



The Commonwealth of Massachusetts

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**INDEPENDENT STATE AUDITOR'S REPORT ON
CERTAIN ACTIVITIES OF THE
MASSACHUSETTS REHABILITATION
COMMISSION
JULY 1, 2008 TO JUNE 30, 2009**

**OFFICIAL AUDIT
REPORT
JUNE 10, 2010**

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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 2009, the MRC received approximately \$94.8 million in appropriations, approximately \$77 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, 2009.

AUDIT RESULTS

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1. PRIOR AUDIT RESULT RESOLVED – RECONCILIATION OF VOCATIONAL REHABILITATION PROGRAM INCOME IMPROVED

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Our prior audit disclosed that the MRC was 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 was accurately recorded in MMARS. Recording errors in MMARS resulted in an understatement in program income of \$174,682 that was not detected.

Our follow-up audit disclosed that the MRC has taken corrective action to resolve this issue. Specifically, the MRC performs a reconciliation every month between its records, MMARS, and the SSA to ensure that VR program income received from the SSA is accurately recorded in MMARS.

2. PRIOR AUDIT RESULT UNRESOLVED – ELIGIBILITY DETERMINATIONS FOR APPLICANTS WERE NOT PERFORMED IN A TIMELY MANNER

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Our prior audit disclosed that the MRC needed to monitor the eligibility determination process to ensure that determinations were performed for individuals applying for VR services within the 60-day timeframe required by regulations. A review of the client database disclosed that eligibility was not determined within 60 days of the application date for 25% of the applications received in FY 2008.

Our follow-up audit disclosed that the MRC has made progress in improving the timeliness of eligibility determinations. We noted that the MRC implemented controls in January 2009 to monitor the timeliness of eligibility determinations. Specifically, a monthly report has been generated to identify the percentage of applications for all area offices that are not in compliance with the 60-day timeframe required by regulations.

This report is distributed to all area office directors to monitor non-compliant cases for further attention. As of May 2009, the percentage of non-compliant cases has decreased from 25% to 11%.

In response to the audit report, the MRC indicated that it will continue with the monthly reports and compliance levels will be part of the evaluation of Area Director performance.

3. INTERNAL CONTROLS OVER THE SUPERVISORY REVIEW OF EMPLOYEE ATTENDANCE RECORDS NEED IMPROVEMENT **6**

The MRC does not have adequate internal controls to ensure that all employee attendance sheets were reviewed and approved by the employee's supervisor. Our review disclosed that nine timesheets for five employees from our sample of 60 VR timesheets and 12 timesheets for six employees from our sample of 60 DDS timesheets did not have a supervisory signature. MRC officials stated that the absence of a supervisory signature was due to an oversight and that policies and procedures will be enhanced to require an additional review to ensure that all timesheets have supervisory approval.

In response to the audit report, the MRC indicated that it is in the process of developing agency-wide policies and procedures regarding the improvement of existing internal controls to ensure that employee timesheets are reviewed by program supervisors.

4. FINANCIAL REPORTING NEEDS IMPROVEMENT **7**

The MRC did not have a reporting system that provides supporting documentation to substantiate the data reported in the federal Rehabilitation Service Administration Annual Vocational Rehabilitation/Cost Report (RSA-2) for the period ended September 30, 2008. In addition, MRC does not have written procedures and policies that detail the process used in completing the report.

Since MRC does not have a system in place to document, support, and provide an audit trail for the data in the RSA-2 report, the RSA does not have adequate assurance that reports are accurate.

In response to the audit report, the MRC indicated that, with technical assistance from RSA, it will implement documented policies and procedures to ensure that the RSA-2 report is submitted completely and accurately.

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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 2009, the MRC received approximately \$94.8 million in appropriations, approximately \$77 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, 2008 to June 30, 2009. We conducted our audit in conjunction with the Single Audit of the Commonwealth of Massachusetts for the fiscal year ended June 30, 2009. The Commonwealth's Fiscal Year 2009 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 2009 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 (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, the March 2009 Compliance Supplement, and the June 2009 Compliance Supplement Addendum #1 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 2009 Compliance Supplement, the June 2009 Compliance Supplement Addendum #1, the Code of Federal Regulations, and the OSC's Internal Control Guide. Those criteria dealt with the MRC 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 and Relocation Assistance
- Reporting
- Subrecipient Monitoring
- Special Tests and Provisions

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 – RECONCILIATION OF VOCATIONAL REHABILITATION PROGRAM INCOME IMPROVED

Our prior audit disclosed that the Massachusetts Rehabilitation Commission (MRC) was 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 the Vocational Rehabilitation (VR) program income received from the SSA was accurately recorded in MMARS. Recording errors in MMARS resulted in an understatement in program income of \$174,682 that was not detected.

Our follow-up audit disclosed that the MRC has taken corrective action to resolve this issue. Specifically, the MRC performs a reconciliation every month between its records, MMARS, and the SSA to ensure that VR program income received from the SSA is accurately recorded in MMARS.

2. PRIOR AUDIT RESULT UNRESOLVED – ELIGIBILITY DETERMINATIONS FOR APPLICANTS WERE NOT PERFORMED IN A TIMELY MANNER

Our prior audit disclosed that the MRC needed to monitor the eligibility determination process to ensure that determinations were performed for individuals applying for VR services within the 60-day timeframe required by regulations. The report disclosed that eligibility was not determined within 60 days of the application date for 25% of the applications received in FY 2008.

Our follow-up audit disclosed that the MRC has made progress in improving the timeliness of eligibility determinations. We noted that the MRC implemented controls in January 2009 to monitor the timeliness of eligibility determinations. Specifically, a monthly report has been generated to identify the percentage of applications for all area offices that are not in compliance with the 60-day timeframe required by regulations. This report is distributed to all area office directors to monitor non-compliant cases for further attention. The percentage of non-compliant cases has decreased from 25% to 11%, as of May 2009. A review of the client database disclosed that eligibility was not determined within 60 days of the application date for 1,225 (11%) of the 10,860 cases received during the period of July 1, 2008 to May 31, 2009, as follows:

Eligibility Not Determined Within 60-Days	Number of Cases Not in Compliance
61 – 99 days	1,052 (86%)
100 – 149 days	137 (11%)
150 – 199 days	32 (3%)
200 plus days	<u>4</u> (0%)
Total	<u>1,225</u>

In addition, as of June 30, 2009, eligibility had not yet been determined for 143 of the 1,225 cases noted above. The MRC records also indicated that there were no cases prior to July 1, 2008 where eligibility had not been determined.

Department of Education 34 Code of Federal Regulations (CFR) 361.41 (b)(1) states, in part:

Once an individual has submitted an application for vocational rehabilitation services, an eligibility determination must be made within 60-days, unless 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.

Commonwealth VR 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 cannot 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.

Chapter 1 of the Office of the State Comptroller's Internal Control Guide, 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 the internal control is adequately designed, properly executed, and effective.

Recommendation

MRC should continue to implement improvements as planned. The eligibility determination process should be continually monitored to ensure that determinations are performed in compliance with the 60-day requirement. To that end, MRC should strive to further reduce the percentage of non-compliant cases.

Auditee's Response

Beginning in January, 2009, the VR Assistant Commissioner began issuing monthly reports to all offices of cases out of compliance with the 60 day eligibility. Offices were required to provide a corrective action plan to improve compliance. Marked improvements have been made where average noncompliance rates were reduced from over 22% to less than 6%, which is within acceptable levels for RSA.

3. INTERNAL CONTROLS OVER THE SUPERVISORY REVIEW OF EMPLOYEE ATTENDANCE RECORDS NEED IMPROVEMENT

The MRC does not have adequate internal controls to review and process employee timesheets to ensure that all timesheets are reviewed and approved by the employee's supervisor. Our review disclosed the following:

- 9 timesheets for five employees from our sample of 60 VR timesheets did not have a supervisory approval signature.
- 12 timesheets for six employees from our sample of 60 DDS timesheets did not have a supervisory approval signature.

The Commonwealth of Massachusetts Human Resources Division's Time and Attendance Policy (Revised May 4, 2006) requires that time sheets be approved by an employee's supervisor, as follows:

The official time and attendance record consists of (1) an employee's confirmation of his/her daily time, (2) his/her supervisor's approval.

OMB Circular A-87, Attachment B, Section 8 (h) (1) states, in part:

Charges to Federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the government unit and approved by a responsible official(s) of the governmental unit.

The OSC's Internal Control Guide, Chapter 1, page 15, Continuous Supervision, states, in part:

Qualified and continuous supervision must be provided to ensure that internal control objectives are achieved. Supervision is the ongoing oversight, management and guidance of an activity by designated employees to help ensure that the results of the activity achieve the established objectives.

Without payroll supervisor controls in place, there is inadequate assurance that payroll expenditures are accurate and valid and the Commonwealth is paying only for the actual time an employee has worked.

Regarding the absence of a supervisory signature, MRC officials stated that it was due to an oversight. MRC also informed us during the audit that policies and procedures will be enhanced to require an additional review to ensure that all timesheets have supervisory approval before payroll data is recorded in the Commonwealth's Human Resource Compensation Management System (HR/CMS).

Recommendation

The MRC should improve existing internal controls in order to ensure that all employee timesheets are properly reviewed and approved and documented with a supervisory signature before being processed in the HRCMS.

Auditee's Response

MRC is in the process of developing Agency-wide policies and procedures regarding the improvement of existing internal controls to ensure that employee timesheets are reviewed by program supervisors.

4. FINANCIAL REPORTING NEEDS IMPROVEMENT

The MRC did not have a reporting system that provides supporting documentation to substantiate the data reported in the federal Rehabilitation Service Administration Annual Vocational Rehabilitation/Cost Report (RSA-2) for the period ended September 30, 2008. In addition, MRC does not have written procedures and policies that detail the process used in completing the report.

Each state Vocational Rehabilitation (VR) Agency that has expended funds in providing VR services to individuals with disabilities under the Section 110 and Title VI-B programs of the Rehabilitation Act of 1973 is required to prepare an RSA-2 report for each federal fiscal year (October 1 – September 30). The report must be submitted to the United States Department of Education RSA by December 31 following the close of the federal fiscal year (FFY) and reflect

all expenditures made during the FFY from federal, state, and other rehabilitation funds in providing VR services. In addition, the report requires information on the number of individuals with disabilities receiving services and on the funds expended on their behalf by the VR agency for each type of VR service. The report also requires information on the actual time (person/years) that VR jobs were filled during the period covered by the report.

34 CFR 80.20 Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments states, in part:

(a) A State must expand and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subgrantees and cost-type contractors, must be sufficient to:

- (1) Permit preparation of reports required by this part and the statutes authorizing the grant, and*
- (2) Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.*

(b) The financial management systems of other grantees and subgrantees must meet the following standards:

- (1) Financial reporting. Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.*
- (2) Accounting records. Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.*
- (3) Source documentation. Accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc.*

34 CFR 361.12 State Plan and Other Requirements for Vocational Rehabilitation Services, Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments, Methods of Administration, states, in part:

The State plan must assure that the State agency, and the designated State unit if applicable, employs methods of administration found necessary by the Secretary for the proper and efficient administration of the plan and for carrying out all functions for which the State is responsible under the plan and this part. These methods must include procedures to ensure accurate data collection and financial accountability.

34 CFR 361.40 State Plan and Other Requirements for Vocational Rehabilitation Services, Subpart B State Plan and Other Requirements for Vocational Rehabilitation Services, Reports, states, in part:

- (a) The State plan must assure that the designated State agency Secretary regarding applicants for and eligible individuals receiving services under this part; and*
- (2) In a manner that provides a complete count (other than the information obtained through sampling consistent with section 101(a)(10)(E) of the Act) of the applicants and eligible individuals to—*
 - (i) Permit the greatest possible cross-classification of data; and*
 - (ii) Protect the confidentiality of the identity of each individual.*
- (b) The designated State agency must comply with any requirements necessary to ensure the accuracy and verification of those reports.*

Since MRC does not have a system in place to document, support, and provide an audit trail for the data in the RSA-2 report, the RSA does not have adequate assurance that reports are accurate.

A recent review conducted by the RSA for the federal fiscal years 2007 and 2008 indicated that MRC does not have adequate internal controls to ensure that the RSA-2 reports were reviewed for accuracy prior to their submission to the RSA and were not submitted in a timely manner.

MRC personnel stated:

That the lack of accurate supporting documentation is due to the differences in reconciling state fiscal year records to the federal fiscal year reporting requirement. In addition, MRC has limited human and financial resources which limits its ability to devote the time and effort that the needs to expend on the RSA report in proportion to other fiscal requirements.

Recommendation

MRC should establish policies and procedures for the preparation and filing of the RSA-2 reports with the RSA. Also, MRC should develop an audit trail reporting system that links the supporting data and documentation to the report.

Auditee's Response

MRC with technical assistance from RSA will implement documented policies and procedures to ensure that the RSA-2 report is submitted completely and accurately. With RSA technical assistance, MRC has scheduled the completion of this project for 12-31-12.

APPENDIX

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Internal Controls within State Agencies

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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 Linnaman, Speaker.

In Senate, December 22, 1989.

Passed to be enacted,

William W. Budge, President.

January 3, 1990.

Approved,

Richard H. Kiah, Governor.