the total unexpended balance of \$143,530, in direct noncompliance with state law. In the above example, it is clear that the Eliassen consulting services being questioned were not received before the June 30 year-end requirement and that DOE had not conducted a detailed analysis to support its encumbrance needs. Accordingly, these funds should have been reverted to the Commonwealth's General Fund and not charged to the fiscal year 1999 budget. Moreover, the CTO, who is the DOE IT department head, failed to ensure that the IT closing transactions complied with OSC's closing procedures and state finance laws. The IT director told us that he signed the CTO's authorization signature on this Eliassen invoice.

Lastly, as previously mentioned, DOE's \$143,530 prepayment was to be offset by consulting services that Eliassen was supposed to deliver during fiscal year 2000. However, our analysis of fiscal year 2000 Eliassen invoices provided to us by the IT Director showed consulting service offsets totaling only \$126,316, leaving \$17,214 in advance prepayments without corresponding invoices (credits). Consequently, DOE and the Commonwealth cannot be assured that all of these consulting services were properly received.

g. DOE's Use of Consulting Firms as Conduits to Procure Commodities Resulted in the Misclassification of Thousands of Dollars in Expenditures in the Comptroller's Records: As noted in the Background section of this report, the Office of the State Comptroller has established how expenditures by state agencies are to be classified in its Expenditure Classification Handbook (Handbook). This Handbook provides a schedule of the state accounting system's subsidiary accounts and object codes and describes, in detail, the types of expenditures that should be charged to each subsidiary account and object code. According to the Handbook, all of the payments to the IT consultants, for both personnel costs and agency expenditures, are classified as H03. This Handbook establishes the subsidiary HH for "Consultant Service Contracts," which is for expenditures for temporary professional services for specific projects during defined time periods. The object code H03 within this subsidiary is for "Information Technology Professionals" and defines the costs that are associated with this category as follows:

H03 INFORMATION TECHNOLOGY PROFESSIONALS - Information Technology Professionals who develop computer systems programs or who instruct, advise, or train persons in the application of computer programs. Includes systems analysts, programmers, and experts who assist Departments at hearings before a telecommunications regulatory agency or consultants with special expertise in networking, planning, design and PBX design. For data processing entry, see J46.

During our audit, we found that all of the over \$19 million that DOE paid for consultant services and related expenses was charged by DOE to the H03 subsidiary code. While the approximately \$14.3 million in personnel salaries that DOE expensed for IT salaries may have been appropriately classified in

this subsidiary, we question whether all of the over \$3.2 million that DOE paid Adept and Nitro in other IT expenses for various equipment and other items that DOE charged to this subsidiary account was appropriate. This misclassification in expenses has resulted in the Comptroller's records showing total payments for "Information Technology Professionals" that are inflated.

During our audit, we brought the matters detailed in sections (a) through (g) above to the attention of DOE officials. In response to our concerns, on July 25, 2000, the IT Director issued new policies relative to IT expenses. These new policies stated in part that DOE would no longer be paying for any food expenses on consultants bills and also stated that "all software purchases will go through normal State channels unless this is impossible." Regarding the use of cell phones, this memorandum stated, in part:

Cell phones will be restricted to only people with a demonstrated need. The DOE has determined that need as people who are on call weekends or traveling on official capacity like field techs. Occasional conferences do not justify a phone. This is less of an issue because of the installation of a phone system in Pleasant Street and the imminent removal of [Youth Tech Entrepreneurs] from our system but still an issue. IT staff will be using more pagers and less phones starting as soon as I can back out of contracts recently signed. [Director of Education Technology Integrated Systems] and [Chief Technology Officer] working together will make a final decision who will be eligible for phones. . . . The main reason for this has been the misuse of the phones we currently have. . . . despite constant warnings by [Director of Education Technology Integrated Systems], staff continues to wander around the building talking on their phones. I have asked you to stop and [Director of Education Technology Integrated Systems] has asked you to stop and we were largely ignored. Now we will resolve it the only way I know will work...removing phones.

Additionally, on August 24, 2000, the IT Director notified the IT cluster staff that he would no longer pay expense reports that do not have backup documentation.

Recommendation: In order to address our concerns relative to these matters, DOE should:

- Establish adequate policies and procedures over the approval, review, and payment of IT non-payroll expenses. At a minimum, these policies and procedures should establish an adequate segregation of duties and require adequate supporting documentation to be provided and an independent review to be performed of all such expenses before payment is authorized. A consultant should not be the person responsible for authorizing these expenses. Rather, all these expenses should be properly reviewed by DOE's fiscal department to ensure that these expenses are necessary, proper, adequately documented, properly classified, and consistent with DOE's objectives.
- Ensure that it maintains complete documentation to support its expenditures.

- Discontinue using consulting companies as fiscal conduits to pay agency expenses.
- Take measures to ensure that all agency expenses are in compliance with state finance laws.

3. Questionable Consultant Hiring Practices

Although state law prohibits public officials from participating in matters where immediate family members may have a financial interest, during our audit we found that two of the consultants working in DOE's IT cluster hired three family members to work in this cluster. We also found one instance in which a consultant could potentially use his position to derive significant financial benefits for himself. Specifically, this individual, who was working at DOE as the IT cluster's Procurement Coordinator at a rate of \$66 per hour, was also the President of Nitro. In this capacity, this individual participated in the procurement/payment of as much as \$2,683,932 in expenses that were passed through his own company, which received at least an estimated \$243,994 in mark-ups. Although these IT consultants may technically not be public officials, they are functioning in a public capacity at DOE and are expending public funds. Accordingly, as a matter of policy if not law, DOE should hold them to the same standards as other public officials.

Chapter 268A of the Massachusetts General Laws prohibits public employees from engaging in conflict of interest situations. Specifically, this law states, in part, "You may not hire or promote, supervise or otherwise participate in the employment of your immediate family or your spouse's immediate family." Although the term "nepotism" does not appear in this law, in December 1986, the State Ethics Commission, which is responsible for enforcing the requirements of this statute, issued Advisory No. 11, which specifically outlines the prohibitions against nepotism contained in the conflict-of-interest law and explains the Commission's enforcement policy regarding nepotism violations. This advisory bulletin states, in part:

A public official may not hire an immediate family member.... The conflict law prohibits a public employee from participating in any particular matter in which a family member has a financial interest. The decision to hire is a particular matter in which an official is "personally and substantially" participating, and the family member has an obvious financial interest in the

hiring decision...Personal and substantial participation involves any significant involvement in the hiring process....

During our audit, we found several instances in which DOE consultants hired family members and/or were placed in a position in which they may have been able to derive financial benefit from their activities. These instances are as follows:

- During our audit period, the President of Nitro was also a full-time consultant for DOE working as the Procurement Coordinator in DOE's IT cluster at a rate of \$66 per hour. In this capacity, this individual participated in the procurement/payment of \$2,683,932 in expenses that were passed through his own company, for which his company received an estimated \$243,994 in mark-ups.
- During fiscal year 2000, DOE's Director of Information Systems hired his sister through Nitro to work at DOE in Directory Administration Management and she was paid a total of \$21,281 (\$66.00 per hour). He also hired his sister-in-law through Adept to work as an Administrative Assistant to the IT Director of Information Systems, and she was paid \$25,200 (\$25 per hour) during fiscal year 2000.
- During fiscal year 1999, DOE hired the IT Director's sister through Adept to work as a Remedy Developer in DOE's IT cluster. During fiscal years 1999 and 2000, she was paid a total of \$87,447 (\$103 per hour). According to various IT cluster staff, this individual did not work on site in DOE's administrative offices in Malden. Rather, she worked out of her house. According to the IT Director, he did not participate in the hiring of his sister. However, she works in the IT Director's cluster under his supervision, and by virtue of his position he may have had some influence on her hiring.

Recommendation: DOE should take measures to ensure that its hiring practices for both permanent staff and consultant services are consistent with the intent of Chapter 268A of the General Laws. Also, DOE should take measures to ensure that it adequately segregates the duties and responsibilities of staff and consultants.

4. Inadequate Controls over the IT Cluster Payroll Resulted in Inadequate Documentation for at Least \$1,687,509 in Payroll Costs and Other Questionable Payroll Expenses

We found that the controls that DOE has established over the authorization of staff and consultant time and attendance information is inadequate. As a result, we found several problems with the payroll information that we reviewed, including: (1) no documentation to support \$1,687,509 in payroll expenses charged by one consulting company; (2) inadequate documentation relative to the attendance of personnel working in the IT cluster; (3) consultants authorizing payroll for themselves, other consultants,

and state employees; and (4) at least three instances where the CTO of the IT cluster indicated on his daily attendance calendar that he was on vacation while the cluster time log indicated that he was at work, and was paid for these days.

DOE does not have a standard formal written process relative to the maintenance of time and attendance records for DOE staff and consultants working in its IT cluster. However, DOE's Payroll Director described the following process to us. Each week, the Payroll Director prints out a weekly time log for each employee and then sends these logs to the clusters where these employees work. This time log indicates a default attendance record that each state employee has worked 7.5 hours each day during the week. The head of each cluster, which in the case of the IT cluster is the CTO, is required to amend this time log to accurately reflect the attendance of each state employee in the cluster. For example, the CTO is required to identify any paid leave (e.g., sick, personal, or vacation days). After the CTO makes the appropriate amendments to each employee's time log, the CTO is then required to sign and date a cover sheet and attach it to all the time logs of all the state employees in the cluster, attesting to the fact that this attendance information in the attached time logs has been reviewed, amended, as necessary, and approved. Regarding the hours worked by consultants, DOE does not have any written policies and procedures relative to how the hours worked by consultants should be documented. During our audit, we requested all the information being maintained by DOE relative to the hours worked by both consultants and state employees in its IT cluster. Based on our review of this information, we noted the following problems:

- There were no time records to document any of the hours worked by consultants from Nitro (see Audit Result No. 2). During our audit period, DOE paid Nitro a total of \$1,687,509 for these consultant services. As a result of our audit work, effective September 2000, DOE began requiring that Nitro consultants maintain payroll records. According to the IT Director, Nitro consultants were never required to maintain payroll records because they were essentially full-time (50 week per year) employees of DOE and their hours did not vary.
- State employees working in the IT cluster are not required to verify their attendance by signing their weekly time logs. Rather, the CTO is supposed to sign the cover sheet attesting to the attendance of these employees as indicated in the attached time logs. The Administrative Assistant for Data Collection in the IT cluster is responsible for making sure the CTO signs the

cover sheet to the weekly time log. However, the Administrative Assistant told us that the CTO is frequently not working on-site, and this cover sheet is usually signed by the Director of Human Resources for the IT Division, who is a consultant (see Audit Result No. 2). The Administrative Assistant told us that she keeps a monthly calendar that indicates when people have indicated that they will be absent from work but disposes of these monthly calendars every few months. There is no DOE policy as to how attendance is to be documented. Therefore, the information in these calendars could not be reconciled to the weekly time logs in the IT cluster.

- Numerous instances exist in which the IT Director and/or the Human Services Coordinator authorized their own payroll records (See Audit Result No. 2).
- During our audit, we noted that on most days, the CTO was not present in his office at DOE's administrative offices. We spoke with the CTO's Administrative Assistant and several other people in the IT cluster regarding the CTO's work. These individuals told us that the CTO usually comes into DOE's Malden headquarters where his office is located only two days per week, but is in contact with someone in the cluster on a daily basis. The Administrative Assistant told us that she maintains a daily schedule for the CTO. We reviewed this schedule for 1999 and compared the information in this schedule to the IT cluster's time logs and noted three discrepancies as follows:
 - I. The CTO marked vacation time for February 14–22, 1999, on his personal schedule, but he was marked present on the weekly time logs for those same dates.
 - II. The CTO marked vacation time for September 2 and 3, 1999, on his personal schedule, but he was marked present on the weekly time logs for those same dates.
 - III. The CTO marked "sailing" for November 1-5, 1999, on his personal schedule, but he was marked present on the weekly time log for November 4 and 5, and attested to that on November 9 by signing the log.

Recommendation: DOE should develop adequate controls over the authorization and documentation of time and attendance records for both its state employees and consultant staff. This would include standard record keeping and payroll authorization procedures for the whole agency.

APPENDIX**Summary of Action Taken by DOE**

As a result of our audit and a review done by EOAF, OSC, and OSD, on January 8, 2001, DOE officials sent a memorandum to us detailing changes the department had made in its Educational Technology Group¹. This memorandum stated the following:

The following is a summary of recent department actions initiated by the Commissioner to improve the management and procurement practices within the Educational Technology Group (ETG):

- A new position of chief operating officer is being created for the Department, who will report directly to the Commissioner. The COO will oversee ETG as well as other central administrative units.
- A new director will be appointed for ETG. The previous director has been reassigned to the role of strategic planning.
- Deloitte & Touche has been engaged to study the Department's IT project management approach and make recommendations for improvements or changes.
- An organizational consultant with expertise in IT functions is being hired to assist the Commissioner in reviewing the structure and staffing of ETG.
- ITD has been invited to participate in the on-going planning and development of the Virtual Education Space (VES) project. Consideration is also being given to including VES in the Governor's e-government initiative.
- The Department has severed its business relationship with Nitro Communications, Inc.
- All work orders for personal services under Commonwealth or Department master service agreements will include a not-to-exceed cost limit in addition to individual hourly rates.
- All hourly rates for IT staff hired as contract employees or through IT services firms will be subject to approval by the Department's human resources director.
- Resumes of selected and non-selected consultants will be retained on file.

¹ This is the term DOE uses to group all of its MIS operations, including its IT cluster.

APPENDIX (Continued)

- The practice of allowing consultants' extra, unbilled hours worked to be offset against vacation, sick, or holiday time has been ended. Consultant timesheets will reflect only actual hours worked, up to the limits specified in the work order or contract. Compensation for vacation, sick, or holiday time must be included in the vendor's overhead charge.
- Consultant travel expenses will be reimbursed at the same rates applicable to State employees. The only exception is for field technicians, who have been authorized a mileage rate of \$.30.
- Cell phone usage by consultants will be subject to the same policy as applies to Department employees.
- Fiscal Affairs Division has authorized the creation of 11 permanent state positions in ETG, which will allow us to hire staff to assume many of the on-going operational duties currently handled by consultants. Until these staff are hired, duties not appropriately done by consultants (including approval of invoices and supervision of other state employees) have been temporarily re-assigned to other Department staff.
- State employees in ETG have been reminded that their travel expenses must be submitted directly to the Department's Finance office for reimbursement, and in no case may be reimbursed through an IT services firm.
- ETG staff will participate in procurement training programs being arranged for Department staff by Operational Services Division.
- IT equipment, software, and other incidental items will be purchased from vendors on Commonwealth or Department master service agreements whenever possible. Purchase orders will be issued for each individual purchase. Where an existing MSA is not available, a new procurement will be initiated following the procedures in 801 CMR 21.00.
- All ETG invoices submitted to the Finance office for payment will include complete back-up documentation, including signed timesheets for personal services and itemized vendor receipts for other goods and services.
- Inventory procedures have been reviewed and updated, and one staff member has been assigned to ensure that inventory information on all equipment purchases is entered on receipt.