



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

Making government work better

Official Audit Report – Issued April 9, 2013

South Shore Educational Collaborative

For the period July 1, 2009 through June 30, 2011



TABLE OF CONTENTS

INTRODUCTION AND SUMMARY OF FINDINGS AND RECOMMENDATIONS 1

OVERVIEW OF AUDITED AGENCY 3

AUDIT SCOPE, OBJECTIVES, AND METHODOLOGY 5

AUDIT FINDINGS 7

1. TRANSACTIONS TOTALING \$525,651 IN MEMBER DISTRICT ACCOUNTS MAINTAINED BY SSEC CONDUCTED CONTRARY TO STATE FINANCE LAW 7

2. DEFICIENCIES IN SSEC’S ACCOUNTING AND FINANCIAL REPORTING 10

3. UNALLOWABLE STATE CONTRACT BILLING TOTALING \$1,053 14

4. INADEQUATE INTERNAL CONTROLS OVER VARIOUS ASPECTS OF SSEC OPERATIONS 15

APPENDIX I 19

SSEC MEMBER DISTRICTS AND BOARD MEMBERS AS OF JUNE 30, 2011 19

APPENDIX II 20

PROGRAMS OPERATED BY SOUTH SHORE EDUCATIONAL COLLABORATIVE 20

INTRODUCTION AND SUMMARY OF FINDINGS AND RECOMMENDATIONS

The South Shore Educational Collaborative (SSEC), located in Hingham, is an association of 10 local school districts and is one of 30 education collaboratives operating within the Commonwealth whose purpose is to provide education and related services to school districts and their students. Historically, education collaboratives have primarily provided services for special education students, but they may also provide other services, such as professional development, technology and consultation services, student transportation, and collective purchasing of goods and services for use by participating districts. Education collaboratives are governmental entities organized pursuant to Chapter 40, Section 4E, of the Massachusetts General Laws. Each collaborative is governed by a Board of Directors composed of representatives designated by member school committees, as provided by individual Collaborative Agreements approved by the Commonwealth's Department of Elementary and Secondary Education. The statute states, in part:

Two or more school committees of cities, towns and regional school districts and boards of trustees of charter schools may enter into a written agreement to provide shared programs and services, including instructional, administrative, facility, community or any other services; provided that a primary purpose of such programs and services shall be to complement the educational programs of member school committees and charter schools in a cost-effective manner. The association of school committees and charter school boards which is formed to deliver the programs and services shall be known as an education collaborative.

On August 31, 2011, the Office of the State Auditor issued reports on three education collaboratives--the Merrimack Special Education Collaborative (No. 2010-4539-3C), the READS Collaborative (No. 2010-4543-3C), and the Southeastern Massachusetts Educational Collaborative (No. 2011-4550-3C)--that, together with several previously issued reports on education collaboratives, collectively described widespread problems within the collaborative system, including a lack of proper oversight, transparency, and effective controls. Based on this, the State Auditor called for broad-based reforms to address mismanagement and improper spending as well as to improve state and local oversight of the Commonwealth's 30 education collaboratives. As a result, on May 12, 2012 the State Legislature enacted Chapter 43 of the Acts and Resolves of 2012, which made significant changes to Chapter 40, Section 4E, of the General Laws in the areas of collaborative oversight, accountability, and transparency.

Highlight of Audit Findings

- According to Chapter 41, Section 35, of the General Laws, only the Treasurer of each city and town is authorized to pay bills incurred by their municipality. We found, however, that SSEC maintained accounts for nine of its member districts and processed transactions totaling \$525,651 through these accounts.
- Contrary to state regulations, SSEC was not maintaining all of its accounting records in accordance with generally accepted accounting principles. Specifically, we found that SSEC was not using an acceptable methodology to allocate its indirect costs to its programs; misclassified approximately \$2 million in revenues and expenses; and, contrary to the requirements of Chapter 32, Section 91, of the General Laws, allowed one employee who retired and was subsequently rehired by SSEC to defer \$7,088 in compensation he earned during fiscal year 2010 to fiscal year 2011 in order to circumvent the earnings limitations on rehired public employees established by this statute. As a result, SSEC's financial information during our audit period was not accurately recorded in SSEC's financial records or accurately reported to the Commonwealth.
- SSEC overbilled the Massachusetts Commission for the Blind (MCB) \$1,053 for Limited Unit Rate Service Agreement (LUSA) services that were not provided.
- Contrary to GAAP, SSEC had not established adequate internal controls over several aspects of its operations. Specifically, during our audit period SSEC lacked a policy requiring documentation of the business versus personal use of agency-assigned vehicles, had not established effective inventory control procedures, unnecessarily lost \$79,309 by not ensuring that retirees were accurately billed for their health insurance premiums, did not adequately segregate the duties of its Business Manager/Treasurer, and lacked controls over the use of agency computers.

Recommendations of the State Auditor

- SSEC should discontinue all member account transactions immediately, and SSEC and municipal Treasurers should determine a payment plan in order to return the funds maintained within the respective member accounts to the member districts.
- SSEC should amend its financial records and reports for fiscal years 2010 and 2011 to accurately reflect its revenues and expenses. In the future, SSEC should take measures to ensure that it accurately accounts for all of its revenues and expenses in accordance with generally accepted accounting principles, as required by state regulations.
- SSEC should reimburse the MCB the \$1,053 in LUSA funding it received to which it was not entitled. In the future, SSEC should make sure that it only bills for services rendered.
- SSEC, with the approval of its Board of Directors, should immediately develop and implement sound internal controls over all aspects of its operations, including formal written policies and procedures.

OVERVIEW OF AUDITED AGENCY

The South Shore Educational Collaborative (SSEC) was established in 1976 as a government organization under Chapter 40, Section 4E, of the Massachusetts General Laws, which allows school districts, with the approval of the Commonwealth's Department of Elementary and Secondary Education (DESE), to enter into intergovernmental agreements establishing cooperative public entities referred to as education collaboratives. SSEC operates under the control of a Board of Directors composed of school superintendents from each of its 10 member districts, as detailed in Appendix I of this report.

Although SSEC's primary purpose is to provide services to its member districts, under its Collaborative Agreement with DESE it is also allowed to provide program services to other communities. A summary of the funding received by SSEC during the period covered by our audit appears in the table below:

Fiscal Year 2010 and 2011 Revenues¹

Revenue Source	Fiscal Year 2010	Fiscal Year 2011
Contributions, Gifts, Legacies, Bequests	\$ 10,007	\$ 9,255
Grants	-	138,000
Department of Mental Health	64,949	-
Department of Developmental Services	379,402	368,936
Department of Children and Families	952,369	-
Mass. State Agency Non-POS	-	272,851
Direct Federal Grants/Contracts	-	301,527
Medicaid	864,451	856,376
Mass. Govt. Stipends	26,742	41,017
Client Resources	13,461,243	15,411,787
Mass. Publicly Sponsored Client Offsets	-	76,775
Investment Revenue	3,663	1,791
Other Revenue	<u>3,104</u>	<u>8,267</u>
Totals	<u>\$15,765,930</u>	<u>\$17,486,582</u>

¹ This information was extracted from the fiscal years 2010 and 2011 Uniform Financial Statements and Independent Auditor's Reports that SSEC filed with the Commonwealth.

During the period covered by our audit, SSEC provided school-age students with educational programs, operated a children's residential group home, and operated an adult day habilitation program. These programs specialized in providing emotional, behavioral, and developmental services. In addition, SSEC conducted workshops and training through its professional development program and offered internet support services for member and non-member districts. A description of these programs and services appears in Appendix II of this report. SSEC's revenue was primarily derived from tuition fees charged to both member and non-member school districts based upon a per-student, per-program basis. SSEC also received funding from state contracts and federal grants for specific purposes.

AUDIT SCOPE, OBJECTIVES, AND METHODOLOGY

In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, the Office of the State Auditor has conducted an audit of certain activities of South Shore Educational Collaborative (SSEC) for the period July 1, 2009 through June 30, 2011. The scope of the audit included a review and examination of certain aspects of SSEC's fiscal and program operations during fiscal years 2010 and 2011. However, in some instances it was necessary to expand the audit period.

We conducted this performance audit in accordance with generally accepted government auditing standards with one exception, as described below. 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.

We did not test the operating effectiveness of internal controls related to the areas of: member district agreements, contract administration, program and service rates, payroll and fringe benefits, staff qualifications, computer user security, inventory, and financial recording and reporting because SSEC does not have a documented internal control plan. Instead, we obtained an understanding of the internal controls in place at SSEC through discussions with management and performed other audit procedures to obtain sufficient, appropriate evidence to support the findings and conclusions included in this report.

To achieve our audit objectives, we performed the following audit tests and examinations:

- Determined whether SSEC implemented effective management controls over certain aspects of its operations, including: member district agreements, contract administration, program and service rates, payroll and fringe benefits, staff qualifications, computer user security, inventory, and financial recording and reporting.
- Conducted transaction testing in the selected areas for the purpose of evaluating SSEC's business practices and its compliance with applicable laws, rules, and regulations, as well as the various fiscal and programmatic requirements of state contracts.
- Obtained an understanding of internal controls in place at SSEC and reviewed laws, rules, and regulations applicable to SSEC.
- Examined SSEC's financial statements, invoices, and other pertinent financial records to determine whether expenses incurred were reasonable; allowable; allocable; properly authorized and recorded; and in compliance with applicable laws, rules, and regulations.

- Conducted interviews with SSEC management to gain an understanding of the SSEC information technology system, especially with respect to computer configuration controls, safeguarding the network, and contingency planning. We relied on hard copy documents during our substantive testing; therefore, we did not test the system for the purpose of determining whether the system is reliable.

After performing the above procedures, we used the information gathered to plan and perform our audit tests.

Based on our audit we determined that, except as disclosed in the Audit Findings section of this report, for the period July 1, 2009 through June 30, 2011, SSEC maintained adequate internal controls and complied with applicable laws, rules, and regulations in the areas reviewed.

AUDIT FINDINGS

1. TRANSACTIONS TOTALING \$525,651 IN MEMBER DISTRICT ACCOUNTS MAINTAINED BY SSEC CONDUCTED CONTRARY TO STATE FINANCE LAW

According to Chapter 41, Section 35, of the Massachusetts General Laws, all financial transactions conducted by a municipality must be conducted by the municipality's Treasurer. Despite this requirement, we found that during fiscal years 2010 and 2011, the South Shore Educational Collaborative (SSEC) maintained accounts for nine of its 10 member districts and conducted transactions in these accounts totaling \$525,651 without the authorization and proper oversight of each municipality's Treasurer.

All bills for any municipal department, including school districts, must be paid through the town or city Treasurer as required by the Municipal Finance Law provisions set forth in Chapter 41, Section 35, of the General Laws, which states, in part:

Every town treasurer shall give bond annually for the faithful performance of his duties He shall receive and take charge of all money belonging to the town, and pay over and account for the same according to the order of the town or of its authorized officers. No other person shall pay any bill of any department; provided, however, this provision shall not prohibit the treasurer from paying such bill by the use of bank treasurer's or cashier's check. He shall have the authority given to an auditor by section fifty-one, and shall annually render a true account of all his receipts and disbursements and a report of his official acts.

Our review of SSEC's financial records revealed that SSEC maintained accounts and processed revenue and expense transactions through these accounts for nine of its member school districts. During our audit period, SSEC processed a total of \$525,651 in transactions through these accounts.

In terms of member district revenue, SSEC rented classroom space from six of these districts to operate a number of its school programs. Although SSEC issued monthly rental checks to one district Treasurer, as required by Chapter 41, Section 35, for the five other districts SSEC deposited its rental payments, which totaled \$119,600 during our audit period, through their respective member accounts. We also found that, during fiscal year 2010, two SSEC member districts were reimbursed \$64,266 for program services that had been improperly billed and that one district member was reimbursed for a prior-year overpayment totaling \$2,000. SSEC payments and reimbursements applied to member accounts are detailed in the following table:

Revenue Applied to Member Accounts

Fiscal Years 2010 and 2011

Member District	Fiscal Year 2010	Fiscal Year 2011	Total Revenues
Braintree	\$ 44,609	\$17,000	\$ 61,609
Cohasset	9,600	11,600	21,200
Hingham	40,657	4,400	45,057
Hull	26,000	24,000	50,000
Weymouth	<u>4,000</u>	<u>4,000</u>	<u>8,000</u>
Totals	<u>\$124,866</u>	<u>\$61,000</u>	<u>\$185,866</u>

We found that the rental costs for the classrooms were not appropriately negotiated with each municipality but rather were established by SSEC's Board of Directors.

We also found that, as detailed in the following table, during our audit period SSEC processed \$339,785 in member expenses owed to SSEC through its members' accounts without going through each municipal Treasurer as required by Chapter 41, Section 35. These expenses were for various program services purchased from SSEC from its member districts totaling \$333,726 and various member expenses totaling \$6,059, including professional development and certification fees, member dues, and travel and gift card reimbursements:

Member District Expenses

Fiscal Years 2010 and 2011

Member District	FY 2010 Member Expenses	FY 2011 Member Expenses	Total FY 2010 and FY 2011 Member Expenses
Braintree	\$ 72,055	\$60,570	\$132,625
Cohasset	4,757	-	4,757
Hingham	17,602	-	17,602
Hull	16,569	14,107	30,676
Norwell	62,495	20,024	82,519
Quincy	900	100	1,000
Weymouth	<u>70,606</u>	<u>-</u>	<u>70,606</u>
Totals	<u>\$244,984</u>	<u>\$94,801</u>	<u>\$339,785</u>

In addition, our review of the revenue and expense transactions within these member accounts revealed that accounting errors led SSEC to inaccurately record expenses in three member accounts totaling \$6,872, as follows:

- During fiscal year 2010, SSEC charged Hull's member account twice for the same \$2,318 expense; first on January 22, 2010 and again on February 19, 2010.
- During fiscal year 2010, SSEC charged \$709 in payroll and payroll-related expenses to Quincy's member account, although it was unable to provide supporting documentation for this expense.
- During fiscal year 2010, SSEC charged \$3,665 to Braintree's member account for services provided to a Quincy student.
- During fiscal year 2011, SSEC overcharged Braintree's member account \$180 when it inaccurately recorded expenses totaling \$5,465 as \$5,645.

During our audit, we brought this matter to the attention of SSEC's Executive Director, who subsequently contacted the Department of Elementary and Secondary Education (DESE). The Executive Director told us that DESE officials told him to determine a plan that would bring the balance of these accounts to zero and discontinue offering these specialized accounts for member districts. The Executive Director told us that he expects the outcome will be the dissolution of the member accounts and return of the accumulated funds to the respective members.

Recommendation

SSEC should discontinue all member account transactions. Further, SSEC and the respective municipal Treasurers should review member account activities, verify beginning and ending balances, and determine a payment plan in order to return the member account funds to their member districts.

Auditee's Response

SSEC has begun the process of closing membership accounts. It is understood that the accounts have been used to provide for unexpected and necessary services for students with special needs as situations developed related to each member district. SSEC personnel will continue to work with member districts to determine a plan that will bring these accounts to a zero balance each year. If a credit balance is attained during the year for a particular service or fee, it will be applied to an appropriate special education service or fee during the same fiscal year. No account balance will be carried from year to year.

2. DEFICIENCIES IN SSEC'S ACCOUNTING AND FINANCIAL REPORTING

Contrary to state regulations, SSEC was not maintaining all of its accounting records in accordance with generally accepted accounting principles (GAAP). Specifically, we found that SSEC was not using an acceptable methodology to allocate its indirect costs to its programs; misclassified approximately \$2 million in revenues and expenses; and, contrary to the requirements of Chapter 32, Section 91, of the General Laws, allowed one employee who retired and was subsequently rehired by SSEC to defer \$7,088 in compensation he earned during fiscal year 2010 to fiscal year 2011 in order to circumvent the earnings limitations on rehired public employees established by this statute. As a result, SSEC's financial information during our audit period, although audited by an outside firm, was not accurately recorded in SSEC's financial records or accurately reported to the Commonwealth.

Since SSEC receives funding through state human service contracts, it must comply with the regulations promulgated by the state's Operational Services Division (OSD), which is the state agency responsible for regulating and overseeing the activities of contracted human service providers. OSD regulations require all contracted human and social service providers, such as SSEC, to maintain their financial records in accordance with GAAP. Specifically, 808 Code of Massachusetts Regulations (CMR) 1.04(1), promulgated by OSD, states, in part:

The Contractor and its Subcontractors shall keep on file all data necessary to satisfy applicable reporting requirements of the Commonwealth (including DPS [the Division of Purchased Services], the Division of Health Care Finance and Policy and Departments), and financial books, supporting documents, statistical records, and all other records which reflect revenues associated with and costs incurred in or allocated to any Program of services rendered under the Contract. The Contractor and its Subcontractors shall maintain records of all types of expenses and income or other funds pertaining to the Program paid to the Contractor by every source, including from each Client. Books and records shall be maintained in accordance with generally accepted accounting principles as set forth by the American Institute of Certified Public Accountants (AICPA); which for not-for-profit Contractors shall be the Industry Audit Guide for Audits of Voluntary Health and Welfare Organizations, unless otherwise provided in the UFR [Uniform Financial Statements and Independent Auditor's Report].

Our review of SSEC's financial records revealed that, contrary to these requirements, SSEC (a) did not use the proper cost allocation methodology and (b) inaccurately recorded various revenues and expenses, as discussed below.

a. Improper Cost Allocation Methodology

Indirect costs such as administrative costs are those that cannot be directly accountable to a specific cost objective such as a program. Accordingly, these costs need to be accounted for and allocated to cost objectives or programs based on a reasonable and acceptable methodology. According to OSD guidance, entities such as SSEC are required to use one of four cost allocation methodologies to allocate their indirect costs to their programs and other cost centers. However, we found that during our audit period, SSEC was not using any of these methodologies. Rather, SSEC officials told us that the agency allocated its indirect costs to programs based on the number of students in each program, which is not an acceptable methodology per OSD guidance. Moreover, our testing indicated that this was not even the allocation methodology practiced by the agency. In fact, we found that in some cases during fiscal year 2010, SSEC arbitrarily allocated indirect costs to programs without any reasonable basis for the allocation. In addition, we found that during fiscal year 2011, SSEC failed to allocate its indirect costs, which is also not acceptable.

b. Inaccurate Recording of Various Revenues and Expenses

During our audit of SSEC's financial records, we identified several accounting issues, as discussed below:

- During fiscal years 2010 and 2011, SSEC recorded 258 tuition payments received from members totaling \$1,011,760 as non-member revenue and recorded 85 tuition payments received from non-members totaling \$329,682 as member revenue. The programs affected, the number of occurrences, and the incorrect payments by fiscal year are detailed in the following tables:

Inaccurate Recording of Member Tuition Payments as Non-Member Revenues

Fiscal Years 2010 and 2011

Program Name	Fiscal Year 2010		Fiscal Year 2011	
	Amount of Tuition Payments	Number of Occurrences	Amount of Tuition Payments	Number of Occurrences
Careers High School	\$ 73,927	20	\$ 36,436	10
Community School	47,130	9	90,005	17
Language Enhancement	33,680	11	34,218	11
Mini-School	151,623	33	154,635	33

Quest Elementary/Middle School	29,706	13	72,673	19
South Shore High School	<u>162,518</u>	<u>47</u>	<u>125,209</u>	<u>35</u>
Totals	<u>\$498,584</u>	<u>133</u>	<u>\$513,176</u>	<u>125</u>

Inaccurate Recording of Non-Member Tuition Payments as Member Revenues

Fiscal Years 2010 and 2011

Program Name	Fiscal Year 2010		Fiscal Year 2011	
	Amount of Tuition Payments	Number of Occurrences	Amount of Tuition Payments	Number of Occurrences
Careers High School	\$ 25,505	7	\$ 36,436	10
Community School	-	-	10,474	2
Language Enhancement	45,652	15	3,804	1
Mini-School	69,378	15	46,296	10
Quest Elementary/Middle School	41,019	11	7,707	2
South Shore High School	<u>3,424</u>	<u>1</u>	<u>39,987</u>	<u>11</u>
Totals	<u>\$184,978</u>	<u>49</u>	<u>\$144,704</u>	<u>36</u>

- During fiscal year 2011, SSEC paid \$228,018 to four vendors (Philadelphia Insurance, Risk Strategies, MEGA Property and Casualty Group, and The Hanover Insurance) and recorded these expenses to its prepaid expense account. However, contrary to GAAP requirements, SSEC did not make the proper adjusting entries to its prepaid expense account as these expenses were realized. Therefore, at the end of fiscal year 2011 SSEC's accounting records inaccurately reflected a balance of \$228,018 in SSEC's prepaid expense account.
- SSEC's former Executive Director retired at the end of fiscal year 2009, but SSEC did not pay his accrued vacation and sick time, which totaled \$25,712, until fiscal year 2010. As a result, SSEC's fiscal year 2010 expenses were overstated by this amount. We were informed by SSEC officials that this was due to cash-flow problems.
- SSEC's financial records regarding its state contract revenues during fiscal years 2010 and 2011 did not reconcile with actual revenues paid to SSEC as reported in the Massachusetts Management Accounting and Reporting System, as shown in the following table:

Actual vs. Recorded SSEC Program Revenues

Fiscal Years 2010 and 2011

Funding State Agency	Program	Fiscal Year 2010 Program Revenues		Fiscal Year 2011 Program Revenues	
		Actual	SSEC Financial Statements	Actual	SSEC Financial Statements
Dept. of Mental Health	Group ² Home/Residential	\$ 64,949	\$ 64,940	-	-
Dept. of Developmental Services	Adult Day Habilitation	379,402	402,463	\$357,874	\$368,936
Dept. of Children and Families	Pathways	90,000	90,000	40,000	34,969
Dept. of Children and Families	Group Home/Residential	862,369	857,957 ³	-	-
Mass. Commission for the Blind	Adult Day Habilitation	-	824	7,111	3,189
Totals		<u>\$1,396,720</u>	<u>\$1,416,184</u>	<u>\$404,985</u>	<u>\$407,094</u>

- Chapter 32, Section 91, of the Massachusetts General Laws states, in part:

[A]ny person who has been retired and who is receiving a pension or retirement allowance . . . may, subject to all laws, rules and regulations, governing the employment of persons in the commonwealth, county, city, town, district or authority be employed in the service of the commonwealth, county, city, town, district or authority, including as a consultant or independent contractor or as a person whose regular duties require that his time be devoted to the service of the commonwealth, county, city, town, district or authority during regular business hours for not more than nine hundred and sixty hours in the aggregate, in any calendar year; provided that the earnings therefrom when added to any pension or retirement allowance he is receiving do not exceed the salary that is being paid for the position from which he was retired

We found that, contrary to this requirement, SSEC allowed its interim Business Manager/Treasurer, who was a retired public employee hired by SSEC, to defer \$7,088 (representing compensation for 94.5 hours of work) that he earned during calendar year 2010 to calendar year 2011 in order to circumvent the post-retirement earnings limit imposed by Chapter 32.

² Group Home/Residential Program ended June 30, 2010.

³ Includes Client Personal Allowances (Stipends) totaling \$14,490.

- During fiscal year 2011, SSEC misclassified direct expenses totaling at least \$540,095 that it incurred in the operation of its Community Adult Program and its Community School Program, which are the only programs that operate at 40 Pond Street in Hingham. The direct expenses included rent, utilities, real estate taxes, maintenance services, equipment, and supplies. Rather than charging these direct expenses to these two programs, they were included in administrative expenses to be allocated across all SSEC programs.

Recommendation

SSEC should amend its financial records and reports for fiscal years 2010 and 2011 to accurately reflect its revenues and expenses. In the future, SSEC should take measures to ensure that it accurately accounts for all of its revenues and expenses in accordance with GAAP as required by state regulations.

Auditee's Response

The SSEC 2010 and 2011 fiscal years have been closed and audited by an independent audit firm. The allocation method used in the past was established in a manner that distributed indirect administrative and facility expenses throughout the programs with a rationale that would be reasonable and fair to the programs and services with the primary objective of a balanced budget. In the future, SSEC will take every measure to ensure that it accurately accounts for revenues and expenses in accordance with GAAP. SSEC has already taken steps in this direction. For example, a change in the independent auditing firm has been completed. A primary goal of the new firm is to assist with the initiative of aligning internal controls with accounting principles. In addition, personnel will meet with Operational Service Division to receive technical guidance with the appropriate methods of allocation. The situation with the retiree occurred during a time when there was an extended illness of an employee. A critical shortage waiver was approved in the 2011 calendar year approving the employee to continue working. The person disclosed the matter of the deferred payment to the retirement board and the situation has been resolved.

3. UNALLOWABLE STATE CONTRACT BILLING TOTALING \$1,053

In July 2010, SSEC amended its Master Service Agreement contract with the Massachusetts Commission for the Blind (MCB) to permit SSEC to render Limited Unit Rate Service Agreements (LUSAs) during fiscal year 2011. The funds to be provided under this contract were to reimburse SSEC for providing LUSA services, including personal and adjustment training for blind consumers in SSEC's Community Adult Program. We found, however, that during fiscal year 2011 SSEC was paid \$1,053 for services that were not rendered and thus should be repaid to the Commonwealth.

According to the Department of Developmental Services Purchase of Service Manual, human service providers such as SSEC are to be reimbursed for LUSA services in accordance with the state's contract billing requirements. LUSA billings are to be submitted using a purchase voucher

and must include a Service Delivery Report (SDR) that contains the identity of the consumer and the number of days that the services were rendered, and providers may only be reimbursed for LUSA services actually rendered.

During our audit, we found that during fiscal year 2011, SSEC requested and received a total of \$7,111 in LUSA funding from MCB for services rendered on behalf of one consumer during an 11-month period. However, we found one month in which SSEC billed MCB for \$1,404 (184 hours at \$7.63 per unit hour) although the SDR that supports this billing indicates that the consumer only received 46 hours of service totaling \$351. As a result, SSEC overbilled the state \$1,053 for LUSA services that were not provided.

Recommendation

SSEC should reimburse MCB the \$1,053 in LUSA funding it received to which it was not entitled. In the future SSEC should make sure that it bills only for services actually rendered.

Auditee's Response

SSEC personnel will contact MCB regarding the \$1,053 payment for services during this audit period. Unexpected services for students and adults in various programs may be provided by personnel who are available and on salary at SSEC. In a case such as this, a separate invoice may not have been generated. In discussion with staff, the point was made that services were sometimes provided when LUSA funds were not available. It is agreed that a policy for submitting an invoice for any service provided to a client in the adult program needs to be generated for proper accounting and back up funds received. SSEC agrees to reimburse the MCB if verification of the services cannot be provided to back up the \$1,053.

4. INADEQUATE INTERNAL CONTROLS OVER VARIOUS ASPECTS OF SSEC OPERATIONS

GAAP require entities such as SSEC to establish adequate internal controls over all aspects of their operations. However, we found that during our audit period, SSEC had not established adequate internal controls over several aspects of its operations. Specifically, SSEC (a) lacked a policy requiring documentation of the business versus personal use of agency-assigned vehicles, (b) had not established effective inventory control procedures, (c) unnecessarily incurred \$79,309 in costs by not ensuring that retirees were accurately billed for their health insurance premiums, (d) did not adequately segregate the duties of its Business Manager/Treasurer, and (e) lacked controls over the use of agency computers, as discussed below.

a. Lack of Controls over the Use of an Agency Vehicle

The Department of the Treasury, Internal Revenue Service, Publication 15-B, Employer's Tax Guide to Fringe Benefits, states, in part:

A fringe benefit is a form of pay for the performance of services. For example, you provide an employee with a fringe benefit when you allow the employee to use a business vehicle to commute to and from work. . . .

Any fringe benefit you provide is taxable and must be included in the recipient's pay

If the recipient of a taxable fringe benefit is your employee, the benefit is subject to employment taxes and must be reported on Form W-2, Wage and Tax Statement.

During our audit period, SSEC assigned a 2008 Ford F-150 pickup truck to its maintenance director to enable him to perform the duties required by his position, which included hauling building supplies and distributing equipment and supplies throughout SSEC campuses. The assignment also allowed for personal usage, including commuting to and from work. All expenses incurred with the operation of this vehicle (e.g., gasoline, maintenance, insurance, fees) were paid by SSEC. However, SSEC did not have a policy that required this individual to document the business and personal use of this vehicle, and SSEC was therefore unable to value this fringe benefit and report the value of this benefit to the individual and the appropriate taxing authorities.

b. Inadequate Inventory Controls

Under 808 CMR 1.04, OSD has established the following inventory control requirements:

Any Contractor in possession of capital items, as defined in 808 CMR 1.02 shall label, maintain and keep on file a written inventory of the property in accordance with generally accepted accounting principles.

Despite this regulation, during our audit SSEC was unable to provide a list of its capital items, which according to its financial statements had a value (less accumulated depreciation) of \$116,218 as of the end of fiscal year 2010. As a result, SSEC cannot ensure that its inventory was adequately protected against loss, theft, or misuse.

c. Inadequate Segregation of Duties

Segregation of duties is a primary principle in any internal control plan in order to provide adequate checks and balances. The basic goal of segregation of duties is to ensure that no one

person has excessive control over one or more critical processes. However, we found that, during our audit period, SSEC's Business Manager also served as its Treasurer. Accordingly, this single individual was in a position to initiate, authorize, and approve SSEC transactions.

d. Inadequate Computer Security Controls

Our review of SSEC's security settings over its computer network and use identified that SSEC had not established user policies and procedures or established monitoring controls for the use of its computers. As a result, there is inadequate assurance that SSEC's computer system is adequately safeguarded.

e. Unnecessary Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA) Billings

Due to a lack of procedures for billing former employees who elected for COBRA with their health insurance coverage, SSEC incurred unnecessary expenses totaling \$79,309. According to SSEC officials, this \$79,309 represents an accumulation of expenses that the agency incurred over "possibly as many as 10 to 15 years" due to incorrect billing practices. During this period, SSEC billed former employees only 50% rather than 100% of the costs for COBRA coverage that SSEC incurred on each individual's behalf. During fiscal year 2011, SSEC's interim Business Manager/Treasurer identified this improper billing practice, and SSEC immediately commenced appropriate billings to former employees who elected for COBRA. SSEC officials indicated that its fiscal year 2011 independent auditor has recommended that this expense be written off in fiscal year 2011.

Recommendation

SSEC, with the approval of its Board of Directors, should immediately develop and implement adequate internal controls over all aspects of its operations to ensure that organizational goals and objectives are met in an economical and efficient manner; organizational activities are conducted in compliance with applicable laws, regulations, and policies; assets are properly safeguarded against waste, loss, and misuse; and agency transactions are properly authorized, recorded, and reported. An effective internal control plan would describe SSEC's goals and objectives and the means by which they should be achieved and would establish clear lines of authorization and approval for SSEC's various business functions, such as purchasing, contracting, asset management, and computer use security. In addition, SSEC's internal control system should be backed up with a set of detailed

subsidiary policies and procedures that would communicate responsibilities and expectations to subordinate staff by providing employees with direction to complete various business operations, such as accounting, billings, cash receipts, accounts payable, human resources, and payroll.

Auditee's Response

SSEC is in agreement and has been developing improved internal controls and procedures. The audit team acknowledged that we have made significant changes in the accounting system by aligning revenues and expenses with programs and services using the Budget Sense integrated software program. All purchases are now made through purchase orders. SSEC is in the process of implementing a purchase card system that will electronically account each expenditure to the appropriate department. A complete inventory has recently been completed.

APPENDIX I**SSEC Member Districts and Board
Members as of June 30, 2011**

Member District	Board Member
Braintree	Peter A. Kurzberg, Ph.D
Cohasset	Denise Walsh, Ed.D
Hingham	Dorothy Galo, Ph.D
Hull	Kathleen Tyrell, Ed.D
Marshfield	Middleton McGoodwin, Ed.D
Norwell	Donald Beaudette, Ed.D
Quincy	Richard DeCristofaro, Ed.D
Randolph	Oscar Santos, Ed.D
Scituate	Susan Martin, Ed.D
Weymouth	Matthew Ferron

APPENDIX II

Programs Operated by South Shore Educational Collaborative

Careers High School: This program is therapeutic, collaborative, flexible, and focused on helping students learn employment skills while they earn their high school diploma from their sending school districts.

Community School: This program is a day school serving students from ages three through 21 with multiple, severe disabilities, many of whom have complex medical needs.

Language Enhancement Program: This program is designed to help students with language and processing difficulties develop increased communicative and linguistic competence while fostering self-esteem.

Mini-School: This program specializes in the education of children from ages five through 22 with Pervasive Developmental Disorders, Autism Spectrum Disorders, developmental delays, and language delays.

Quest Elementary/Middle School: This program provides kindergarten through eighth grade students with a small, supportive, therapeutic school that provides intensive educational, clinical, behavioral, and remedial services.

South Shore High School: This program provides scholastic challenges, therapeutic intervention, and behavioral support in an environment where students can progress in all aspects of school functions.

Community Adult Program: This program is an accredited day support program for adults over the age of 22 with significant medical needs and complex learning needs.

Short-Term Assessment and Return to School (STARTS) Program: This program provides an educational and psychological assessment for students who are having serious difficulties in their school and require evaluation.

Center for Assistive Technology: This service provides assistive technology consultations, assessments, and training for students and education professionals.

Occupational, Physical, and Speech Therapy Services: This service provides school-based therapy to students with special needs who require supportive services in order to benefit from special education.

Pathways: This service is a Commonwealth initiative to connect public schools with human service systems and services in order to promote the mental health of students.

Professional Development: A broad range of programs, including technology instruction, professional licensure, and certifications are offered to collaborative and non-member school districts.

Sloan Care Cornerstone Center: This is a web-based career planning resource to support teachers, counselors, students, and parents.

Technology Instruction: Professional development services provide educators and counselors with hands-on experience in software applications.

Internet Services: Provide technical assistance including e-mail and e-mail archiving, exchange service, web and spam filtering.