Commonwealth of Massachusetts
Office of the State Auditor
Suzanne M. Bump

Making government work better

Official Audit Report – Issued May 12, 2011

Massachusetts Rehabilitation Commission

For the period July 1, 2009 through June 30, 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 MRC operates two programs that were the subject of 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 2010, the MRC received approximately $97.1 million in appropriations, approximately $78.8 million of which consisted of federal funds, including approximately $1.4 million in VR American Recovery and Reinvestment Act (ARRA) funding.

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, 2010.

Our prior audit report, No. 2010-0054-16S, disclosed that although the MRC had made progress in improving the timeliness of eligibility determinations, it was not consistently adhering to the 60-day timeframe required by state and federal regulations. Specifically, our prior audit disclosed that the MRC implemented controls in January 2009 to monitor the timeliness of eligibility determinations, including the generation of a monthly report that identified the percentage of applications for all area offices that were not in compliance with the 60-day timeframe. Our prior report noted that, although the MRC's increased monitoring reduced the percentage of noncompliant cases from 25% in fiscal year 2008 to 11% in fiscal year 2009, there was still room for improvement.

Our follow-up review disclosed that the MRC has taken the necessary corrective action to resolve this issue. Specifically, our analysis of fiscal year 2010 new applications revealed that the percentage of noncompliant cases had decreased to 5.4%, which falls within the 90% compliance standard used by the Rehabilitation Service Administration (RSA).

Our prior audit disclosed that the MRC did not have adequate internal controls to review and process employee timesheets to ensure that all timesheets were reviewed and approved by the employees' supervisor. Overall, employee timesheets did not have a supervisory approval signature in 15% of VR program payroll records reviewed and in 20% of DDS Program payroll records reviewed.

Our follow-up review disclosed that the MRC has implemented internal controls designed to ensure that all employee timesheets are reviewed and approved by the employee's supervisor. Accordingly, we noted considerable improvement in the review and approval of employee timesheets. However, our site visits to area offices revealed that these internal controls had not been fully implemented. As a result, our audit disclosed $121,085 in questioned costs due to VR employee timesheets not having a supervisory approval signature. Also, our examination of other key payroll internal controls disclosed the need for continued monitoring and training to ensure that management-prescribed procedures are consistently followed. The MRC must continue to undertake improvements and strengthen its internal controls to ensure that payroll expenditures are valid and accurately processed.

In response to this issue, the MRC stated that in March 2010 it issued an agency-wide payroll policy to ensure that employee timesheets are reviewed by program supervisors and that it would continue to provide additional training to ensure that existing policies and procedures are followed and monitored.

3. PRIOR AUDIT RESULT UNRESOLVED - FINANCIAL REPORTING NEEDS IMPROVEMENT **9**

Our prior audit disclosed that the MRC did not have a reporting system that provides supporting documentation to substantiate the data reported on the federal Rehabilitation Service Administration Annual Vocational Rehabilitation/Cost Report (RSA-2). In addition, our report noted that the MRC did not have written procedures and policies that detailed the process used in completing this report.

Our follow-up review disclosed that although the MRC is making progress in documenting support to back up financial and statistical data reported on its annual RSA-2 report, additional work remains to be done. Specifically, our audit disclosed that the MRC continues to lack the necessary internal controls to ensure the accuracy and timeliness of its RSA-2 report. The MRC is still without written policies and procedures detailing its process for completing the RSA-2 report and lacked documentation of management's review and approval of the report. Also, our audit noted certain financial reporting shortcomings during our review of the quarterly Financial Status Reports (SF-269 or SF-425). For these reasons, the MRC must continue to undertake improvements and strengthen its internal controls to ensure compliance with federal requirements.

In response to this issue, the MRC indicated that it concurs with our recommendation and that it will continue to document and implement policies and procedures to ensure that reports submitted to the federal government are complete and accurate.

The MRC did not have in place the necessary policies, procedures and controls to ensure that chargeback costs for secretarial central services and information technology data processing services assigned to its federal VR program were limited to those activities that benefited the program. As a result, our audit disclosed $16,170 in questioned costs due to the incorrect allocation of central supportive services to the VR grant.

In response to this issue, the MRC indicated it would continue to monitor chargeback allocations throughout the fiscal year and make any necessary adjustments. Moreover, the MRC indicated that it will further develop written policies and procedures to ensure that central support service chargebacks are allocated in accordance with state and federal regulations.

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 the subject of 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 2010, the MRC received approximately $97.1 million in appropriations, approximately $78.8 million of which consisted of federal funds, including approximately $1.4 million in VR American Recovery and Reinvestment Act (ARRA) funding.

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, 2009 through June 30, 2010. We conducted our audit in conjunction with the Single Audit of the Commonwealth of Massachusetts for the fiscal year ended June 30, 2010. The Commonwealth's Fiscal Year 2010 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 2010 Single Audit of the Commonwealth of Massachusetts, OMB Circular A-133 report as mentioned above. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In performing our audit of MRC activities, we referred to OMB Circular A-133, the June 2010 Compliance Supplement, and Memorandum M-10-14 (March 22, 2010) 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 (No. 2010-0054-16S).

The criteria for our audit were drawn from OMB Circular A-133, the June 2010 Compliance Supplement, Memorandum M-10-14, 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
Special Tests and Provisions
Subrecipient Monitoring

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 have concluded that, except as reported in the Audit Results section of this report, for the period July 1, 2009 through June 30, 2010, 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 areas tested.

AUDIT RESULTS

1. PRIOR AUDIT RESULT RESOLVED – APPLICANT ELIGIBILITY DETERMINATIONS PERFORMED IN A TIMELY MANNER

Our prior audit report, No. 2010-0054-16S, disclosed that although the MRC had made progress in improving the timeliness of eligibility determinations, it was not consistently adhering to the 60-day timeframe required by state and federal regulations. Specifically, our prior audit disclosed that the MRC implemented internal controls in January 2009 to monitor the timeliness of eligibility determinations, including the generation of a monthly report that identified the percentage of applications for all area offices that were not in compliance with the 60-day timeframe. This report was then distributed to all area office directors to monitor noncompliant cases for further attention. Our prior report noted that, although the MRC's increased monitoring reduced the percentage of noncompliant cases from 25% in fiscal year 2008 to 11% in fiscal year 2009, there was still room for improvement.

Our follow-up review disclosed that the MRC has taken the necessary corrective action to resolve this issue. Specifically, our analysis of fiscal year 2010 new applications revealed that the percentage of noncompliant cases had decreased to 5.4%, which falls within the 90% compliance standard used by the Rehabilitation Services Administration (RSA).

2. PRIOR AUDIT RESULT UNRESOLVED – INTERNAL CONTROLS OVER THE SUPERVISORY REVIEW OF EMPLOYEE ATTENDANCE RECORDS NEED IMPROVEMENT

Our prior audit disclosed that the MRC did not have adequate internal controls to review and process employee timesheets to ensure that all timesheets were reviewed and approved by the employee's supervisor. Overall, employee timesheets did not have a supervisory approval signature in 15% of Vocational Rehabilitation (VR) Program payroll records reviewed and in 20% of Disability Determination Services (DDS) Program payroll records reviewed.

Our follow-up review disclosed that the MRC has implemented internal controls designed to ensure that all employee timesheets are reviewed and approved by the employee's supervisor. Accordingly, we noted considerable improvement in the review and approval of employee timesheets. However, our site visits to area offices revealed that these internal controls had not been fully implemented. As a result, our audit disclosed $121,085 in questioned costs due to VR employee timesheets not having a supervisory approval signature. Also, our examination of other key payroll controls further highlights the need for continued monitoring and training to ensure that management-prescribed procedures are consistently followed. The MRC must continue to undertake improvements and strengthen its internal controls to ensure that payroll expenditures are valid and accurately processed.

Office of Management and Budget (OMB) Circular A-87, Attachment B, Section 8 states, in part:

> *a. General. Compensation for personnel services includes all remuneration, paid currently or accrued, for services rendered during the period of performance under Federal awards, including but not necessarily limited to wages, salaries, and fringe benefits. The costs of such compensation are allowable to the extent that they satisfy the specific requirements of this Circular, and that the total compensation for individual employees:*
>
> *(1) Is reasonable for the services rendered and conforms to the established policy of the governmental unit consistently applied to both Federal and non Federal activities;*
>
> *(2) Follows an appointment made in accordance with a governmental unit's laws and rules and meets merit system or other requirements required by Federal law, where applicable; and*
>
> *(3) Is determined and supported as provided in subsection h.*

In addition, 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 governmental unit and approved by a responsible official(s) of the governmental unit.*

Furthermore, the Commonwealth of Massachusetts Human Resources Division's Time and Attendance Policy (Revised May 27, 2010) requires that timesheets be approved by each 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 and (3) its entry in the Human Resource Compensation Management System (HR/CMS).*

During our audit, we examined 60 weekly timesheets covering five pay periods for payroll costs charged to the federal VR grant. At least one pay period was selected for each of the 25 area offices, as well as one regional office. We also reviewed 40 weekly timesheets covering four pay periods for payroll costs charged to the VR American Recovery and Reinvestment Act (ARRA) grant. These timesheets represented 17 area offices and one central office department. For DDS, we inspected 82 weekly timesheets covering five pay periods from 25 departments that were charged to the federal DDS grant. For the above examination, all payroll support documentation was received from agency personnel. The results from this test disclosed that for all 182 weekly timesheets submitted, proof of a supervisory approval signature was documented, without exception.

As an alternative test, site visits to five VR Area Offices[1] were also conducted. Our review of 50 weekly timesheets covering five pay periods disclosed that eight of the 50 weekly timesheets[2] (six from the Boston area office and two from the Somerville area office) were missing evidence of a supervisory approval signature. Questionable costs for the timesheets involved amounted to $121,085.[3]

In addition, our follow-up review disclosed that the MRC needs to continue to improve existing internal controls to ensure that other key payroll documents requiring evidence of supervisory review and approval are consistently carried out. Specifically, payroll exceptions on timesheets (e.g., vacation, sick-days, hours worked by hourly employees) are recorded on Excel spreadsheets by designated timekeepers in each office/department. On a weekly basis, the spreadsheets are electronically submitted to the Executive Office of Health and Human Services (EOHHS), which then records the exceptions into the Commonwealth's Human Resource/Compensation Management System (HR/CMS). To facilitate the process, EOHHS developed a Time & Attendance Reporting Training Job Aid (issued February 2007) that noted the following directive:

> *Print the Excel spreadsheet and have the supervisor (person whose name appears in the "Approved by" section) sign the sheet and keep this on file. This is a very important step.*

As an added control, after each bi-weekly payroll is processed, the MRC retrieves attendance data recorded on HR/CMS and records the data on separate Excel spreadsheets (bi-weekly

[1] The following VR area offices were visited: Boston, Brockton, Malden, Somerville, and Taunton.

[2] In six of the eight cases where timesheets were missing evidence of a supervisory approval signature, the omission occurred after the MRC updated its policy on March 22, 2010.

[3] Questioned costs are made up of four bi-weekly payrolls (three from the Boston area office and one from the Somerville area office) covering the two-week payroll periods ended February 27, 2010, May 22, 2010, and June 5, 2010 for authorized positions ranging from 13 to 16 employees per the weekly timesheets.

payroll reports) that are submitted to each department for the Unit Supervisor's or Manager's review. The MRC's Administrative Bulletin: Payroll, issued March 22, 2010,[4] states, in part:

> *The Unit Supervisor or Manager is responsible for reviewing and approving time and attendance for the Unit. This review includes careful attention to accuracy on the part of both employees and timekeeper. Raw data from timesheets is used to create the official record of the Commonwealth, and so review is required for both the timesheet signed by the employee and for the electronic timesheet that the timekeeper sends to payroll. The Fiscal Department downloads and sends via interoffice mail a biweekly report of hours and exceptions posted for each employee in a unit, and the Unit Supervisor or manager is expected to review these postings for accuracy.*

The aforementioned Administrative Bulletin also included special emphasis that the Unit Supervisor or Manager approve and sign each timesheet, EOHHS electronic timesheet, and the MRC biweekly payroll report as evidence of review.

Notwithstanding the EOHHS and MRC requirements, our test disclosed the following payroll documents missing supervisory approval signatures:

Electronic Timesheet Transmittals (EOHHS)

- Although our own comparison did not detect any discrepancies between authorized employee timesheets and payroll exceptions reported on EOHHS electronic timesheet transmittals, eight of the 50 EOHHS timesheets inspected during our site visits to area offices (payroll costs charged to the VR federal grant) did not have evidence of a supervisory approval signature. Moreover, four of the eight incidences occurred after the MRC Administrative Bulletin revision.
- Four of 40 EOHHS electronic timesheet transmittals (payroll costs charged to the VR ARRA federal grant) did not have evidence of a supervisory approval signature. All four occurrences transpired after the MRC Administrative Bulletin revision and took place at the Boston area office.
- Four of 82 EOHHS electronic timesheet transmittals (payroll costs charged to the DDS federal grant) did not have evidence of a supervisory approval signature. All four occurrences transpired before the MRC's revised Administrative Bulletin was issued. Additionally, we noted that DDS management did not implement the MRC agency-wide Administrative Bulletin until May 24, 2010; roughly two months after the Administrative Bulletin effective date.

[4] Prior to Administrative Bulletin: Payroll, issued March 22, 2010, MRC policies and procedures did not explicitly require a Unit Supervisor's or Manager's signature on the bi-weekly payroll report as evidence of an internal verification and approval.

Bi-Weekly Payroll Reports

- Twenty-one of 55 MRC bi-weekly payroll reports (payroll costs charged to the VR federal grant) did not have evidence of a supervisory approval signature. Fourteen of the 21 were identified during our site visits to area offices, with five taking place after the MRC Administrative Bulletin revision.
- Two of 20 MRC bi-weekly payroll reports (payroll costs charged to the VR ARRA federal grant) did not have evidence of a supervisory approval signature. Both occurrences transpired after the MRC Administrative Bulletin revision and took place at the Boston area office.
- Thirty-three of 41 MRC bi-weekly payroll reports (payroll costs charged to the DDS federal grant) did not have evidence of a supervisory approval signature. Seven of the 33 occurrences took place after the MRC Administrative Bulletin revision.

Without supervisory approval signatures, management lacks an appropriate level of assurance that payroll expenditures are valid and accurate, that programs are being charged only for the time an employee works on the program, and that payroll transactions are being approved in accordance with prescribed procedures.

MRC officials stated that the primary cause for the lack of supervisory approvals was inadequate management oversight to ensure that payroll records were reviewed and approved.

Recommendation

The MRC should continue to improve and strengthen its existing internal controls to ensure that payroll transactions are being approved in accordance with prescribed procedures. As part of this process, the MRC should consider implementing a monitoring control that calls for periodic reviews of area offices to identify issues of potential noncompliance and training needs as well as to address the importance of oversight over payroll activities.

Auditee's Response

MRC has developed an Agency-wide Payroll Policy to ensure that employee timesheets are reviewed by program supervisors. This payroll policy was issued in March 2010. MRC will continue to provide additional training to ensure that existing policies and procedures are followed and monitored. MRC admits that the time sheets in question did not have the proper approvals. MRC's internal control process uses reports provided on OSD's Document Direct to ensure that payroll is accurate and consistent. MRC's internal controls minimize the risk of reportable questioned costs.

3. PRIOR AUDIT RESULT UNRESOLVED – FINANCIAL REPORTING NEEDS IMPROVEMENT

Our prior audit disclosed that the MRC did not have a reporting system that provides supporting documentation to substantiate the data reported on the federal Rehabilitation Service Administration Annual Vocational Rehabilitation/Cost Report (RSA-2). In addition, our report noted that the MRC did not have written procedures and policies that detailed the process used in completing this report.

Our follow-up review disclosed that although the MRC is making progress in documenting support to back up financial and statistical data reported on its annual RSA-2 report, additional work remains to be done. Specifically, our audit disclosed that the MRC still did not have written policies and procedures detailing its process for completing the RSA-2 report and lacked documentation of management's review and approval of the report. Also, our audit noted certain financial reporting shortcomings during our review of the quarterly Financial Status Reports (SF-269).[5] The MRC must continue to undertake improvements and strengthen its internal controls to ensure compliance with federal requirements.

34 Code of Federal Regulations (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-*

[5] Financial Status Report (FSR) (SF-269) (OMB No. 0348-0039) was replaced by the Federal Financial Report (FFR) (SF-425) (OMB No. 0348-0061), effective October 1, 2009.

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) Internal control. Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes.

Moreover, 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.

Our audit of the MRC RSA-2 report and supporting documentation for the federal fiscal year ended September 30, 2009 disclosed the following issues:

- Following the close of the federal fiscal year (October 1 – September 30), each state VR agency must submit a RSA-2 report to the RSA by December 31. However, our audit disclosed that the MRC did not submit its report until April 8, 2010; over three months after the December 31 deadline. We also noted that the MRC did not maintain documentation to support management's review and approval of its report and continued to complete the RSA-2 without written policies and procedures in place detailing its process.

- The RSA-2 report must reflect all expenditures made during the federal fiscal year from federal, state, and other rehabilitation funds. Moreover, it must also include those expenditures made during the reporting period and charged to Section 110 federal funds, Title VI-B federal funds, or program income funds that were carried over from the previous fiscal year. For the purposes of the RSA-2 report, expenditures include unliquidated obligations. Our audit noted the following expenditure reporting deficiencies totaling $12,129,549:

    (1) Federal unliquidated obligations totaling $9,503,793 -- of which $188,626 represents American Recovery and Reinvestment Act (ARRA) obligations -- were not included in the reporting period ended September 30, 2009. Not reporting unliquidated obligations as expenditures in the proper reporting period results in the overstatement of funds carried over to and expenditures reported in the next fiscal year (period ended September 30, 2010).

(2) VR expenditures paid for with funds carried over from the previous fiscal year were understated by $3,004,218.

(3) Program income expenditures paid for with funds carried over from the previous fiscal year were overstated by $378,462.

- Client-related services totaling $6,549,862 purchased from private vendors were not adequately documented.

- Person-years, in full-year increments, must be reported for all state agency personnel whose salaries are charged in whole or in part to Section 110 funds, Title VI-B, or other rehabilitation funds. Person-years signify the actual time that vocational rehabilitation jobs were filled during the period covered by the report. For example, if a job is filled throughout a fiscal year, it is counted as one person-year; two jobs each filled half a year would also count as one person-year. The MRC reported the number of full-time employees (person-years) by counting the number of agency staff as of March 19, 2009, rather than the actual time VR jobs were filled.

In addition, our review of the quarterly Financial Status Reports (SF-269) and the Federal Financial Reports (SF-425) for the quarters ended September 30, 2009 and March 31, 2010 disclosed that the MRC did not have controls in place to ensure the accuracy, completeness, and reasonableness of these reports and did not have documentation of management review. Specifically, our audit disclosed the following issues:

- Federal unliquidated obligations totaling $101,311 were undervalued on the March 2010 ARRA SF-269. This error was later corrected on the June 2010 report.
- State unliquidated obligations totaling $9,316,194 were not reported on the September 2009 SF-269 report. This error was later corrected on the March 2010 report.

Without adequate controls in place, the MRC will continue to be exposed to the risk that financial reports submitted to the RSA could be inaccurate, incomplete, and untimely, which could lead to enforcement action by the RSA[6] that may include the recovery of Title I VR funds.

MRC personnel commented that limited human and financial resources continue to hinder its ability to devote the time and effort needed on reports in proportion to other fiscal requirements. Although we understand that limitations in agency resources can have an adverse impact, management nonetheless needs to pursue opportunities to improve its internal report

[6] The RSA conducted a review (report issued August 12, 2009) of the MRC VR program for the federal fiscal years 2007 and 2008. The report disclosed that the MRC did not have adequate controls to ensure that both its RSA-2 and SF-269 reports are reviewed for accuracy prior to submission to the RSA. Furthermore, the report noted that the RSA-2 report had not been submitted in a timely manner since fiscal year 2005.

preparation process to address financial reporting inadequacies. For example, with respect to the RSA-2 report, we noted that the report preparation remains highly dependent on an individual who currently is part-time and is responsible for the coordination of information from various sources. However, the time required to assemble and compile information does not allow for sufficient time to comply with the December 31 report deadline. Accordingly, the MRC has been placed at an operational disadvantage and continues to risk not being able to fulfill federal requirements.

Recommendation

The MRC must continue to improve and strengthen its internal controls to ensure the accuracy of VR program accounting and reporting and compliance with federal requirements. Management should establish policies and procedures for the preparation and filing of required reports. As part of this process, management should also assess opportunities to streamline the documentation of RSA-2 schedule information to expedite the completion of the report. Further, to help lessen the impact of limited resources, the MRC should consider implementing a cross-training program to increase the skill set of employees so that financial reporting functions within the MRC can be performed should the need arise (e.g., attrition, absenteeism). Additionally, all reports should be reviewed by management for accuracy, completeness, support for reported financial and statistical information, and overall reasonableness. As evidence of management's review, the reviewer should sign and date all reports as well as retain a copy on file before reports are submitted to the RSA.

Auditee's Response

MRC concurs with the recommendation and continues to document and implement policies and procedures to ensure that reports are submitted completely and accurately. MRC will make the necessary adjustments to ensure that reports submitted to the Federal government are complete and accurate.

4. CHARGEBACK AMOUNTS FOR CENTRAL SUPPORTIVE SERVICES INCORRECTLY ALLOCATED TO FEDERAL VOCATIONAL REHABILITATION PROGRAM GRANT

The MRC did not have in place the necessary policies and procedures and internal controls to ensure that chargeback costs for secretarial central services and information technology data processing services assigned to its federal VR program were limited to those activities that benefited the program. As a result, our audit disclosed $16,170 in questioned costs due to the incorrect allocation of central supportive services to the VR grant.

OMB Circular A-87, Attachment A, Section C, Basic guidelines, states, in part:

> *1. Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria: . . .*
>
> *b. Be allocable to Federal awards under the provisions of this Circular. . . .*
>
> *e. Be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit.*

In addition, OMB Circular A-87, Attachment A, Section C (3) Allocable Costs, states, in part:

> *a. A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.*
>
> *b. All activities which benefit from the governmental unit's indirect cost, including unallowable activities and services donated to the governmental unit by third parties, will receive an appropriate allocation of indirect costs.*
>
> *c. Any cost allocable to a particular Federal award or cost objective under the principles provided for in this Circular may not be charged to other Federal awards to overcome fund deficiencies, to avoid restrictions imposed by law or terms of the Federal awards, or for other reasons. However, this prohibition would not preclude governmental units from shifting costs that are allowable under two or more awards in accordance with existing program agreements.*

The Office of the State Comptroller (OSC) and EOHHS entered into Cost Allocation Agreements with the federal Department of Health and Human Services as required under the provisions of OMB Circular A-87. The Cost Allocation Agreements allow for central supportive service costs (chargebacks) to be allocated to state agencies that receive federal grants to administer federal programs. Allocations identified for the MRC were further allocated based on a spreadsheet developed by the MRC to various federal programs administered by the MRC. We reviewed the allocations of central support service costs (chargebacks) for secretarial central services and information technology data processing services from July 1, 2009 to June 30, 2010. Our review disclosed the following issues:

- The VR grant was overcharged $9,516 for secretarial central services chargeback costs. The overcharge represents EOHHS human resource, facilities, and information technology supportive services that should have been allocated to other federal programs in accordance with the central support services allocation spreadsheet developed by the MRC.

- The VR grant was overcharged $6,654 for Information Technology chargeback costs. The overcharge represents Information Technology Department and OSC data processing costs that should have been allocated to other federal programs according to the central support services allocation spreadsheet developed by the MRC.

As a result of our audit, the MRC processed a Massachusetts Management Reporting and Accounting System (MMARS) expenditure correction (EX) transaction that reassigned $6,869 of the $9,516 in secretarial central service costs from the federal VR program to the VR program income appropriation.[7] Similarly, an additional $6,654 in Information Technology data processing services was also reallocated to the VR program income appropriation from the federal VR program. This action, however, only reassigned $13,523 of the $16,170 in questioned costs. Accordingly, $2,647 in secretarial central support service costs—services that benefit other federally funded programs—continued to be incorrectly charged to the federal VR program. Moreover, except as provided in 34 CFR 361.63 Program Income, (c) (2), program income must be used for the provisions of vocational rehabilitation services and the administration of the state plan. The 34 CFR 361.63, Program Income, (c) (2), states:

> *(2) Payments provided to a State from the Social Security Administration for assisting Social Security beneficiaries and recipients to achieve employment outcomes may also be used to carry out programs under part B of Title I of the Act (client assistance), part B of Title VI of the Act (supported employment), and Title VII of the Act (independent living).*

As noted above, the MRC, in an effort to realign central support service chargebacks, reassigned costs totaling $13,523 to its VR program income appropriation. The MRC indicated that these costs could be charged to the program income appropriation and provided us with documentation to support its interpretation of the regulations regarding the use of program income.[8]

Regarding the incorrect central support service charges made to the VR program, MRC officials explained that these costs were not allocated to other federal programs because in their view the amounts were not material and, therefore, did not justify the added administrative recordkeeping. Further, although the MRC stated that it had inadvertently used the wrong secretarial central support service amount in its MMARS expenditure correction (the MRC used

[7] The department's VR program income represents reimbursements received from the Social Security Administration (SSA) for Social Security beneficiaries and recipients for costs of services associated with achieving employment outcomes.

[8] VR program income was used to cover central support service costs for the following federally funded grants: Informed Members Planning and Assessing Choice Together (IMPACT); Supported Employment Program; Innovation Strategies for Transition Youth with Disabilities; Traumatic Brain Injury (TBI) Implementations Grant; and Assistive Technology Act.

$6,869 rather than $9,516), the MRC noted that no further adjustments would be made. Additionally, our observations disclosed that the MRC did not have specific written policies and procedures and internal controls in place to instruct staff on the proper procedures for allocating central support service chargebacks and to make certain that federally funded programs received an appropriate allocation in accordance with the relative benefits received.

Recommendation

The MRC should:

- Document specific policies and procedures to ensure that all federal regulations are complied with.

- Implement the internal controls needed to ensure that central support service chargebacks are allocated to programs in accordance with the relative benefits received.

- Ensure that VR program income is used only for the purposes delineated in the VR program regulations and seek guidance from the RSA to verify whether the above use is consistent with program regulations.

- Ensure that the residual secretarial central support services totaling $2,647 are allocated to programs in accordance with the relative benefits received.

Auditee's Response

MRC's allocation plan for EOHHS chargebacks is based upon information at the beginning of the federal fiscal year; however, MRC concurs that $2,647 was incorrectly overcharged to the VR program as the questioned cost. This overcharge was the result of MRC receiving its final chargeback amount from EOHHS in the closing period of the fiscal year. MRC continues to monitor chargeback allocations throughout the fiscal year and where needed makes the necessary adjustments as authorized by The Comptroller of the Commonwealth.

MRC did not overcharge the VR program for IT chargeback costs in fiscal year [20]10. The amount in question was identified during the fiscal year by the State Audit Team prior to MRC reconciling the final allocations for all chargebacks. MRC made the necessary adjustment during the reconciliation process that takes place during the fiscal year closing period.

MRC concurs [with the recommendation that it] further develop written policies and procedures as presented in OSC's Fiscal Year Closing Instructions and MMARS policy on Expenditure Corrections to ensure that central support service chargebacks are allocated in accordance with State and Federal guidelines.