



The Commonwealth of Massachusetts

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

JULY 1, 2006 TO JUNE 30, 2007

OFFICIAL AUDIT
REPORT
APRIL 3, 2008

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Chapter 6, Section 74, of the Massachusetts General Laws, established the Massachusetts Rehabilitation Commission (MRC). The primary mission of MRC is to help permanently disabled individuals to live as independently as possible. The agency operates three programs, the Vocational Rehabilitation Program (VR), which provides education opportunities, job placement, and training for individuals who are capable of becoming gainfully employed; the Disability Determination Services Program (DDS), which determines initial and continued eligibility for federal Supplemental Security Income and Social Security Disability Insurance public benefits; and the Community Services Program (CS), which offers various services, including independent- and assisted-living settings for persons with disabilities. For fiscal year 2007, MRC received approximately \$131 million in appropriations, approximately \$80 million of which consisted of federal funds. In accordance with Chapter 11, Section 12, of the General Laws, we conducted a review of the MRC in conjunction with the Single Audit of the Commonwealth of Massachusetts for the fiscal year ended June 30, 2007.

AUDIT RESULTS

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1. PRIOR AUDIT RESULT RESOLVED - PAYROLL CERTIFICATIONS OBTAINED FOR FEDERALLY FUNDED PROGRAMS

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Our prior audit disclosed that MRC did not obtain periodic payroll certifications for employees that charge 100% of their time to the VR and DDS programs, as required by OMB Circular A-87. Our follow-up review determined that MRC is obtaining periodic payroll certifications for employees that charge 100% of their time to the VR and DDS grants as required by OMB Circular A-87, and has established Policies and Procedures that require certification for employees who charge 100% of their time to any federal program.

2. PRIOR AUDIT RESULT UNRESOLVED - INTERNAL CONTROLS OVER NON-GAAP FIXED ASSETS NEED TO BE IMPROVED

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Our prior audit disclosed that MRC was not in compliance with the Office of the State Comptroller's (OSC) requirements and its own internal policies and procedures for the accounting, reconciling, reporting, and recording of Non-GAAP fixed assets. Our follow-up audit disclosed that MRC continues to be in noncompliance with OSC requirements, federal regulations, and its own in-house policies and procedures for Non-GAAP fixed assets. Specifically, we noted that inventory records were not completely or accurately maintained, and fixed assets were not properly tagged in all instances. MRC attempted a physical inventory of fixed assets from September 2006 to April 2007, however it was not completed. In addition, MRC did not file a report with the Office of the State Auditor (OSA) for any unaccounted for, lost, or stolen assets, contrary to the requirements of Chapter 647 of the Acts of 1989, an act to improve internal controls at state agencies.

By not maintaining proper internal controls over fixed assets, there is limited assurance that property and equipment is adequately safeguarded against loss, theft or misuse. In response to our audit, MRC stated that it will a) continue to work on its inventory reconciliation in order to comply with the state guidelines on equipment inventory, b) review its current inventory procedures, and c) conduct a physical inventory in fiscal year 2008.

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INTRODUCTION

Background

The Massachusetts Rehabilitation Commission (MRC) is authorized by Chapter 6, Section 74, of the Massachusetts General Laws. The MRC has three programs designed to meet its primary mission of promoting equality, empowerment, and independence of individuals with disabilities. The Vocational Rehabilitation Program (VR) assists people who have a disabling condition who would like to find or return to work. VR also works closely with employers in the community to help create job openings and to help increase employer awareness regarding the benefits of diversity in the workplace. VR has area offices administered by three regional offices across the state. The central office is located at Fort Point Place in Boston. The Disability Determination Services Program (DDS) determines initial and continued eligibility for federal Supplemental Security Income (SSI) and Social Security Disability Insurance (SSDI) benefits. DDS also makes special outreach efforts to homeless shelters and individuals with HIV. DDS has two locations (Worcester and Boston). The Community Services Program (CS) offers various services, including independent- and assisted-living settings for persons with disabilities. CS is primarily administered from its central office, located at Fort Point Place in Boston. For fiscal year 2007, MRC received approximately \$131 million in appropriations, approximately \$80 million of which was provided by the federal government.

Audit Scope, Objectives, and Methodology

In accordance with Chapter 11, Section 12, of the General Laws, we conducted a review of MRC for the period July 1, 2006 to June 30, 2007. We conducted our review in conjunction with the Single Audit of the Commonwealth of Massachusetts for the fiscal year ended June 30, 2007. The Commonwealth's Fiscal Year 2007 Single Audit Report consists of the following volumes:

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

The audit results contained in this report are also reported in the Fiscal Year 2007 Single Audit of the Commonwealth of Massachusetts, Reports on Compliance and Internal Controls in Accordance with Governmental Auditing Standards and Requirements of the Office of Management and Budget (OMB) Circular A-133, and the Schedule of Expenditures of Federal Awards mentioned above.

Our review was conducted in accordance with applicable generally accepted government auditing standards and standards set forth in OMB Circular A-133, revised June 27, 2003, and the American Institute of Certified Public Accountants' (AICPA) Audit and Accounting Guide, Audits of State and Local Governments. Additionally, our review evaluated MRC's compliance with Office of the State Comptroller's (OSC) policies and procedures; Massachusetts General Laws; and other applicable laws, rules, and regulations.

In performing our review of MRC's activities, we referred to OMB Circular A-133 and the March 2007 Compliance Supplement to determine the compliance requirements that must be considered in an audit conducted under OMB Circular A-133. Based upon the review, we determined requirements applicable to the VR and the DDS Programs and designed appropriate tests to determine MRC's compliance with these requirements.

Specifically, our objectives were to:

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

The criteria for our review were drawn from OMB Circular A-133 and the March 2007 Compliance Supplement, OMB Circular A-87, the Code of Federal Regulations, and the OSC's Internal Control Guide. Those criteria dealt with MRC's applicable responsibility for compliance with laws and regulations governing:

Activities Allowed or Unallowed
Allowable Costs/Cost Principles
Cash Management
Davis- Bacon Act
Eligibility

Equipment and Real Property Management
Matching, Level of Effort, Earmarking
Period of Availability of Federal Funds
Procurement, Suspension and Debarment
Program Income
Real Property Acquisition/Relocation Assistance
Reporting
Subrecipient Monitoring
Special Tests and Provisions

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

AUDIT RESULTS

1. PRIOR AUDITS RESULT RESOLVED – PAYROLL CERTIFICATIONS OBTAINED FOR FEDERALLY FUNDED PROGRAMS

Our prior audit disclosed that MRC did not obtain periodic payroll certifications for employees that charge 100% of their time to the VR and DDS programs as required by OMB Circular A-87. As a result, there was limited assurance that the costs charged to the federal awards were appropriate. Our follow-up review determined that MRC is now obtaining periodic payroll certifications for employees that charge 100% of their time to the VR and DDS grants as required by OMB Circular A-87, and has established Policies and Procedures that require certification for employees who charge 100% of their time to any federal program.

2. PRIOR AUDITS RESULT UNRESOLVED - INTERNAL CONTROLS OVER NON-GAAP FIXED ASSETS NEED TO BE IMPROVED

Our prior audit disclosed that the Massachusetts Rehabilitation Commission (MRC) was not in compliance with the Office of the Comptroller's (OSC) requirements and their own internal policies and procedures for the accounting, reconciling, reporting and recording of fixed assets. Our follow-up audit disclosed that MRC continues to be in non-compliance with the OSC's requirements, federal regulations, and its own internal policies and procedures for the recording and reconciling of fixed assets. MRC maintains two inventory lists for Non-GAAP fixed assets consisting of furniture and equipment and EDP equipment. Our follow-up review disclosed that the inventory lists were not completely or accurately maintained, and fixed assets were not properly tagged in all instances. A physical inventory of fixed assets was attempted from September 2006 to April 2007, however it was not completed. In addition, MRC did not file a report with Office of the State Auditor (OSA) for any unaccounted for variances, losses, shortages, or thefts of funds or property, contrary to the requirements of Chapter 647 of the Acts of 1989, an act to improve internal controls at state agencies.

Our follow-up review of the furniture and equipment inventory records disclosed the following:

- The inventory listing had not been updated on a timely basis. For example, we noted that fiscal year 2007 purchases amounting to \$23,662 have not been recorded.
- The inventory listing totaling \$2,408,051 and consisting of 7,224 individual items as of June 30, 2007 was not accurately and completely maintained. Our review noted:

- 1,513 out of 7,224 (21%) items had no location recorded.
- 1,537 out of 7,224 (21%) items had no acquisition date.
- 566 out of 7,224 (8%) items had no unique identification tag.
- 1,462 out of 7,224 (20%) items did not indicate a dollar value.

Our follow up review of the EDP equipment inventory records and the results of its incomplete physical inventory taken in September, 2006 disclosed the following:

- 77 items could not be found, however, only four were removed from the inventory listing. The four that were removed were not reported to the OSA, contrary to Chapter 647 of the Acts of 1989. The four items confirmed missing consisted of two computer laptops and two monitors.
- 50 items, consisting of nine computer desktops, one computer laptop, three servers, 18 monitors, 18 printers and one computer router, were found but not recorded on the inventory listing. The inventory record did not indicate the dollar value of these items.
- 37 instances were noted where the same identification tag number was recorded in multiple instances either for the same item or different items.

As a result, the total value of the assets reported on its EDP inventory listing totaling \$1,324,580 and consisting of 2,106 items as of June 30, 2007 is not accurate. MRC's Director of Finance stated that, due to a hiring freeze in administrative operations, staff had to be reassigned to, and focused on, ongoing daily operations. Consequently, inventory management was not given a high priority. During the audit, MRC began the process of updating and correcting its records to ensure that they are complete and accurate. Commission personnel informed us that a complete physical inventory would be conducted starting in September 2007. By not maintaining proper controls over fixed assets, there is limited assurance that property and equipment is adequately safeguarded against loss, theft, or misuse.

MRC is required by the uniform administrative requirements of Federal regulation 34 CFR 80.32(d) to establish procedures for managing equipment (including replacement equipment), whether acquired in whole or in part with grant funds, until disposition takes place. Specifically, the regulation requires that property records be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date and cost of the property, the percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition

data, including the date of disposal and sale price of the property. In addition, 34 CFR 80.32(d) requires that a physical inventory of the property be taken, and the results reconciled with the property records at least once every two years; a control system should be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property with any losses, damage(s), or theft(s) being investigated; adequate maintenance procedures should be developed to keep the property in good condition; and proper sales procedures should be established to ensure the highest possible return when the grantee or subgrantee is authorized or required to sell the property.

MMARS Accounting and Management Policy on Fixed Assets, dated July 1, 2004, states, in part:

Policy

All assets, regardless if they are fixed or not, must be accounted for, managed, and reported in accordance with all applicable laws and regulations of the Commonwealth.

Annual Inventory

There shall be an annual inventory taken of fixed assets owned by every Department. This inventory shall include, at a minimum, a verification of the existence and location of fixed assets owned by a Department. This inventory shall be done on or about June 30th of each year for GAAP and non-GAAP assets. All changes needed to assets shall be entered in MMARS no later than seven (7) business days after June 30th of each year.

Reconciliation of Fixed Asset Inventory

There shall be a reconciliation of the fixed asset inventory against the books and records maintained by the Department, either on the Fixed Asset Subsystem or other documented methods. This reconciliation is to be done, at a minimum, on an annual basis. This reconciliation shall be available for audit either by the department's internal auditors, the State Auditor's Office or the Commonwealth's external auditors. Internal records must reconcile to the records available on the Fixed Asset Subsystem. A Department will maintain supporting documentation of fixed asset transactions available for examination by appropriate audit organizations.

Reporting

All fixed assets shall be reported in accordance with requirements as they relate to each group of fixed assets. These groups are GAAP Fixed Assets and Non-GAAP Fixed Assets. Each of these groups of assets has its own reporting requirements. These Fixed Assets shall be reported to the appropriate management bodies within and outside the Commonwealth by whatever appropriate and practical means.

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

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

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

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

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

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

All unaccounted for variances, losses, shortages or thefts of funds or property shall be immediately reported to the State Auditor's Office, who shall review the matter to determine the amount involved which shall be reported to appropriate management and law enforcement officials.

Recommendation

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

- Conduct an annual physical inventory of its property and equipment and reconcile the results to the books and records that it maintains. In this regard, management should ensure that the staff conducting the inventory are properly trained to ensure that all differences identified are properly documented and resolved. Starting in fiscal year 2008, the annual inventory should be done on or about June 30th.
- Maintain fixed asset listings/databases accurately, completely, and timely, and include each item's description, property identification number, location, and acquisition date.
- Ensure that all fixed assets have a permanently affixed, unique identification tag.
- Report any items that it cannot locate to the OSA as required under Chapter 647.

As part of this effort, management should develop sufficient oversight and monitoring to ensure that procedures are consistently followed.

Auditee's Response

The agency is in full agreement that there are improvements that need to be made in its equipment and EDP inventory as noted in the audit. The criteria information that has been provided is helpful as we go forward and for the most part is available or is part of our inventory procedures, but it is unlikely that we would be able to tie most of our equipment to an acquisition date. Most of our equipment is over 10 years old.

The agency will continue to work on its inventory reconciliation in order to comply with the state guidelines on equipment inventory. The agency recognizes that maintaining and reconciling an inventory of over 7,000 items in our equipment inventory alone requires a significant effort, is subject to error and the personnel costs to maintain the inventory can be significant. We will review our current inventory procedures as to the value of the equipment that we include in our inventory in order to determine if it is feasible to utilize the state Non-GAAP fixed asset standard of (1) a useful life of more than one year and (2) an original cost between \$1,000 and \$49,999. We would request consultation and guidance prior to a change in our inventory accounting, but would expect that our inventory would be in full compliance by the next audit review if this change were implemented.

We have developed a work plan to address the EDP inventory deficiencies and are continuing to work through other equipment reconciliation items. We feel that we will continue to have this type of finding unless we address the question as to what is included in the agency inventory to meet the requirement. We will plan for another inventory in January or February in order to determine the impact of our reconciliation.

Agency downsizing, loss of key staff in our administration office, and other high priority ongoing required activities have stretched our abilities to keep up with this requirement to the extent necessary for full compliance.

APPENDIX

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Chapter 647

THE COMMONWEALTH OF MASSACHUSETTS

In the Year One Thousand Nine Hundred and Eighty-nine

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

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

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

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

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

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

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

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

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

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

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

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

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

House of Representatives, December 21, 1989.

Passed to be enacted,

George Luvaan, Speaker.

In Senate, December 22, 1989.

Passed to be enacted,

William W. Budge, President.

January 3, 1990.

Approved,

Richard H. Kiah, Governor.