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INDEPENDENT STATE AUDITOR'S REPORT ON
CERTAIN ACTIVITIES OF THE
MASSACHUSETTS REHABILITATION
COMMISSION
JULY 1, 2007 TO JUNE 30, 2008

OFFICIAL AUDIT
REPORT
APRIL 7, 2009

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Chapter 6, Section 74, of the Massachusetts General Laws established the Massachusetts Rehabilitation Commission (MRC), whose primary mission is to help permanently disabled individuals live as independently as possible. The agency operates two programs that were subject to this audit: the Vocational Rehabilitation (VR) Program, which provides education opportunities, job placement, and training for individuals who are capable of becoming gainfully employed and the Disability Determination Services (DDS) Program, which determines initial and continued eligibility for federal Supplemental Security Income and Social Security Disability Insurance public benefits. For fiscal year 2008, the MRC received approximately \$89.2 million in appropriations, approximately \$78.5 million of which consisted of federal funds.

In accordance with Chapter 11, Section 12, of the General Laws, the Office of the State Auditor (OSA) conducted an audit of the MRC in conjunction with the Single Audit of the Commonwealth of Massachusetts for the fiscal year ended June 30, 2008.

AUDIT RESULTS

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1. PRIOR AUDIT RESULT RESOLVED – INTERNAL CONTROLS OVER NON-GAAP FIXED ASSETS IMPROVED

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Our prior audit disclosed that the MRC was not in compliance with the Office of the State Comptroller's (OSC) policies and procedures and its own internal policies and procedures for the accounting, reconciling, reporting, recording, and inventorying its non-Generally Accepted Accounting Principles (GAAP) fixed assets (assets with a historical unit cost of between \$1,000 and \$49,999) maintained by the VR program. The MRC's inventory listings of GAAP fixed assets consist of furniture, equipment, and electronic data processing equipment purchased with program funds.

Our follow-up review disclosed that the MRC has taken action to resolve this issue. Specifically, the MRC conducted an annual physical inventory, as of June 30, 2008, of its property and equipment and reconciled the results with its books and records that it maintains; maintained its inventory records in a complete manner; assigned a unique identification tag to its property and equipment; and reported unlocated items to the OSA as required under Chapter 647 of the Acts of 1989 (see Appendix).

2. RECONCILIATION OF VOCATIONAL REHABILITATION PROGRAM INCOME NEEDS IMPROVEMENT

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The MRC is not performing reconciliations between its records, the Massachusetts Management Accounting and Reporting System (MMARS), and the United States Social Security Administration (SSA) to ensure that VR program income received from the SSA is accurately recorded in MMARS. Recording errors in MMARS resulted in an understatement of program income of \$174,682 that was not detected. In response to the audit report, the MRC indicated that it would reinforce reconciliation procedures between MMARS and cash deposits.

**3. ELIGIBILITY DETERMINATIONS FOR APPLICANTS WERE NOT PERFORMED IN A
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The MRC needs to monitor the eligibility determination process to ensure that determinations are performed for individuals applying for VR services within the 60-day timeframe required by regulations. A review of the client database as of June 30, 2008 disclosed that eligibility was not determined within 60 days of the application date for 2,318 (25%) of the 9,429 cases received during the period of July 1, 2007 to April 30, 2008. In response to the audit report, the MRC indicated that its compliance office would complete an analysis of eligibility determination, MRC offices will be required to submit a formal corrective action plan and manager, and counselor performance will be taken into consideration regarding compliance with eligibility requirements.

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INTRODUCTION

Background

Chapter 6, Section 74, of the Massachusetts General Laws established the Massachusetts Rehabilitation Commission (MRC), whose primary mission is to help permanently disabled individuals live as independently as possible. The agency operates two programs that were subject to this audit, the Vocational Rehabilitation (VR) Program, which provides education opportunities, job placement, and training for individuals who are capable of becoming gainfully employed and the Disability Determination Services (DDS) Program, which determines initial and continued eligibility for federal Supplemental Security Income and Social Security Disability Insurance public benefits. For fiscal year 2008, the MRC received approximately \$89.2 million in appropriations, approximately \$78.5 million of which consisted of federal funds.

Audit Scope, Objectives, and Methodology

In accordance with Chapter 11, Section 12 of the General Laws, the Office of the State Auditor conducted an audit of the MRC for the period July 1, 2007 to June 30, 2008. We conducted our audit in conjunction with the Single Audit of the Commonwealth of Massachusetts for the fiscal year ended June 30, 2008. The Commonwealth's Fiscal Year 2008 Single Audit Report consists of the following volumes:

- Statutory Basis Financial Report
- Comprehensive Annual Financial Report
- [Office of Management and Budget] OMB Circular A-133 Report

The audit results contained in this report are also reported in the fiscal year 2008 Single Audit of the Commonwealth of Massachusetts, OMB Circular A-133 report as mentioned above. Our review was conducted in accordance with applicable generally accepted government auditing standards and standards set forth in OMB Circular A-133 and the American Institute of Certified Public Accountants (AICPA) Audit and Accounting Guide, Audits of State and Local Governments. Additionally, our audit evaluated the MRC's compliance with Office of the State Comptroller's (OSC) policies and procedures; the General Laws; and other applicable laws, rules, and regulations.

In performing our audit of the MRC's activities, we referred to OMB Circular A-133 and the March 2008 Compliance Supplement to determine the compliance requirements that must be considered in an audit conducted under OMB Circular A-133. Based upon the audit, we determined requirements applicable to the VR and DDS programs and designed appropriate tests to determine the MRC's compliance with these requirements.

Specifically, our objectives were to:

- Assess the internal controls in place at the MRC during the review period.
- Assess and evaluate the program for compliance with the requirements of the Compliance Supplement, the Federal Department of Education, the Social Security Administration, and the OSC.
- Determine the status of prior audit results.

The criteria for our audit were drawn from OMB Circular A-133 and the March 2008 Compliance Supplement, the Code of Federal Regulations, and the OSC's Internal Control Guide. Those applicable criteria deal with the MRC's administration and operation of the programs tested above for compliance with laws and regulations governing:

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

We examined, on a test basis, evidence about the MRC's compliance with the applicable requirements and performed other procedures as we considered necessary. Based on these tests, we concluded that, except as reported in the Audit Results section of this report, the MRC had adequate internal controls in place and complied with the requirements of the federal Department of

Education, the Social Security Administration, OMB Circular A-133 and the Compliance Supplement, and other applicable laws, rules, and regulations for the area tested.

AUDIT RESULTS

1. PRIOR AUDIT RESULT RESOLVED – INTERNAL CONTROLS OVER NON-GAAP FIXED ASSETS IMPROVED

Our prior audit disclosed that the Massachusetts rehabilitation Commission (MRC) was not in compliance with the Office of the State Comptroller's (OSC) policies and procedures and its own internal policies and procedures for the accounting, reconciling, reporting, recording, and inventorying its non-Generally Accepted Accounting Principles (GAAP) fixed assets (assets with a historical unit cost of between \$1,000 and \$49,999) maintained by the Vocational Rehabilitation (VR) program. The MRC's inventory listings of non-GAAP fixed assets consist of furniture, equipment, and electronic data processing equipment purchased with program funds.

Our follow-up review disclosed that the MRC has taken action to resolve this issue. Specifically, the MRC has conducted an annual physical inventory, as of June 30, 2008, of its property and equipment and reconciled the results with its books and records that it maintains; maintained its inventory records in a complete manner; assigned a unique identification tag to its property and equipment; and reported unlocated items to the Office of the State Auditor as required by Chapter 647 of the Acts of 1989 (see Appendix).

2. RECONCILIATION OF VOCATIONAL REHABILITATION PROGRAM INCOME NEEDS IMPROVEMENT

The MRC is not performing reconciliations between its records, the Massachusetts Management Accounting and Reporting System (MMARS), and the United States Social Security Administration (SSA) to ensure that VR program income received from the SSA is accurately recorded on MMARS.

The source of program income for the VR program consists of reimbursement from the SSA for expenses incurred in assisting Social Security beneficiaries and recipients to achieve gainful employment for VR clients. The MRC submits expense claims for reimbursement to the SSA, and the SSA transmits funds (program income) directly to the Commonwealth on a monthly basis based on the amount of expense claims that were approved by the SSA. The program income is used by the MRC to pay for services on behalf of VR clients. The MRC prepares a Cash Deposit form for the amount of the program income received and submits the form to the

Office of the State Treasurer (OST) for recording in MMARS (Appropriation Number 4120-0029). Program income, whenever earned, must be used for the provision of VR services and the administration of the state plan under the state program. Program income is considered earned when it is received (34 Code of Federal Regulations [CFR] Section 361.63).

Our review of VR program income recorded in MMARS for the period July 1, 2007 to June 30, 2008, disclosed the following:

- Three SSA reimbursements totaling \$250,102 (\$198,744 received in December 14, 2007, \$24,889 received on January 26, 2008, and \$26,469 received on March 26, 2008) were not recorded in the VR program income appropriation. Instead, the reimbursements were recorded erroneously in two other MRC appropriations. In all cases, the cash deposit forms were completed correctly by the MRC.
- Two transactions totaling \$75,420 were incorrectly recorded in the VR program income appropriation account on June 26, 2008. These transactions involved other state agencies and did not represent MRC VR program income.

The net result of the above errors was an understatement of \$174,682 in the VR program income appropriation. As a result of the understatement in program income, the MRC's December 31, 2007, March 31, 2008 and June 30, 2008 SF-269 financial status reports were also understated. After the discovery of the understatements, the MRC corrected the reported program income on its September 30, 2008 SF-269 financial status report.

The above errors were not detected because the MRC's internal controls did not include a reconciliation of SSA reimbursements to MMARS to ensure that all program income is accurately recorded on MMARS. The lack of reconciliations can result in undetected, incorrect, or invalid transactions being made to the VR program income appropriation account.

The Office of Management and Budget (OMB) Circular A-102 Common Rule requires that non-federal entities receiving federal awards establish and maintain internal controls designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements. Moreover, OMB Circular A-133, Part 6, Internal Control, Subsection J, Program Income, requires that mechanisms be put in place to identify risks of unrecorded or miscoded program income and that any variances between expected and actual income be analyzed to provide reasonable assurance that program income is correctly earned, recorded, and used in accordance with the program requirements.

The OSC's Internal Control Guide, Chapter 1, Periodic Comparison/Reconciliation, states in part:

The purpose of periodic comparison/reconciliation is to verify that the processing or recording of transactions is valid, properly authorized and recorded on a timely basis. Integral parts of the reconciliation process include identifying and investigating discrepancies from established standards and taking corrective action when necessary.

As a result of our audit, the MRC's Chief Accountant has informed us the MRC is currently in the process of correcting the errors.

Recommendation

The MRC should design and implement policies and procedures to perform reconciliations between MRC records, MMARS, and the Social Security Administration to ensure that all VR program income transactions recorded in MMARS are correct and accurate.

Auditee's Response

We have reviewed our procedures and found this error to be an extreme exception that would have been detected within the department had the auditors not found it first. The revenue was received by the department but had been credited to the wrong account by the State Treasurer's Office.

We recognize our responsibilities to reconcile our revenue in a timely manner and with established procedures for staff to follow.

We have reinforced our procedures to reconcile CD forms (Cash Deposit) with the Comptroller's MMARS 341 Document Direct Report in order to confirm that funds received are credited to the correct appropriation.

3. ELIGIBILITY DETERMINATIONS FOR APPLICANTS WERE NOT PERFORMED IN A TIMELY MANNER

The MRC needs to monitor the eligibility determination process to ensure that determinations are performed for individuals applying for VR services within the timeframe required by regulations. A review of the client database as of June 30, 2008 disclosed that eligibility was not determined within the required 60 days of the application date for 2,318 (25%) of the 9,429 cases received during the period of July 1, 2007 to April 30, 2008, as follows:

Eligibility Not Determined Within 60 Days	Number of Cases Not in Compliance
61 – 99 days	1,558 (67%)
100 – 149 days	498 (22%)
150 – 199 days	169 (7%)
200 plus days	<u>93 (4%)</u>
Total	<u>2,318</u>

In addition, as of June 30, 2008, eligibility had not yet been determined for 649 of the 2,318 cases noted above. Furthermore, MRC records indicated that eligibility had not yet been determined for an additional 13 cases that were received prior to July 1, 2007.

Both federal and state regulations permit an extension of time beyond 60 days for exceptional and unforeseen circumstances beyond the MRC's control, provided that the MRC and the individual agree to such an extension. However, in the cases noted above, there was no documentation on record that an extension of time was agreed to.

The MRC has created client database reports that are designed to provide management with the capability to monitor cases in which eligibility has not been determined within 30, 45, and 60 days from the application date. However, the MRC has not implemented policies and procedures that document the monitoring process (e.g., how often the reports should be reviewed, how the review should be documented), including the resolution of any issues identified during the review. Without documented policies and procedures, there is inadequate assurance that the monitoring process is consistently conducted by all managers to either prevent cases from becoming noncompliant or to detect cases that are noncompliant with regulations.

Department of Education federal regulations 34 CFR 361.41 (b)(1)(i)(ii) states, in part:

(b) Applications

- (1) Once an individual has submitted an application for vocational rehabilitation services, including applications made through common intake procedures in One-Stop centers established under section 121 of the Workforce Investment Act of 1998, an eligibility determination must be made within 60 days, unless—*

- (i) *Exceptional and unforeseen circumstances beyond the control of the designated State unit preclude making an eligibility determination within 60 days and the designated State unit and the individual agree to a specific extension of time; or*
- (ii) *An exploration of the individual's abilities, capabilities, and capacity to perform in work situations is carried out in accordance with §361.42(e) or, if appropriate, an extended evaluation is carried out in accordance with §361.42(f).*

Moreover, Commonwealth vocational rehabilitation regulation 107 CMR 4.07 (11) states, in part:

Eligibility will be determined as soon as there is sufficient information to decide whether or not the individual meets or does not meet the requirements for ineligibility but not more than 60-days from the date of application. The 60-day time period for determining eligibility can be extended only if there are exceptional and unforeseen circumstances beyond the Commission's control that prevent an eligibility decision within the 60-day time period. If an extension of time for the purposes of determining eligibility is needed, the counselor must: reach an agreement with the individual to extend the 60-day limit, provide him or her written notice concerning the circumstances for the delay, and discuss how the eligibility determination can not be completed within the new time frame. If an extension of time is needed and no agreement can be reached, an individual must be advised of the rights and remedies that are available, including the right to a hearing by an impartial hearing officer and a referral to the Client Assistance Program.

In addition, the OSC's Internal Control Guide, Chapter 1, Monitoring, states, in part:

Monitoring is the review of an organization's activities and transactions to assess the quality of performance over time and to determine whether internal controls are effective. . . .The purpose of monitoring is to determine whether internal control is adequately designed, properly executed, and effective.

If the determination of eligibility is not conducted as specified by the regulations, the MRC cannot ensure that individuals requesting vocational rehabilitation services are advised of their eligibility status on a timely basis.

The MRC's Principal Commissioner explained that when the 60-day requirement was established in the federal regulations, adequate funding was assumed across the 50 or more VR programs nationally, which was not the case. Based on the formula established for distribution, Massachusetts received annual increases of less than 1.5% on average while the Cost of Living Allowance (COLA) has been three times that level with other states receiving increases exceeding 20%. As a result of this inequality, the MRC was forced to institute an indefinite wait list for services. The result was that consumers were still completing applications and, once their eligibility was determined, would remain on the wait list indefinitely. During this period of time,

it was explained, counselors were less diligent in making quick eligibility decisions since it had no effect on the eventual delivery of services and were more concerned with meeting the needs of individuals on active status than determining eligibility and having consumers on an indefinite wait list for plan development. He further stated that since the wait list was changed from indefinite to six months as a result of further infusion of state dollars, compliance with the 60-day eligibility requirement has improved dramatically and that better compliance is expected in the months ahead from VR managers and supervisors.

Recommendation

The MRC should:

- Develop policies and procedures that document the monitoring process for determining eligibility on a timely basis. This will ensure that the monitoring process is consistently conducted by all managers to either prevent cases from becoming noncompliant or to detect cases that are noncompliant with regulations.
- Take the necessary action to resolve those cases that are currently in noncompliance with regulations.

Auditee's Response

We recognized that improvements in this area are important on compliance purposes. In terms of actions the following have been implemented:

- *We will complete an analysis of compliance by office.*
- *Offices with major compliance issues will be required to submit a formal corrective action plan.*
- *Notification to all managers that performance will partly be based on compliance with time in status standards.*
- *Evaluate counselor performance.*

APPENDIX

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Chapter 647

THE COMMONWEALTH OF MASSACHUSETTS

In the Year One Thousand Nine Hundred and Eighty-nine

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

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

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

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

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

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

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

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

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

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

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

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

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

House of Representatives, December 21, 1989.

Passed to be enacted,

George Luvaan, Speaker.

In Senate, December 22, 1989.

Passed to be enacted,

William W. Budge, President.

January 3, 1990.

Approved,

Richard H. Kiah, Governor.