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INDEPENDENT STATE AUDITOR'S REPORT  
ON THE ACTIVITIES OF THE  
EXECUTIVE OFFICE OF ELDER AFFAIRS

OFFICIAL AUDIT  
REPORT  
FEBRUARY 24, 2003

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### **INTRODUCTION**

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The Executive Office of Elder Affairs (EOEA), established by Chapter 6A, Section 2, of the Massachusetts General Laws, administers and oversees various programs and services that benefit older citizens in the Commonwealth in accordance with requirements of the Older Americans Act of 1965; and conducts advocacy, planning and policy functions on behalf of over one million elders of the Commonwealth. EOEA's responsibilities include the administration and monitoring of protective, supportive, and nutritional programs and services, including Ombudsman Programs, Elders at Risk Programs, Senior Center Programs, Case Management, Legal Services, Home Care Programs, Transportation, and Health Screening Services. In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, we conducted a review of EOEA in conjunction with the Single Audit of the Commonwealth of Massachusetts for the fiscal year ended June 30, 2002.

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### **AUDIT RESULTS**

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#### **1. INADEQUATE INTERNAL CONTROLS OVER FIXED ASSETS - UNRESOLVED**

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As reported in the prior audit, EOEA does not maintain fixed asset listings that include dates of acquisition, historical costs, and sources of funds, and did not complete a reconciliation of the annual inventory to the fixed asset listing, as required by Office of the State Comptroller (OSC) regulations. New purchases during FY 2002 totaling \$23,227 were not located on the fixed asset listing. By not maintaining proper controls over fixed assets and records, there is inadequate assurance that property and equipment is adequately safeguarded against loss, theft, or misuse. EOEA personnel stated that the lack of staff and time contributed to their inability to adhere to these requirements. In response to the audit, EOEA set up a new inventory control system spreadsheet which will include historical cost data and will identify all equipment with metal tags.

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#### **2. INDIRECT COST PLAN NOT DEVELOPED - UNRESOLVED**

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EOEA has not developed an actual indirect cost allocation plan for fiscal years 1997 through 2002. EOEA is allowed to bill federal programs using the rate specified in its Negotiated Agreement with the U.S. Department of Labor, which states that only actual indirect costs can be charged to federal grants and contracts. EOEA is required to compute the actual rate for each fiscal year. The resulting rate is compared with the rate used to bill federal programs, and any recoveries must be credited against the applicable federal program, or additional costs may be charged. Since the actual rates have not been finalized and the indirect cost plan has not been developed for fiscal years 1999 through 2002, \$1,275,218 charged for indirect costs are still unsupported. In its response, EOEA stated that it has submitted to OSC a

revised final draft of the fiscal year 2000 cost allocation plan. When OSC approves the plan, EOEА will prepare the plans for fiscal years 1999, 2001 and 2002 using the approved plan as a model. EOEА also stated that it will resolve indirect cost charges through OSC as each fiscal year's plan is completed and approved.

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EOEA still needs to improve its monitoring procedures over Area Agencies on Aging (AAA) to ensure that funds are being spent in accordance with contract requirements and federal and state regulations, and to assess program quality and effectiveness. Office of Management and Budget (OMB) Circular A-133 requires pass-through entities to monitor subrecipients to ensure that federal awards are used for authorized purposes. In addition, the Commonwealth also requires monitoring and evaluation of the commodities and services it purchases. Although EOEА officials stated that it monitors activities through financial, statistical, and programmatic reports, phone contacts, and monthly meetings with AAA Directors, EOEА does not document such monitoring activities, and our follow-up audit for fiscal year 2002 noted that various reports were not received from AAAs, including financial and programmatic reports. In addition, although EOEА formerly had an evaluation unit which reviewed subrecipients for quality and effectiveness of programs, the unit was not staffed during fiscal year 2002. By not monitoring subrecipient activity, EOEА cannot ensure that federal awards are used for authorized purposes. However, due to the lack of program evaluations and because it has not received all required reports, EOEА's monitoring procedures are inadequate. In response to the audit, EOEА indicated that it is in the process of improving subrecipient monitoring activities, including developing and implementing a standard monitoring tool for performing desk reviews of AAA financial and compliance requirements, and better documentation of program personnel monitoring activities. Although the state-hiring freeze has precluded the re-staffing of the Program Evaluation Unit, one employee has been transferred to assist in conducting reviews.

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The prior audit reported that fourteen tested transactions totaling \$728,981 in grant payments to nine AAAs for fiscal year 2001 had insufficient documentation to support the expenditures. The AAAs were not required to submit invoices with detail of the monthly expenses to support the reimbursement requests. EOEА relied on the AAAs' quarterly and annual financial reports to support the expenses. However, the quarterly reports did not reconcile to payments. Our follow-up audit noted that 24 transactions totaling \$1,832,873 in grant payments were also not supported with sufficient documentation in fiscal year 2002. Commonwealth procurement policies requires contractors to provide relevant supporting documentation. EOEА personnel deemed quarterly and annual reports sufficient to support the payments requested. However, without accompanying detail for

monthly invoices, reports supporting requested payment voucher amounts, or reconciled quarterly reports, EOEA cannot be assured that federal funds were disbursed for authorized purposes. In response to the audit, EOEA indicated that it has strengthened the current requirement for AAAs to submit cost reimbursement payment vouchers based on their monthly program expenditures. The office is in the process of implementing a new monthly reporting requirement, which will support monthly program payments. In addition, EOEA will implement a desk review system to conduct random reviews of AAA documentation supporting monthly expense requests.

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**5. FEDERAL REPORTS NOT RECONCILED TO THE COMMONWEALTH'S ACCOUNTING SYSTEM - PARTIALLY RESOLVED** **14**

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Our prior audit disclosed that EOEA did not reconcile the Federal Financial Status Report (SF-269) to the Massachusetts Management Accounting and Reporting System (MMARS). Our follow-up review disclosed that there is no system in place to ensure that amounts compiled and reported by the Office on the SF-269 based on quarterly reports submitted by Area Agencies on Aging (AAA) agree with disbursements recorded on MMARS. Consequently, the federal government does not have adequate assurance that amounts reported are accurate. In response to the audit, EOEA is in the process of developing a reconciliation process.

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The prior audit disclosed that EOEA processed six monthly payments to five AAAs totaling \$242,600 for Title III cost reimbursement contracts based on budgeted amounts, not on actual costs incurred. As a result, EOEA was not in compliance with OMB Circular A-87 Cost Principles requirements to pay actual cash or accrued expenditure amounts. Our follow-up review for fiscal year 2002 noted that EOEA has discontinued the practice of issuing payments to AAAs based on budgeted amounts, and has notified the AAAs of the compliance requirement.

**7. FEDERAL PROGRAM FUNDS NOT RECONCILED - FULLY RESOLVED** **17**

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The prior report disclosed EOEA had not reconciled fiscal year 2000 funds awarded and disbursed to actual expenses reported, and had not received a program income and expense report for fiscal 2000 from the largest AAA. Therefore, EOEA could not properly determine whether funds awarded and disbursed reconciled to actual program revenue and costs reported by AAAs or recorded in the Massachusetts Management Accounting and Reporting System (MMARS). Our follow-up review for fiscal year 2002 disclosed that EOEA reconciled fiscal year 2000 and 2001 program income and expense reports to program funds awarded, and that the largest AAA submitted an audit report for fiscal year 2000 in accordance with OMB Circular A-133 requirements.

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**8. SALARIES ALLOCATED TO FEDERALLY-FUNDED PROGRAMS NOT SUPPORTED BY PROPER DOCUMENTATION - FULLY RESOLVED** 17

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Our prior audit report disclosed that EOEA did not maintain adequate documentation for salaries charged to federal awards. Our follow-up review disclosed that EOEA personnel has implemented a process to identify and document salaries charged to federal programs and completed fiscal year 2002 payroll certifications in compliance with OMB Circular A-87 requirements.

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The prior report disclosed that EOEA did not obtain certifications or complete verification of subrecipients and vendors for federal suspension or debarment in accordance with OMB Circular A-133 requirements. Our follow-up audit disclosed that for fiscal year 2002, EOEA issued the Commonwealth's new contract and amendment forms for all area agencies containing the required vendor certified debarment assurance terminology. Also, contractors were required to sign a Provider Pre-qualification Form including debarment certification for the vendor and their subcontractors. In addition, EOEA personnel conducted verifications of debarment status to the List of Parties Excluded From Federal Procurement issued by GSA and documented in the contract files.

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EOEA did not comply with Department of Health & Human Services (HHS) federal reporting requirements. Specifically, SF-269 reports were submitted with estimated amounts rather than actual or cumulative figures as required by HHS requirements, and reviewed reports were submitted late. Our review noted that the SF-269 report submitted by EOEA for September of 2001 included estimated totals for eight AAAs whose quarterly program expense reports were not received by EOEA. Furthermore, the report due on October 30, 2001 was not submitted until December 6, 2001, and the report due on April 30, 2002 was submitted on May 23, 2002. Office personnel stated that reports were issued late due to the late submission of AAA quarterly reports, and estimates were therefore used to issue the report. For AAA reports not received, totals were adjusted in the subsequent report. All second quarter AAA reports were received for the March 2002 report. In response to the audit, EOEA indicated that it will report actual or cumulative amounts in connection with the submission of new AAA monthly standard invoices. The design and execution of the new reporting system represents actual amounts for administrative and program costs and disbursements of the AAAs.

## INTRODUCTION

### ***Background***

The Executive Office of Elder Affairs, established by Section 2 of Chapter 6A of the Massachusetts General Laws, administers and oversees various programs and services that benefit older citizens in the Commonwealth in accordance with the requirements of the Older Americans Act of 1965, as amended.

The mission of the Office is to promote dignity, independence and rights of Massachusetts elders and to support their families through advocacy and the development and management of programs and services.

The Office's responsibilities include the administration and monitoring of protective, supportive and nutritional programs and services for 1.1 million elders including Ombudsman, Protective Services and Senior Center Programs, Case Management, Legal Services, Home Care Programs, Transportation and Health Services Programs. The nutrition program provides education and over eight million meals to elders through home delivered (Meals on Wheels) or congregate meal sites. In addition, the Office is responsible for certifying over 100 Assisted Living Residences and administering Prescription Advantage, the nation's first state-sponsored prescription drug insurance plan for seniors age 65 and older. Elder Affairs programs and services operate through a statewide network providing services to elders through both regional and local agencies which includes 27 regional Aging Services Access Points, 23 Area Agencies on Aging which operates programs authorized under the Older Americans Act, 348 municipal Councils on Aging and 290 senior and drop-in centers.

In fiscal year 2002, the Office administered \$310 million with federal funds totaling approximately \$30 million.

### ***Audit Scope, Objectives, and Methodology***

In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, we conducted a review of EOEA for the period July 1, 2001 to June 30, 2002. We conducted our review in

conjunction with the Single Audit of the Commonwealth of Massachusetts for the fiscal year ended June 30, 2002.

Our review was conducted in accordance with applicable generally accepted government auditing standards and standards set forth in the Office of Management and Budget (OMB) Circular No. A-133, Revised June 24, 1997, Audits of States, Local Governments, and Non-Profit Organizations. Additionally, our review evaluated EOEAs compliance with Office of the State Comptroller (OSC) policies; Massachusetts General Laws; and applicable laws, rules and regulations.

In performing our review of EOEAs activities, we referred to OMB Circular A-133 Appendix B: March 2002 Compliance Supplement (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 Special Programs for the Aging and designed appropriate tests to determine EOEAs compliance with these requirements.

Specifically, our objectives were to:

- Assess the internal controls in place at EOEAs during the review period;
- Assess and evaluate the program for compliance with the requirements of the Supplement, the federal Department of Health and Human Services, and the OSC.

The criteria for our review were drawn from OMB Circular A-133, the Supplement, the Code of Federal Regulations, and the OSCs Internal Control Guide. Those criteria dealt with EOEAs 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 and Suspension and Debarment  
Program Income

Reporting  
Real Property Acquisition and Relocation Assistance  
Subrecipient Monitoring  
Special Test and Provisions

We examined, on a test basis, evidence about EOEAs' compliance with those requirements and performed such other procedures as we considered necessary in the circumstances.

Based on these tests, except as reported in the Audit Results Section of this report, we have concluded that EOEAs had adequate internal controls in place, complied with the requirements of the federal Department of Health and Human Services; with the OMB Circular A-133 Compliance Supplement; and with all applicable laws, rules and regulations.

## AUDIT RESULTS

### 1. INADEQUATE INTERNAL CONTROLS OVER FIXED ASSETS - UNRESOLVED

The Executive Office of Elder Affairs (EOEA) still has not established adequate controls over fixed assets. As disclosed in the fiscal year 2001 audit, contrary to state regulations, the EOEA does not maintain a fixed assets listing which includes dates of acquisition, historical costs and source of funds, and did not complete a reconciliation of the annual inventory to the inventory listing. Our follow-up audit noted that the inventory listing for computers and database equipment lacked the dates of acquisition, while the inventory listing for other fixed assets lacked historical cost data, dates of acquisition, and funding sources. In addition, the fixed asset listing was not reconciled to the actual physical inventory records. EOEA personnel stated that a physical inventory was completed in June 2002 for fixed assets and in November 2001 for computer and database equipment, however, neither listing recorded the dates of the last inventory and there was no comparison to database records.

In accordance with the State Comptroller's Internal Control Guides and the Massachusetts Management Accounting and Reporting System (MMARS) Fixed Asset Subsystem User Guide, the EOEA is required to properly manage and safeguard Commonwealth assets, including establishing and maintaining a fixed assets listing (property and equipment) by location (including historical costs and acquisition date), conducting a physical inventory of all property and equipment verified and accounted for annually, and reconciling to department records. By not maintaining proper controls over fixed assets and records, there is no assurance that property and equipment is adequately safeguarded against loss, theft or misuse.

The American Institute of Certified Public Accountants (AICPA) Codification of Statements on Auditing Standards (SAS) defines an adequate internal control structure and what is required to properly safeguard the assets of an organization. Specifically, SAS No. 78 states that management is responsible for adopting sound accounting policies and for establishing and maintaining internal controls to record, process, summarize and report financial data that is consistent with management assertions embodied in the financial statements. One of

the specific objectives management may wish to consider including in its internal control is access to assets is permitted only in accordance with management's authorization. The recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action taken with respect to any differences.

The EOEА initiated a detailed fixed asset listing, including dates of acquisition and historical costs, however, the listing is incomplete because the process of compiling the necessary data from other records has not been completed. The EOEА purchased new inventory property identification tags, however, the tagging of fixed assets has not been completed. Computer and database equipment is identified by the manufacturer serial number, while plastic strip inventory number tags identify other fixed assets. Agency officials cited the lack of staff and time for not completing the review of inventory records, the fixed asset listing, and tagging equipment with an identification number.

Our testing included ten items selected from the property listing and ten from the computer listing to confirm their existence and trace the assets from the listing to their physical location. One item could not be located, one lacked a property identification tag and three, including two computers, had identification numbers on them that did not agree with the identification numbers on the listing.

***Recommendation***

The EOEА should establish controls to ensure that its fixed assets are properly safeguarded, valued and reported and that they are in compliance with state and AICPA requirements. These controls should include the maintenance of a cumulative fixed assets listing including dates of purchase, historical cost and source of acquisition. In addition, all equipment should be properly inventoried and tagged with an individual property identification number and a physical inventory should be conducted comparing physical assets to inventory listings.

***Auditee's Response***

Elder Affairs has set up new fixed asset inventory spreadsheets which include the following information: item, inventory number, cost, purchase order/encumbrance number, account number, acquisition and disposal dates, make, model, serial number where applicable. Entry of historical data into these spreadsheets will be completed by December 31, 2002.

Elder Affairs will use the metal state inventory tags for all computer equipment and large office furniture items. Re-tagging of these items with the metal tags will be completed by December 31, 2002. Elder Affairs will continue to use the current tags for chairs and small items.

After the re-tagging is completed, Elder Affairs will complete the entry of new inventory numbers into the fixed asset inventory spreadsheets by February 28, 2003.

**2. INDIRECT COST PLAN NOT DEVELOPED - UNRESOLVED**

The EOEA needs to develop an indirect cost allocation plan. Allocation plans were not completed for fiscal years 1999-2002 and, as a result, \$1,275,218 charged to federal programs are unsupported. As reported in the prior audit, the EOEA last developed a plan for fiscal year 1996, and has not developed an indirect cost allocation plan for fiscal years 1997 through 2001.

The EOEA currently applies a rate of 21% as a budgetary tool in establishing grant or contract amounts in accordance with a negotiated agreement with the Department of Labor dated October 1, 1996. The agreement stipulates that:

*"Commencing with State Fiscal Year 1993, indirect cost rates may be used as a budgetary tool in establishing grant or contract amounts. Nevertheless, only actual indirect costs can be charged to Federal grants and contracts in accordance with cost accounting procedures approved by the Office of Cost Determination...."*

The agreement stipulates that the EOEA may apply a budgetary rate of 40% for all programs beginning July 1, 1996 "until amended" (an actual plan is developed). The EOEA and the Commonwealth, however, have taken a more conservative approach applying a 21% rate in the interim years, resulting in a total of \$359,824 in costs billed to the federal program

for fiscal year 2002. Additionally, as reported in prior audits, the EOEА charged costs of \$303,108, \$320,186 and \$292,100, for fiscal years 1999, 2000 and 2001, respectively.

The EOEА is allowed to bill federal programs using a rate specified in its Negotiated Agreement with the U.S. Department of Labor. The Agreement states that only actual indirect costs can be charged to federal grants and contracts. The EOEА is required to compute the actual rate for each fiscal year in accordance with the cost accounting procedures approved in the Elder Affairs Departmental Cost Allocation Plan. The resulting rate is compared with the rate used to bill federal programs and any recoveries must be credited against the applicable federal program or costs may be charged.

Our follow-up review revealed that the EOEА submitted a draft allocation plan for fiscal year 2000 to the Office of the State Comptroller (OSC) for review. OSC completed the review, however, the Office has not finalized the plan. Also, Office personnel stated that, with the assistance of the University of Massachusetts Medical School's Office of Health Care Finance, the cost allocation plan for fiscal year 2001 is substantially completed, but not finalized. Since the actual rates have not been finalized and the indirect cost plan not completed for fiscal years 1999 through 2002, the amounts charged for indirect costs are still unsupported. The federal programs and amounts are as follows:

Fiscal Year	CFCA Number	Amount
1999	10.570	\$ 75,415
2000	10.570	63,196
2001	10.570	66,932
2002	10.570	98,839
1999	17.235	16,894
2000	17.235	13,899
2001	17.235	11,012
2002	17.235	27,969
1999	84.281	145
2000	84.281	1,216
2001	84.338	1,058
1999	93.044	192,800
2000	93.044	220,088
2001	93.044	196,547
2002	93.044	220,816
1999	93.048	4,177
2000	93.048	6,511
2001	93.048	6,858

2002	93.048	2,125
1999	93.779	10,052
2000	93.779	9,598
2001	93.779	9,693
2002	93.779	10,075
1999	93.994	3,625
2000	93.994	5,678
Total		<u>\$1,275,218</u>

***Recommendation***

The EOEА should complete the actual indirect cost rate for fiscal years 1999, 2000, 2001 and 2002 and credit applicable federal programs with any over recoveries. The EOEА should also ensure timely completion of its fiscal year 2003 plan.

***Auditee's Response***

Elder Affairs submitted a final cost allocation plan for FY 2000 to the Office of the Comptroller on November 5, 2002. The final plan reflects revisions Elder Affairs made to draft versions of the plan in response to the comments of the Comptroller's staff. Having submitted this final plan, we will review the indirect cost allocations identified for individual Federal grants with the Comptroller's staff to determine whether adjustments need to be made to the actual amounts charged.

Using the approved final FY 2000 plan as a model, we will prepare the plans for FY 1999, FY 2001 and FY 2002. Cost allocation plans for FY 1999, 2001 and 2002 will be completed by June 1, 2003. Indirect cost charges for individual Federal grants will be resolved through the Office of the Comptroller as each fiscal year's plan is completed and approved.

**3. MONITORING OF AREA AGENCIES NEEDS IMPROVEMENT - UNRESOLVED**

The EOEА needs to improve its monitoring procedures over the Area Agencies on Aging (AAA) to ensure that funds are being spent in accordance with contract requirements and federal and state regulations and to assess program quality and effectiveness. As disclosed in our prior fiscal year 2001 report, the EOEА did not have a process in place to observe operations and review financial and program records maintained at AAAs. Our follow-up audit for fiscal year 2002 disclosed that monitoring procedures remain the same as fiscal year 2001 and the EOEА did not implement a process to observe operations and review records

or staff the Program Evaluation Unit which formerly reviewed subrecipients' program quality and effectiveness. The EOEА did obtain all AAA audit reports issued, including the reports noted in the fiscal year 2001 report as not received, and followed-up on AAA findings in a timely manner.

The EOEА passes Title III federal funds through to AAAs for programs including elderly nutrition and supportive services. OMB Circular A-133 §400(d) lists one of the responsibilities of pass-through entities as:

*"Monitor the activities of subrecipients as necessary to ensure that federal awards are used for authorized purposes in compliance with laws, regulations and provisions of contract or grant agreements and that performance goals are achieved."*

OMB Circular A-133, Part B Compliance Supplement, Section 3-M further states that:

*"Monitoring activities may take various forms, such as reviewing reports submitted by the subrecipient, performing site visits to the subrecipient to review financial and programmatic records and observe operations, arranging for agreed-upon procedures engagements for certain aspects of subrecipient activities, such as eligibility determinations, reviewing the subrecipient's single audit or program-specific audit results and evaluating audit findings and the subrecipient's corrective action plan."*

In addition to federal regulations, the Commonwealth of Massachusetts' Procurement Policies and Procedures Handbook Chapter 5 Contract Execution and Management: Monitoring and Evaluating Contractor Performance and Compliance states, in part:

*"The Commonwealth has a responsibility to conduct monitoring and evaluation of the commodities and services it purchases. These activities can assist in identifying and reducing fiscal and programmatic risk as early as possible thus protecting both public funds and clients being served. Contract managers are responsible for monitoring contractor performance and other issues that arise during the life of the contract. In developing monitoring and evaluation procedures, the Commonwealth, through its departments should strive for methods which rely on, among other things, national or industry standards and which are coordinated, cost efficient and appropriate to the level of risk to the Commonwealth in the purchase of the commodities or services."*

EOEA officials stated that monitoring activities are conducted through quarterly and annual financial reports, monthly nutrition program statistical reports, annual programmatic statistical reports, phone contacts and monthly meetings with AAA Directors. However,

there is no process in place to observe operations and review financial and program records maintained at AAAs. The EOEА does not verify information supplied by the AAAs nor does it verify AAA site program records which support the information provided. Also, programs are not reviewed for effectiveness. By not monitoring subrecipient activity, the Office cannot ensure that federal awards are used for authorized purposes in compliance with contracts, laws and regulations, or that fiscal and programmatic records are being maintained.

***Recommendation***

The EOEА should implement procedures to adequately monitor subrecipients for compliance with the terms and conditions of the contracts and applicable regulations sufficient to ensure that funds are spent in accordance with requirements. In addition, it should establish and implement procedures to evaluate and assess the subrecipient's performance and record-keeping for quality and effectiveness.

***Auditee's Response***

The Executive Office of Elder Affairs took a major step to improve monitoring of Area Agencies on Aging by reorganizing current staff to assign two employees to a newly constituted Title III Programs Administration Unit effective July 1, 2002. This unit will be responsible for monitoring Area Agency services and operations in coordination with existing monitoring activities related to Title III-C Nutrition Programs and III-B Ombudsman services, and with monitoring procedures being developed for the Title III-E Family Caregiver Support Program. Following are the steps the Title III Programs Administration Unit has taken to improve Elder Affairs' monitoring of Area Agencies to date:

1. Performed desk reviews of current Area Plans, documented the results of these reviews, and sent letters to six AAAs whose Area Plans did not comply with requirements established by Elder Affairs for priority services, in July 2002.
2. Obtained information about the activities of Area Agencies in monitoring their Title III subgrantees and subcontractors, through the following specific steps:

- a. Obtained monitoring tools used by Area Agencies in their reviews of subgrantee and subcontractor activity (July and August 2002);
- b. Developed standards for Area Agency monitoring tools, reviewed the tools against these standards, and sent letters to those Area Agencies whose tools varied from the standards requesting remediation of the specific deficiencies identified (August and September 2002);
- c. Obtained lists of Area Agency monitoring visits conducted in FY 2002 and their results (described on a pass-fail basis).

In addition to being monitoring activities in themselves, these steps will allow Elder Affairs to develop a database of information to check in subsequent monitoring work, and will inform the development of the statewide comprehensive monitoring tool described below.

3. As described below in the response to *Finding Number 4: Inadequate Supporting Documentation For Payment Voucher Expenditures*, Title III staff has prepared and issued standard invoice backup documentation formats that will serve as the basis for monitoring Area Agencies' financial activities as well as providing information for programmatic monitoring.

Elder Affairs will build on these steps to develop an effective system of monitoring Area Agencies by taking the following additional actions:

1. Beginning in November 2002, Title III staff will visit two Area Agencies per month to accompany the Area Agency Planners on one of his/her monitoring visits/inspections of Title III subgrantees or subcontractors.
2. By January 31, 2003, Title III staff will complete and document reviews of the Federal FY 2003 annual adjustment to the Area Plan, and will send follow-up letters to any Area Agencies whose adjustments do not comply with requirements.
3. By June 30, 2003, Elder Affairs will issue a handbook for Area Agency Planners, which, in addition to providing technical assistance and guidance to the Area Agencies, will codify the Federal and state requirements which will govern Elder Affairs' future monitoring activity.
4. By June 30, 2003, Elder Affairs will complete a comprehensive statewide monitoring tool for Title III services, based on Federal and state regulations and policy and informed by experience from the activities described above. This monitoring tool will include standards for documentation of current monitoring activities related to Title III-C Nutrition, Title III-B and VII Long Term Care Ombudsman, and Title III-E Family Caregiver Support as well as expanded monitoring activities.

5. Beginning in July 2003, Elder Affairs staff will use the comprehensive monitoring tool in at least one monitoring visit to an Area Agency per month.

#### **4. INADEQUATE SUPPORTING DOCUMENTATION FOR PAYMENT VOUCHER EXPENDITURES - UNRESOLVED**

The EOEA pays federal funds to Area Agencies on Aging (AAA) for reimbursement of program and administrative expenses without sufficient documentation supporting the expenditures. The prior audit reported that 14 transactions totaling \$728,981 in grant payments to AAAs were inadequately supported in fiscal year 2001. Our follow-up audit of fiscal year 2002 transactions noted that 24 transactions totaling \$1,832,873 were also not supported with sufficient documentation.

The EOEA contracts with 23 AAAs, and the total amount of aging cluster federal funds distributed to these AAAs was approximately \$20.5 million and \$21 million for fiscal years 2001 and 2002, respectively. The AAAs submit monthly payment vouchers listing program and administrative expense totals with descriptive titles such as Nutrition Program, support services or administrative services, for which AAAs request reimbursement. The AAAs are not required to submit invoices with details of the monthly expenses to support the reimbursement requests. The EOEA relies on the AAA's quarterly and annual financial reports to support the expenses shown on the payment vouchers. However, our review noted that the quarterly reports did not reconcile to payments received.

The Commonwealth of Massachusetts' Procurement Policies and Procedures Handbook, Chapter 5, Contracts Execution and Management; Payments, states in part:

*"The Contractor shall be required to provide relevant supporting documentation to substantiate any claim for payment of an invoice or to support payments already made by the department."*

OMB Circular A-133 places the responsibility on pass-through entities to monitor the activities of subrecipients as necessary to ensure that federal awards are used for authorized purposes in compliance with laws, regulations and the provisions of grant agreements.

Our review noted that the quarterly reports submitted by AAAs did not agree to the monthly program expenditure payments made to them for the corresponding period.

EOEA personnel stated that quarterly and annual reports were deemed sufficient support for the payments requested. However, without accompanying detail for monthly invoices, reports supporting requested payment voucher amounts or reconciled quarterly reports of actual expenses to payments, the EOEA cannot be assured that federal funds were disbursed for authorized purposes. During fiscal year 2002, EOEA personnel developed a new monthly report formatted to support monthly invoices. This new report's implementation is effective for fiscal year 2003 monthly invoices.

***Recommendation***

The EOEA should require supporting documentation for monthly payment requests and review such documentation to ensure that federal funds are used for authorized purposes in compliance with federal and state regulations.

***Auditee's Response***

Elder Affairs has implemented requirements for detailed documentation of all invoices from Area Agencies for Title III-funded services. Program Instruction EOEA-PI-02-29, Title III Area Plan Administration and Supportive Services Standard Invoice, dated June 18, 2002, requires the twenty-three Area Agencies on Aging to submit an Excel spreadsheet report format to Elder Affairs on a monthly basis. The Standard Invoice collects financial information under the following Title III categories; Area Plan Administration, Title III-B Supportive Services, Title III-D Preventive Health Services, Title III-D Medication Management Services, Title-E Family Caregiver Services and Long Term Care Ombudsman Services. The monthly Standard Invoice serves as the principal document in support of Area Agency on Aging requests for Title III Older Americans Act payments under the above categories. The Standard Invoice format was issued as a working draft designed for July, August and September 2002. Its use has been well received by the Area Agencies on Aging and full implementation begins with the submission of October 2002 Title III invoices.

The Title III-C Nutrition Services Standard Invoice, Program Instruction EOEA-PI-02-42, dated August 30, 2002, is the second instrument that supports Elder Affairs' effort in providing documentation in support of Title III monthly payment requests. The reporting

format collects revenue and expenditure information from the twenty-eight Nutrition Projects associated with the Area Agencies on Aging in Massachusetts. The Nutrition Standard Invoice employs a monthly format with a quarterly view for analysis and monitoring. Developed jointly by programmatic and fiscal personnel at Elder Affairs, the Nutrition Services Standard Invoice lays the groundwork for the expanding synchronization of fiscal and programmatic monitoring. Review of monthly invoices, statistical reports and other programmatic reports to monitor the activities of the Area Agencies and their subrecipients will help to ensure that Federal funds are used for authorized purposes.

In coordination with addressing *Finding Number 3: Monitoring of Area Agencies Needs Improvement*, Elder Affairs is also requiring that each Area Agency on Aging and Nutrition Project submit complete, detailed documentation of one monthly Federal Fiscal Year 2003 Title III Standard Invoice payment request that we will identify. This documentation includes, but is not limited to; payroll registers, travel statements, vendor invoices, sub-grant statements, caterer bills and any other supporting documentation that corroborates the monthly Standard Invoices. The submission and review of all accompanying detail in support of the monthly Standard Invoices will ensure that fiscal records are maintained at the Area Agency on Aging level and Federal funds are being disbursed for authorized purposes.

Because the revised monthly billing formats will collect the pertinent information necessary to compile Area Agency on Aging expense data for the semi-annual report to the Administration on Aging, Elder Affairs will discontinue the quarterly reporting process for Title III programs that has served as the basis for preparation of semi-annual reports in the past.

**5. FEDERAL REPORTS NOT RECONCILED TO THE COMMONWEALTH'S ACCOUNTING SYSTEM - PARTIALLY RESOLVED**

Our prior audit disclosed that the EOEI did not reconcile the Federal Financial Status Report (SF-269) to the Massachusetts Management Accounting and Reporting System (MMARS), the Commonwealth's accounting system. There is no system in place to ensure

that amounts compiled and reported by the EOEА on the SF-269 based on quarterly reports submitted by Area Agencies on Aging (AAA) agree with disbursements recorded on MMARS. Consequently, the federal government does not have adequate assurance that amounts reported are accurate. The fiscal year 2001 report also disclosed the lack of reconciliations to MMARS and independent report reviews by EOEА personnel other than the report preparer.

The EOEА prepares the SF-269 based on quarterly expense reports submitted by the Area Agencies on Aging (AAA) and internal records for administrative costs. The purpose of the SF-269 is to report the status of funds, including program outlays and program income. Our follow-up audit of the fiscal year 2002 reports noted that, while there were secondary reviews of reports, the EOEА did not implement a reconciliation process between the MMARS system and the SF 269 report. In addition, as indicated in Finding Number 4, the quarterly reports submitted by the AAAs lack supporting documentation and monitoring verification reviews by the EOEА. Therefore, there was little assurance that reporting errors would be detected, which could result in under/over reporting of expenditures on the federal reports. The SF-269s are prepared on an accrual basis and MMARS reports are on a cash basis, therefore, a standard reconciling item would be timing differences for expense reimbursements.

The Financial Status Report Instructions on the back of Standard Form 269 states in part:

*"For reports prepared on an accrual basis, outlays are the sum of actual cash disbursements for direct charges for goods and services, the amount of indirect expense incurred, the value of in-kind contributions applied, and the net increase or decrease in the amounts owed by the recipient for goods and other property received and for services performed by employees, contractors and subgrantees."*

EOEA personnel stated the extensive time required preparing this year's budgetary process resulted in the lack of time to implement a reconciliation process.

***Recommendation***

The EOEА should establish procedures to prepare timely reconciliations between the MMARS system and the SF 269s filed with the U.S. Department of Health and Human Services.

***Auditee's Response***

Elder Affairs Accounting and Budget staff are still developing the reconciliation process described in the corrective action plan. Reconciliations for both SF-269 reports submitted in FY 2002 will be completed by November 30, 2002. Subsequent reports will be reconciled to MMARS within 60 days after the submission of the report. We note that, because the monthly standard invoice supporting actual payments will serve as the basis of Area Agency expenditures included in SF-269 reports for periods beginning October 1, 2002, the reconciliation of reports to MMARS will only require the identification of payment dates of the invoices for the reporting period.

**6. PROGRAM PAYMENTS PROCESSED BASED ON BUDGETED AMOUNTS - FULLY RESOLVED**

The fiscal year 2001 audit disclosed that EOEА processed six monthly payments totaling \$242,600 to five AAAs for cost reimbursement contracts based on budgeted amounts, rather than the actual costs incurred, which did not comply with OMB Circular A-87 Cost Principles for State, Local and Indian Tribal Governments. EOEА requires AAAs to submit monthly payment vouchers requesting reimbursement for administrative and program services expenses. Our follow-up audit of fiscal year 2002 payments noted that EOEА has discontinued payments to AAAs based on budgeted amounts. EOEА staff notified AAAs, through program instructions and letters, of OMB Circular A-87 requirements for submitting vouchers tied to the principles and practices of a cost reimbursement contract and payment system, and that payments must be based on actual cash or accrued program expenditure amounts.

**7. FEDERAL PROGRAM FUNDS NOT RECONCILED - FULLY RESOLVED**

The prior audit for fiscal year 2001 reported that EOEA did not complete a reconciliation of program funds awarded to actual revenue and costs reported by area agencies for fiscal year 2000, and that EOEA had not received an annual program income and expense report for fiscal year 2000 from the largest AAA. As reported in the prior audit, a reconciliation of funds awarded and disbursed with actual revenue and expenses reported had not been completed for fiscal year 2000. Our follow-up review noted that fiscal year 2001 program income and expense reports were received from each area agency and reconciled for fiscal years 2000 and 2001 to program funds awarded, and that the largest AAA submitted an audit report for fiscal year 2000 in accordance with OMB Circular A-133 requirements.

**8. SALARIES ALLOCATED TO FEDERALLY-FUNDED PROGRAMS NOT SUPPORTED BY PROPER DOCUMENTATION - FULLY RESOLVED**

The prior audit report disclosed EOEA did not maintain adequate documentation and have a process in place to determine that salaries charged to a federal program reflect each employee's actual hours spent on that program. As a result, EOEA was not in compliance with federal OMB Circular A-87 requirements. Our follow-up audit for fiscal year 2002 disclosed that EOEA did implement procedures to document salaries charged to federal awards. On September 17, 2002, EOEA provided to the auditors semi-annual payroll certifications for salaries charged to fiscal year 2002 federal programs signed by the employees' supervisors.

**9. FEDERAL DEBARMENT AND SUSPENSIONS NOT VERIFIED - FULLY RESOLVED**

The prior audit reported that EOEA did not obtain certifications or complete verification checks of subrecipients and vendors for federal suspension or debarment in accordance with OMB Circular A-133 requirements. Therefore, EOEA had inadequate assurance that contractors receiving federal funds were eligible recipients. Our follow-up review for fiscal year 2002 disclosed that EOEA utilized the Commonwealth's new contract and amendment forms for all area agencies containing the required vendor certified debarment assurance terminology. Also, contractors were required to sign a Provider Pre-qualification Form including debarment certification for the vendor and their subcontractors. In addition,

EOEA personnel conducted verifications of debarment status to the List of Parties Excluded From Federal Procurement issued by GSA and documented in the contract files.

#### **10. FEDERAL REPORTS SUBMITTED WITH ESTIMATED AMOUNTS**

The EOEA did not comply with Department of Health & Human Services (HHS) federal reporting requirements. Specifically, the EOEA submitted Financial Status Reports (SF-269) with estimated amounts, rather than with actual or cumulative figures, as required by HHS. Additionally, the reports reviewed were submitted late.

The EOEA requires Area Agencies on Aging (AAAs) to submit quarterly reports of program expenses and cumulative year-to-date totals to compile the information on the SF-269. Our review noted that the SF-269 report submitted by the EOEA for the six month period ending September, 30 2001 included estimated totals for eight AAAs whose quarterly program expense reports were not received by the EOEA in time for the EOEA to submit its report to the federal government. Furthermore, this report was due on October 30, 2001, but was not submitted until December 6, 2001. The report for the six-month period ending March 30, 2002, which adjusts the previous report's estimated amounts, was due on April 30, 2002, but was not submitted until May 23, 2002. The Financial Status Report Instructions on the back of Standard Form 269 states in part:

*"For reports prepared on an accrual basis, outlays are the sum of actual cash disbursements for direct charges for goods and services, the amount of indirect expense incurred, the value of in-kind contributions applied, and the net increase or decrease in the amounts owed by the recipient for goods and other property received and for services performed by employees, contractors and subgrantees."*

Administration on Aging Program Instructions 95-01 and 02-01 for Title III funds require the SF-269s be submitted according to the following schedule: April 30 for the first six months of a fiscal year, and October 30 for the last six months of a fiscal year. Because submitted reports were late and with estimated amounts, the EOEA did not comply with HHS Title III program reporting requirements. EOEA personnel stated that the use of estimates and the late filing of reports was due to the late submission of AAA quarterly reports. For AAA reports not received, EOEA personnel stated that totals were adjusted in the subsequent report.

***Recommendation***

The EOEА should establish procedures to ensure the SF-269 reports are in compliance with the Department of Health and Human Services requirements and discontinue the use of estimated totals. The EOEА should report actual or cumulative amounts and submit reports timely. Procedures should also be established that require AAAs to submit required reports in a timely manner. These procedures may include the withholding of funds for late submissions.

***Auditee's Response***

Elder Affairs' Corrective Action Plan for *Finding Number 4: Inadequate Supporting Documentation for Payment Voucher Expenditures* addresses the first step in eliminating estimated amounts from the calculations that generate the Financial Status Report (SF-269). The monthly programmatic billing formats, discussed in Finding Number 4, collect the pertinent information necessary to compile Area Agency on Aging expense data for the semi-annual report to the Administration on Aging. Elder Affairs will report actual or cumulative amounts in connection with the submission of the new Area Agency on Aging monthly standard invoices. The design and execution of the new reporting systems represent actual amounts for administrative and program costs and disbursements of the Area Agencies. Generating estimated figures at the state agency level based on prior Area Agency submissions would no longer be necessary.

The new Standard Invoices also eliminate what has been a major obstacle to submitting the SF-269 on time. Linking monthly report submissions to Title III payments should force the Area Agencies on Aging to focus on report due dates to obtain the payments necessary to continue program operations. In the past, Elder Affairs has continually stressed the importance of timely submission of Title III fiscal and programmatic reports, including the threat of withholding funds for late submissions. The new system intrinsically links the data necessary for the completion of the SF-269 to the payment of Title III funds to the Area Agencies.

Because the financial data to be reported on the SF-269 must often pass through three or more levels of reporting, from provider and sub-grant to Area Agency on Aging through to the Department, Area Agencies may sometimes find it difficult to submit complete Standard Invoices for the last month of a reporting period within the 30 days permitted for preparation of the SF-269. In these cases, Elder Affairs will consult with the Administration on Aging about the appropriate preparation and documentation of that period's report.