The Commonwealth of Massachusetts

Office of the Inspector General

GREGORY W. SULLIVAN
INSPECTOR GENERAL

JOHN W. McCORMACK
STATE OFFICE BUILDING
ONE ASHBURTON PLACE
ROOM 1311
BOSTON, MA 02108
TEL: (617) 727-9140
FAX: (617) 723-2334

December 2, 2010

Commissioner Mitchell D. Chester
Massachusetts Department of Elementary and Secondary Education
75 Pleasant Street
Malden, MA 02148-4906

Dear Commissioner Chester:

Thank you for the Massachusetts Department of Elementary and Secondary Education's (DESE) response of October 5, 2010 regarding the Office of the Inspector General's (OIG) request for information concerning KPMG LLP's "Readiness Assessment" for compliance with the requirements under the American Recovery and Reinvestment Act (ARRA) issued in August 2009.

As a follow up to your October 2010 letter, the OIG would like to offer the following comments:

In response to the KPMG issues, "Communication with Subrecipients", and "Communication and Training", DESE stated that it was using, "various forms of communication to inform and train subrecipients," and noted statewide trainings it has conducted for employees responsible for ARRA funds and representatives from subrecipients' school districts. The OIG commends DESE for initiating these trainings. We suggest that DESE ensure the "various forms of communication" used with subrecipients are clear and specifically address ARRA reporting requirements. The OIG also encourages DESE to include fraud awareness training and anti-fraud controls and practices in its communication with subrecipients and employees. The OIG believes that the prevention of fraud, waste, and abuse must be a continuous effort that is made a part of everyday programmatic activity. Prevention activity should not be a one-time or simply periodic effort.

Regarding the KPMG issue of "Subrecipient Monitoring", DESE described a number of tools it had implemented to monitor its State Fiscal Stabilization Fund (SFSF) grant, but that its Title I and Special Education (SPED) programs "are already covered

by the current desk review process, [and] are being monitored on the program side through the Coordinated Program reviews (CPR) that DESE conducts." DESE did not specifically state whether a risk assessment was done per KPMG's recommendation and did not provide details about its desk review and CPR process. The OIG recommends that DESE consider performing a risk assessment before the end of the current fiscal year, if one has not been conducted. Regular fraud risk assessments serve to identify fraud risks unique to your agency and to strengthen existing preventative controls to address these risks. The OIG also recommends that DESE ensure its review process contains robust anti-fraud, waste, and abuse detection methods.

Regarding the issue of "Process-Specific Fraud Controls", KPMG recommended that DESE augment its specific antifraud controls to mitigate fraud, waste, and abuse, giving the example of expanding on the Single Audit to include more frequent analysis of funds. In response, DESE cited the requirement that "districts spending $500,000 or more in total federal funds…conduct a Single Audit which also covers programmatic compliance" and that DESE conducts, "approximately 65 [CPR's] each year which will include certain ARRA funds." Additionally, DESE responded that, "[its] Audit and Compliance Unit is performing site reviews in [41] districts which address these and other financial topics." The OIG recommends that DESE include additional anti-fraud, waste, and abuse compliance tools to its oversight program and/or that DESE require school districts to add these tools as part of Single Audit protocols. The OIG also suggests that DESE's desk review and CPR process work to ensure that the school districts not covered by the Single Audit establish appropriate antifraud controls and fraud prevention programs.

In response to KPMG's recommendations to formally document and communicate its policies and procedures for responding to allegations of fraud, waste, and abuse and to develop an agency-wide anti-fraud strategy, DESE stated that it, "already [has] policies that cover appropriate response to allegations of fraud, waste, and abuse" and is, "in the early stages of formalizing a communication plan to distribute [ARRA and fraud-specific] information" to employees and subrecipients. DESE also responded that development of an antifraud policy is, "currently in process." Regarding KPMG's recommendation for whistleblower reporting, DESE responded that, "Associate Commissioner/Chief Fiscal Officer and legal counsel have initiated discussions on a policy and mechanisms for internal and external reporting." The OIG notes that while the formalization of a communication plan is a positive first step, establishing an on-going agency-wide effort consisting of periodic staff training, risk assessments, compliance reviews, selected audits or reviews, and other prevention and detection protocols is vital to any anti-fraud strategy. The OIG also stresses the importance of policies and mechanisms for internal and external reporting as part of DESE's comprehensive antifraud and fraud awareness program.

The OIG believes that a comprehensive anti-fraud program is crucial for the prevention and detection of fraud, waste, and abuse. The ongoing maintenance and
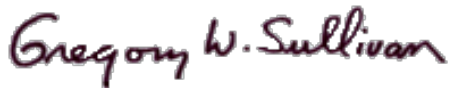
the communication of this program to employees, subrecipients, and vendors can help ensure that an antifraud program remains a vibrant part of your agency's internal control and oversight framework.

We encourage DESE to continue to implement and maintain the recommendations made in KPMG's "Readiness Assessment."

If you have any questions or concerns, please contact Deputy Inspector General Neil Cohen at (617)722-8819. Thank you for your assistance and cooperation in this matter.

Sincerely,

Gregory W. Sullivan

Gregory W. Sullivan
Inspector General

cc: Doug Rice, MA Recovery and Reinvestment Office
    Peter Scavotto, Office of the State Comptroller
    David LeBlanc, DESE, Audit and Compliance Unit