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INDEPENDENT STATE AUDITOR'S REPORT ON
CERTAIN ACTIVITIES OF THE
MASSACHUSETTS REHABILITATION
COMMISSION

JULY 1, 2005 TO JUNE 30, 2006

**OFFICIAL AUDIT
REPORT
JANUARY 26, 2007**

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Chapter 6, Section 74, of the Massachusetts General Laws, established the Massachusetts Rehabilitation Commission (MRC). The primary mission of MRC is to help permanently disabled individuals to live as independently as possible. The agency operates three programs, the Vocational Rehabilitation program (VR), which provides education opportunities, job placement, and training for individuals who are capable of becoming gainfully employed; the Disability Determination Services program (DDS), which determines initial and continued eligibility for federal Supplemental Security Income and Social Security Disability Insurance public benefits; and the Community Services Program (CS), which offers various services, including independent- and assisted-living settings for persons with disabilities. For fiscal year 2006, MRC received approximately \$136 million in appropriations, approximately \$88 million of which consisted of federal funds. In accordance with Chapter 11, Section 12, of the General Laws, we conducted a review of the MRC in conjunction with the Single Audit of the Commonwealth of Massachusetts for the fiscal year ended June 30, 2006.

AUDIT RESULTS

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1. INTERNAL CONTROLS OVER NON-GAAP FIXED ASSETS NEED TO BE IMPROVED

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Our audit disclosed that MRC was not in compliance with the Office of the State Comptroller's (OSC) requirements and its own internal policies and procedures for the accounting, reconciling, reporting, and recording of Non-GAAP fixed assets. MRC maintains two inventory lists for Non-GAAP fixed assets consisting of furniture and equipment and EDP equipment. Specifically, our review noted that the inventory lists were not completely or accurately maintained, fixed assets were not properly tagged in all instances, and an annual inventory of fixed assets was not performed. In addition, MRC did not file the required reports with the Office of the State Auditor for unaccounted for items, contrary to Chapter 647 of the Acts of 1989. Without proper controls over fixed assets, there is no assurance that property and equipment is adequately safeguarded against loss, theft, or misuse. In response to our audit, MRC stated that it would take the appropriate steps to enhance controls to ensure compliance with requirements for the accounting, reconciling, reporting, and recording of fixed assets.

2. PAYROLL CERTIFICATIONS NOT OBTAINED FOR FEDERALLY-FUNDED PROGRAMS

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Our audit disclosed that MRC did not obtain periodic payroll certifications for employees that charge 100% of their time to the VR and DDS programs as required by OMB Circular A-87. By not obtaining the periodic payroll certifications for salaries charged to federal awards, there is no assurance that the costs charged to the federal awards are appropriate. In response to our audit, MRC stated that they will comply with the requirement.

INTRODUCTION

Background

The Massachusetts Rehabilitation Commission (MRC) is authorized by Chapter 6, Section 74, of the Massachusetts General Laws. The MRC has three programs designed to meet its primary mission of helping permanently disabled individuals live as independently as possible. The Vocational Rehabilitation Program (VR) provides education opportunities, job placement, and training for individuals who are capable of becoming gainfully employed. VR has 28 area offices administered by three regional offices across the state. The central office is located at Fort Point Place in Boston. The Disability Determination Services Program (DDS) determines initial and continued eligibility for federal Supplemental Security Income (SSI) and Social Security Disability Insurance (SSDI) public benefits. DDS also offers outreach efforts to shelters and other sites by working with the Department of Transitional Assistance in assisting persons with severe disabilities to access the SSI and SSDI programs. DDS has two locations (Worcester and Boston). The Community Services Program (CS) offers various services, including independent- and assisted-living settings for persons with disabilities. CS is primarily administered from its central office, located at Fort Point Place in Boston. For fiscal year 2006, MRC received approximately \$136 million in appropriations, approximately \$88 million of which was provided by the federal government.

Audit Scope, Objectives, and Methodology

In accordance with Chapter 11, Section 12, of the General Laws, we conducted a review of MRC for the period July 1, 2005 to June 30, 2006. We conducted our review in conjunction with the Single Audit of the Commonwealth of Massachusetts for the fiscal year ended June 30, 2006. Our report is an abstract from the Commonwealth's Single Audit Report for the fiscal year ended June 30, 2006 and solely represents the Office of the State Auditor's audit results of the Commission. The Commonwealth's Fiscal Year 2006 Single Audit Report consists of the following volumes:

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

Our review was conducted in accordance with applicable generally accepted government auditing standards and standards set forth in the OMB Circular No. A-133, revised June 27, 2003, and the American Institute of Certified Public Accountants' (AICPA) Audit and Accounting Guide, Audits of State and Local Governments. Additionally, our review evaluated MRC's compliance with Office of the State Comptroller's (OSC) policies and procedures; Massachusetts General Laws; and other applicable laws, rules, and regulations.

In performing our review of MRC's activities, we referred to OMB Circular A-133, March 2006 Compliance Supplement to determine the compliance requirements that must be considered in an audit conducted under OMB Circular A-133. Based upon the review, we determined requirements applicable to the VR and the SSDI Programs and designed appropriate tests to determine MRC's compliance with these requirements.

Specifically, our objectives were to:

- Assess the internal controls in place at 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, if any.

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

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

Special Tests and Provisions

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

AUDIT RESULTS

1. INTERNAL CONTROLS OVER NON-GAAP FIXED ASSETS NEED TO BE IMPROVED

Our review revealed that the Massachusetts Rehabilitation Commission (MRC) was not in compliance with the Office of the State Comptroller's (OSC) requirements and its own internal policies and procedures for the accounting, reconciling, reporting, and recording of fixed assets. MRC maintains two inventory lists for Non-GAAP fixed assets consisting of furniture and equipment and EDP equipment. Specifically, our review noted that the inventory lists were not completely or accurately maintained, fixed assets were not properly tagged in all instances, and an annual inventory of fixed assets was not performed. In addition, MRC did not file any reports with the Office of the State Auditor (OSA) for any unaccounted for items, contrary to the requirements of Chapter 647 of the Acts of 1989, an act to improve internal controls at state agencies.

Our review of the furniture and equipment inventory controls disclosed the following:

- The inventory listing had not been updated on a timely basis. For example, fiscal year 2006 purchases and disposals were not recorded until August 2006.
- The total value of the assets reported on its furniture and equipment listing of \$2,595,271 was not accurate since the total value was reduced by \$74,099, representing the value of assets that were disposed. However, the original purchase of those disposed assets was not initially included in the total value, resulting in an understatement of the total value of assets by \$74,099.

Our review of the EDP equipment inventory controls disclosed the following:

- The listing had not been updated for fiscal year 2006 purchases.
- The listing did not include a "roll forward" balance. A roll forward is a schedule that reports prior year ending balances, identifies additions and deletions, i.e. disposals of such assets during the year that result in an ending balance that reports all non-GAAP fixed assets currently owned and used by the department.
- The total value of the assets reported on MRC's EDP equipment inventory list of \$1,312,014 as of August 11, 2006 was not accurate since the total value was not reduced for disposed items totaling \$281,101, resulting in an overstatement of the total value of assets by \$281,101.
- The acquisition date and assigned MRC identification number was not recorded in all instances.

- There were 16 instances noted where the same MRC identification number was recorded multiple instances either for the same item or different items.

In addition, we selected 33 items for review at the Central Office to verify the existence of the asset, location, and proper recording of each item, which disclosed the following:

- Three computer laptops could not be located. Although we were informed that one laptop had been stolen in February 2005, the theft of this property was not reported to the OSA as required by Chapter 647 of the Acts of 1989. We noted that the remaining two laptops were no longer assigned to the designated employees and that MRC is currently performing a search for those two laptops. Moreover, MRC could not provide a Fixed Asset Disposition form to document the disposition of either asset.
- Four items lacked identification tag numbers.
- The location of four items was not accurately recorded on the list.
- One item found was inaccurately recorded as disposed on the list.

The Massachusetts Management Accounting and Reporting System (MMARS) Fixed Asset Subsystem User Guide sets forth the following policies, which state, in part:

Chapter 5, Accounting and Management, Policy Numbers 5-5 and 5-6:

Fixed Asset Inventory – There shall be an annual inventory taken of fixed assets owned by every Department. This inventory shall include at a minimum a verification of the existence and location of fixed assets owned by a Department. This inventory shall be done on or about June 30th of each year for GAAP and non-GAAP assets.

Reconciliation – There shall be a reconciliation of the fixed assets inventory against the books and records maintained by the Department, either on the Fixed Asset Subsystem or other documented methods. This reconciliation is to be done, at a minimum, on an annual basis.

Chapter 4, Recording Including Depreciation, Policy Number 4-5:

Tagging of Assets – Physical property other than land, buildings and infrastructure shall be marked with some type of permanent tag affixed to a readily available area of the asset. This tag must have a unique identification number that will be associated with that asset and become a part of the asset's permanent record.

Chapter 6, Reporting, Policy Number 6-3:

Non-GAAP Fixed Assets – Departments must maintain an inventory of these assets either on the Fixed Asset Subsystem in MMARS or on an in-house system.

Also, the OSC's Internal Control Guide for Departments, Volume II, Chapter 3, Section C, Fixed Assets, sets forth the following requirements:

Departments are required to properly account for all fixed asset transactions, including the proper recording and the reconciliation of a periodic inventory of all fixed assets.

The department has implemented adequate security of fixed assets, equipment or other inventory guidelines to ensure the safety of fixed assets from loss, theft, misuse or destruction, including restricted access to the public to office space.

Procedures in place to ensure that all fixed assets are properly recorded in either MMARS or the department's inventory system within 7 days of receipt.

Internal inventory systems must include the description of the item, the value of the item, the acquisition date and where the property can be located within the department.

MRC's Administration Bulletin 99-17 regarding fixed asset inventory states, in part:

MRC is required annually to perform and reconcile its fixed asset inventory, which shall include, at a minimum, a verification of the existence and location of all fixed assets.

All fixed assets must be marked with a permanent tag affixed to a readily available area and is a unique identification number associated with the asset and becomes a part of the asset's permanent record.

Where one office or department seeks to transfer furniture or equipment to another, the transferring office or department Director should complete, sign, date and submit three originally signed Fixed Asset Disposition Forms to the receiving office or department.

Where an office or department seeks to dispose of fixed assets, the Director must complete the Fixed Asset Disposition Form noting the condition of the property to be disposed of.

MRC's Internal Control Plan states, in part:

All equipment has an individual property control identification number and a complete property inventory of all property is tagged when received and entered into inventory records.

Inventory records are updated to reflect additions, deletions and internal transfers of equipment.

An annual inventory of all equipment is conducted with notations of all discrepancies since the last inventory has been taken.

Results of the inventory are reconciled to department's inventory records.

The Director of Administration reports loss to State Auditor's Office and equipment is deducted from the inventory.

Chapter 647 of the Acts of 1989 requires that agencies immediately report unaccounted for variances, losses, shortages, or thefts of funds or property to the OSA, stating, in part:

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.

MRC indicated that, because of the implementation of the new MMARS, staff was not available to maintain the inventory. During the audit MRC began the process of updating and correcting its records to ensure that they are complete and accurate. MRC further advised us that a complete inventory would be conducted in the near future.

By not maintaining proper controls over fixed assets, there is no assurance that property and equipment is adequately safeguarded against loss, theft, or misuse.

Recommendation

MRC should take the necessary corrective actions regarding fixed asset management to ensure compliance with OSC's guidelines and MRC's policies and procedures and to ensure adequate internal controls over its fixed assets. Specifically, it should:

- Conduct an annual physical inventory of its property and equipment.
- Reconcile on an annual basis, at a minimum, its fixed assets inventory against the books and records that it maintains.
- Monitor the movement or transfer of equipment within MRC.
- Maintain cumulative fixed asset listings accurately, completely, and timely, and include each item's description, property identification number, location, and acquisition date.
- Ensure that all fixed assets have a permanently affixed identification tag.
- Report any items that it cannot locate to the OSA as required under Chapter 647.

Auditee's Response

The Commission is in basic agreement with the audit finding. The only explanation we can offer is a lack of staffing during this time period due to the significant efforts that had to be put forth for the implementation of the Comptrollers New MMARS financial accounting system.

The Commission will comply with the requirement to complete an annual physical inventory of its assets. We are well underway with a physical inventory of our central office and will complete the physical inventory by 9/15/06. We will begin the reconciliation of the physical inventory to our current inventory listing and expect to complete that by 9/30/06. We expect to complete a physical inventory of our 25 area office and 3 district office locations by 9/30/06 and reconciliation to our inventory listing by 11/10/06.

We will improve the tracking of inventory that is transferred from one location to another and from one individual to another for appropriate items such as notebook computers.

We will continue to maintain our fixed asset listing, but will enter inventory changes (additions and reductions) in a timely manner.

We make every effort to affix numbered inventory stickers to inventory items as received but do recognize that over time the stickers become unreadable or fall off. We will emphasize our procedure for replacement of missing or defective tags and will continue to tag all new inventory items.

The Agency has a history of reporting lost or stolen inventory items to the OSA. We are aware of the process and comply with the best of our ability. The current audit has brought out deficiencies on our inventory control, which we expect will result in additional items that will be deemed missing or unaccounted for. We will make our best efforts to account for those items during our physical inventory and submit a report to the OSA upon completion of our reconciliation.

2. PAYROLL CERTIFICATIONS NOT OBTAINED FOR FEDERALLY-FUNDED PROGRAMS

The MRC did not obtain periodic payroll certifications for employees that charge 100% of their time to the Rehabilitation Services Vocational Rehabilitation Grants to States and Social Security -Disability Insurance Grants as required by OMB Circular A-87. Our review of 27 employee payroll transactions totaling \$42,440 disclosed that the Commission did not obtain periodic payroll certifications for individuals charging 100% of their time to a federal program.

OMB Circular A-87, Attachment B, Section 8h(3), requires periodic certifications, as follows:

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

For fiscal year 2006, 462 employees charged 100% of their time to the Vocational Rehabilitation Grant totaling \$24,099,814 in salaries and 224 employees charged 100% of their time to the Social Security -Disability Insurance Grant totaling \$13,065,293 in salaries. By not obtaining the periodic payroll certifications for salaries charged to federal awards, there is no assurance that

the costs charged to the federal awards are appropriate. MRC management was not aware of this federal requirement.

Recommendation

The Commission should establish policies and procedures that require periodic certifications for those employees who charge 100% of their time to a federal program to comply with OMB Circular A-87.

Auditee's Response

The Commission will comply with the requirement. We may have been unaware of the requirement since it has never been raised as an issue in all the years we have received a single audit.

We do not see this as a problematic issue since all employees are hired to work within certain programs and are paid from that programs funding source.

We have brought this issue to the attention to the Executive Office of Human Services (Human Services) human resources department since this issue may impact other agencies, within Human Services, and they may wish to initiate a standard procedure for this certification.

Our initial certification will include periodic certifications by an appropriate manager of our routine payroll submissions and is expected be completed by 9/30/06.