



## **COMMONWEALTH OF MASSACHUSETTS**

Independent Auditors' Reports as Required by Title 2 U.S. Code  
of Federal Regulations Part 200, *Uniform Administrative Requirements,  
Cost Principles, and Audit Requirements for Federal Awards and  
Government Auditing Standards* and Related Information

Year ended June 30, 2017

(With Independent Auditors' Report Thereon)

## Table of Contents

	<b>Page</b>
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	1
Independent Auditors' Report on Compliance for Each Major Program; Report on Internal Control over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance	3
Schedule of Expenditures of Federal Awards	6
Notes to Schedule of Expenditures of Federal Awards	14
Schedule of Findings and Questioned Costs:	
Summary of Auditors' Results	17
Findings Relating to the Financial Statements Reported in Accordance with <i>Government Auditing Standards</i> :	
Office of the Comptroller	20
Executive Office of Labor and Workforce Development	24
Executive Office of Health and Human Services	29
Department of Transitional Assistance	42
Findings and Questioned Costs Relating to Federal Awards:	
Department of Elementary and Secondary Education	45
Department of Housing and Community Development	59
Executive Office of Labor and Workforce Development	86
Massachusetts Department of Transportation	94
Department of Public Health	97
Executive Office of Health and Human Services (MassHealth)	101
Summary of Prior Year's Findings – (Not Covered by Auditors Reports)	119



KPMG LLP  
Two Financial Center  
60 South Street  
Boston, MA 02111

## **Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards**

Mr. Thomas G. Shack, III, Comptroller  
Commonwealth of Massachusetts:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Massachusetts (the Commonwealth), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Commonwealth's basic financial statements and have issued our report thereon dated January 10, 2018. Our report includes an emphasis of matter paragraph regarding the Commonwealth adopting provisions of Governmental Accounting Standard Board (GASB) Statements No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* and No. 77, *Tax Abatement Disclosures*. Our report includes a reference to other auditors who audited the financial statements of the entities described in note 14 of the Commonwealth's basic financial statements. This report does not include the results of the other auditors' testing of internal controls over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of certain entities identified in note 14 to the Commonwealth's basic financial statements were not audited in accordance with *Government Auditing Standards*.

### **Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Commonwealth's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commonwealth's internal control. Accordingly, we do not express an opinion on the effectiveness of the Commonwealth's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify deficiencies in internal control that we consider to be a material weakness. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies described in the accompanying schedule of findings and questioned costs as findings 2017-001 through 2017-014 that we consider to be significant deficiencies.



### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Commonwealth's basic financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **The Commonwealth's Responses to Findings**

The Commonwealth's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Commonwealth's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Commonwealth's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commonwealth's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

**KPMG LLP**

Boston, Massachusetts  
January 10, 2018



KPMG LLP  
Two Financial Center  
60 South Street  
Boston, MA 02111

## **Independent Auditors' Report on Compliance for Each Major Program; Report on Internal Control over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

Mr. Thomas G. Shack, III, Comptroller  
Commonwealth of Massachusetts:

### **Report on Compliance for Each Major Federal Program**

We have audited the Commonwealth of Massachusetts' (the Commonwealth) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Commonwealth's major federal programs for the year ended June 30, 2017. The Commonwealth's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

As discussed in note 1 to the schedule of expenditures of federal awards, the Commonwealth's basic financial statements include the operations of certain entities whose federal awards are not included in the accompanying schedule of expenditures of federal awards for the year ended June 30, 2017. Our audit, described below, did not include the operations of the entities identified in note 1 as these entities conducted separate audits in accordance with the Uniform Guidance, if required.

#### *Management's Responsibility*

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

#### *Auditors' Responsibility*

Our responsibility is to express an opinion on compliance for each of the Commonwealth's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Commonwealth's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our unmodified and modified opinions on compliance for major federal programs. However, our audit does not provide a legal determination of the Commonwealth's compliance.



#### *Basis for Qualified Opinion on the Section 8 Project-Based Cluster*

As described in the accompanying schedule of findings and questioned costs, the Commonwealth did not comply with requirements regarding the Section 8 Project-Based Cluster (CFDA 14.182 and 14.856) as described in finding 2017-026 for Subrecipient Monitoring. Compliance with such requirements is necessary, in our opinion, for the Commonwealth to comply with the requirements applicable to that program.

#### *Qualified Opinion on the Section 8 Project-Based Cluster*

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the Commonwealth complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Section 8 Project-Based Cluster for the year ended June 30, 2017.

#### *Unmodified Opinion on Each of the Other Major Federal Programs*

In our opinion, the Commonwealth complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2017.

#### *Other Matters*

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2017-016, 017, 019, 021 through 023, 025, 028, 032, 033, 035 through 039, 041, 044 and 047. Our opinion on each major federal program is not modified with respect to these matters.

The Commonwealth's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Commonwealth's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

#### **Report on Internal Control over Compliance**

Management of the Commonwealth is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Commonwealth's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Commonwealth's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or



combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2017-026, 033, 038, 040 and 046 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2017-015 through 025, 027 through 032, 034 through 037, 039, 041 through 045 and 047 to be significant deficiencies.

The Commonwealth's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Commonwealth's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

#### **Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

We have audited the financial statements of the governmental activities, the business type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Commonwealth's basic financial statements. We have issued our report thereon dated January 10, 2018, that referred to the reports of other auditors and contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Commonwealth's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

**KPMG LLP**

Boston, Massachusetts  
March 29, 2018

**COMMONWEALTH OF MASSACHUSETTS**

Schedule of Expenditures of Federal Awards

Year ended June 30, 2017

CDFA number	Federal Agency, Program, or Cluster Title	Passed through to subrecipients	Total federal expenditures
<b>U.S. Department of Agriculture:</b>			
10.025	Plant and Animal Disease, Pest Control, and Animal Care	\$ —	\$ 3,731,804
10.093	Voluntary Public Access and Habitat Incentive Program	84,463	84,463
10.170	Specialty Crop Block Grant Program - Farm Bill	350,157	411,360
10.307	Organic Agriculture Research and Extension Initiative	77,692	84,891
10.331	Beginning Farmer and Rancher Development Program	60,834	1,207,507
10.547	Professional Standards for School Nutrition Employees	49,390	49,390
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	69,363,360	78,294,560
10.558	Child and Adult Care Food Program	69,288,398	70,395,842
10.560	State Administrative Expenses for Child Nutrition	475,000	4,482,276
10.572	WIC Farmers' Market Nutrition Program	—	407,678
10.574	Team Nutrition Grants	225,931	228,023
10.576	Senior Farmers Market Nutrition Program	—	497,942
10.578	WIC Grants To States	23,049	250,525
10.579	Child Nutrition Discretionary Grants Limited Availability	982,998	1,085,445
10.580	Supplemental Nutrition Assistance Program, Outreach/Participation Program	—	112,839
10.582	Fresh Fruit and Vegetable Program	3,449,889	3,579,234
10.664	Cooperative Forestry Assistance	170,386	1,341,986
10.675	Urban and Community Forestry Program	—	137,100
10.676	Forest Legacy Program	—	974,397
10.680	Forest Health Protection	—	3,793
10.868	Rural Energy for America Program	26,414	44,097
10.914	Wildlife Habitat Incentive Program	—	12,929
10.916	Watershed Rehabilitation Program	—	384,000
10.931	Agricultural Conservation Easement Program	835,516	2,134,072
10.932	Regional Conservation Partnership Program	78,626	78,626
<b>SNAP Cluster:</b>			
10.551	Supplemental Nutrition Assistance Program	—	1,163,096,177
10.561	State Administrative Matching Grants for the Supplemental Nutritional Assistance Program	5,640,534	63,782,815
	<b>Total SNAP Cluster</b>	<b>5,640,534</b>	<b>1,226,878,992</b>
<b>Child Nutrition Cluster:</b>			
10.555	National School Lunch Program	270,623,752	294,130,913
10.559	Summer Food Service Program for Children	8,612,637	8,848,128
	<b>Total Child Nutrition Cluster</b>	<b>279,236,389</b>	<b>302,979,041</b>
<b>Food Distribution Cluster:</b>			
10.565	Commodity Supplemental Food Program	180,535	180,535
10.568	Emergency Food Assistance Program administrative costs	815,906	957,556
	<b>Total Food Distribution Cluster</b>	<b>996,441</b>	<b>1,138,091</b>
	<i>Total U.S. Department of Agriculture</i>	<b>431,415,467</b>	<b>1,701,010,903</b>
<b>U.S. Department of Commerce:</b>			
11.014	Band 14 Incumbent Spectrum Relocation	—	317,730
11.407	Interjurisdictional Fisheries Act of 1986	—	151,495
11.419	Coastal Zone Management Administration Awards	13,895	2,595,738
11.420	Coastal Zone Management Estuarine Research Reserves	48,363	783,966
11.427	Fisheries Development and Utilization Research and Development Grants and Cooperative Agreement Program	63,246	140,794
11.454	Unallied Management Projects	—	1,330,919
11.463	Habitat Conservation	—	1,584
11.472	Unallied Science Program	678,717	693,308
11.474	Atlantic Coastal Fisheries Cooperative Management Act	14,385	264,820
11.549	State and Local Implementation Grant Program	—	413,896
	<i>Total U.S. Department of Commerce</i>	<b>818,606</b>	<b>6,694,250</b>
<b>U.S. Department of Defense:</b>			
12.113	State Memorandum of Agreement Program for the Reimbursement of Technical Services	—	1,247,406
12.400	Military Construction, National Guard	—	29,977
12.401	National Guard Military Operations and Maintenance (O&M) Projects	—	40,781,191
	<i>Total U.S. Department of Defense</i>	<b>—</b>	<b>42,058,574</b>

COMMONWEALTH OF MASSACHUSETTS

Schedule of Expenditures of Federal Awards

Year ended June 30, 2017

CDFA number	Federal Agency, Program, or Cluster Title	Passed through to subrecipients	Total federal expenditures
<b>U.S. Department of Housing and Urban Development:</b>			
14.181	Supportive Housing for Persons with Disabilities	\$ 684,117	\$ 689,244
14.228	Community Development Block Grants / State's Program	27,153,885	28,660,420
14.231	Emergency Shelter Grants Program	4,542,069	4,744,149
14.235	Supportive Housing Program	422,526	459,842
14.238	Shelter Plus Care	226,303	226,303
14.239	HOME Investment Partnerships Program	—	220,016,087
14.241	Housing Opportunities for Persons with AIDS	367,860	367,860
14.267	Continuum of Care Program	7,167,520	8,606,621
14.881	Moving to Work Demonstration Program	242,990,491	244,535,293
14.896	Family Self-Sufficiency Program	781,918	781,918
14.880	Family Unification Program	1,966,859	1,972,020
Section 8 Project-Based Cluster:			
14.182	Section 8 New Construction and Substantial Rehabilitation	17,735,673	21,510,751
14.856	Lower Income Housing Assistance Program Section 8 Moderate Rehabilitation	7,190,232	7,365,633
	Total Section 8 Project-Based Cluster	24,925,905	28,876,384
CDBG – Disaster Recovery Grant – Pub.L. No.113-2 Cluster:			
14.269	Hurricane Sandy Community Development Block Grant Disaster Recovery Grants (CDBG-DR)	2,353,323	2,353,323
	Total CDBG – Disaster Recovery Grant – Pub.L. No.113-2 Cluster	2,353,323	2,353,323
Housing Voucher Cluster:			
14.871	Section 8 Housing Choice Vouchers	5,416,136	5,863,282
	Total Housing Voucher Cluster	5,416,136	5,863,282
	Total U.S. Department of Housing and Urban Development	318,998,912	548,152,746
<b>U.S. Department of the Interior:</b>			
15.608	Fish and Wildlife Management Assistance	55,840	72,379
15.614	Coastal Wetlands Planning, Protection and Restoration Act	917,562	980,836
15.616	Clean Vessel Act Program	840,205	1,012,252
15.622	Sportfishing and Boating Safety Act	598,308	598,308
15.631	Partners for Fish and Wildlife	—	334
15.634	State Wildlife Grants	—	31,674
15.677	Hurricane Sandy Disaster Relief Activities-FWS	590,077	782,025
15.808	U.S. Geological Survey Research and Data Collection	—	8,098
15.904	Historic Preservation Fund Grants-In-Aid	216,985	1,102,411
15.916	Outdoor Recreation Acquisition, Development and Planning	718,247	718,247
15.925	Agricultural Water Enhancement Program	125,857	125,857
15.947	Boston Harbor Islands Partnership	—	56,843
Fish and Wildlife Cluster:			
15.605	Sport Fish Restoration Program	—	6,193,065
15.611	Wildlife Restoration and Basic Hunter Education	—	1,604,837
	Total Fish and Wildlife Cluster	—	7,797,902
	Total U.S. Department of the Interior	4,063,081	13,287,166
<b>U.S. Department of the Justice:</b>			
16.017	Sexual Assault Services Formula Program	359,415	378,296
16.321	Antiterrorism Emergency Reserve	1,918,741	2,276,660
16.393	Residential Substance Abuse Treatment For State Prisoners	548	734
16.540	Juvenile Justice and Delinquency Prevention Allocation to States	—	215,559
16.543	Missing Children's Assistance	—	389,790
16.550	State Justice Statistics Program for Statistical Analysis Centers	—	124,333
16.560	National Institute of Justice Research, Evaluation, and Development Project Grants	—	876,155
16.575	Crime Victim Assistance	15,887,225	18,577,470
16.576	Crime Victim Compensation	—	1,986,304
16.582	Crime Victim Assistance/Discretionary Grants	54,895	105,452
16.585	Drug Court Discretionary Grant Program	—	315,452
16.588	Violence Against Women Formula Grants	1,511,748	2,918,555
16.589	Rural Domestic Violence and Child Victimization Enforcement Grant Program	—	375,943
16.590	Grants to Encourage Arrest Policies and Enforcement of Protection Orders	—	564
16.593	Residential Substance Abuse Treatment for State Prisoners	27,193	71,309
16.606	State Criminal Alien Assistance Program	—	2,810,361
16.710	Public Safety Partnership and Community Policing Grants	—	87,424
16.735	Protecting Inmates and Safeguarding Communities Discretionary Grant Program	—	274,368
16.738	Edward Byrne Memorial Justice Assistance Grant Program	2,021,053	4,371,194
16.741	Forensic DNA Capacity Enhancement Program	—	1,245,850
16.742	Paul Coverdell Forensic Sciences Improvement Grant Program	22,773	239,474
16.745	Criminal and Juvenile Justice and Mental Health Collaboration Program	—	33,391
16.746	Capital Case Litigation Initiative	55,832	121,277

**COMMONWEALTH OF MASSACHUSETTS**

Schedule of Expenditures of Federal Awards

Year ended June 30, 2017

CDFA number	Federal Agency, Program, or Cluster Title	Passed through to subrecipients	Total federal expenditures
16.751	Edward Byrne Memorial Competitive Grant Program	\$ 39,180	\$ 297,692
16.754	Harold Rogers Prescription Drug Monitoring Program	—	289,778
16.812	Second Chance Act Prisoner Reentry Initiative	497,247	939,907
16.816	John R. Justice Prosecutors and Defenders Incentive Act	32,200	35,706
16.820	Post-conviction Testing of DNA Evidence to Exonerate the Innocent	5,663	161,226
	<i>Total U.S. Department of Justice:</i>	<u>22,433,713</u>	<u>39,520,224</u>
	<b>U.S. Department of Labor:</b>		
17.002	Labor Force Statistics	—	2,111,477
17.005	Compensation and Working Conditions	—	124,559
17.225	Unemployment Insurance	2,699,996	1,561,266,613
17.235	Senior Community Service Employment Program	1,685,495	1,786,719
17.245	Trade Adjustment Assistance Workers	616,421	12,481,215
17.268	H-1B Job Training Grants	167,151	167,151
17.271	Work Opportunity Tax Credit Program	—	193,123
17.273	Temporary Labor Certification for Foreign Workers	7,868	685,283
17.277	Workforce Investment Act (WIA) National Emergency Grants	5,670,829	5,712,830
17.281	WIA/WIOA Dislocated Worker National Reserve Technical Assistance and Training	18,615	99,065
17.283	Workforce Innovation Fund	—	137,231
17.285	Apprenticeship USA Grants	—	22,346
17.504	Consultation Agreements	—	1,276,912
17.600	Mine Health and Safety Grants	—	68,649
	<i>Employment Service Cluster:</i>		
17.207	Employment Service Wagner-Peyser Funded Activities	5,638,894	13,025,384
17.801	Disabled Veterans' Outreach Program	399,353	3,007,813
	<i>Total Employment Service Cluster</i>	<u>6,038,247</u>	<u>16,033,197</u>
	<i>WIAO Cluster:</i>		
17.258	WIA/WIOA Adult Program	11,084,342	11,742,007
17.259	WIA/WIOA Youth Activities	12,906,915	13,878,591
17.278	WIA/WIOA Dislocated Worker Formula Grants	11,308,949	18,193,007
	<i>Total WIAO Cluster</i>	<u>35,300,206</u>	<u>43,813,605</u>
	<i>Total U.S. Department of Labor</i>	<u>52,204,828</u>	<u>1,645,979,975</u>
	<b>U.S. Department of Transportation:</b>		
20.218	National Motor Carrier Safety	17,173	4,114,748
20.231	Performance and Registration Information Systems Management	—	246,250
20.232	Commercial Driver License State Programs	—	215,131
20.234	Safety Data Improvement Program	17,031	17,031
20.237	Commercial Vehicle Information Systems and Networks	—	329,208
20.319	High-Speed Rail Corridors and Intercity Passenger Rail Service – Capital Assistance Grants	8,993,563	14,600,935
20.320	Rail Line Relocation and Improvement	—	277,829
20.505	Federal Transit Metropolitan Planning Grants	2,569,564	2,775,793
20.509	Formula Grants for Other Than Urbanized Areas	3,431,560	3,790,698
20.514	Transit Planning and Research	411,168	411,168
20.528	Rail Fixed Guideway Public Transportation System State Safety Oversight Formula Grant Program	—	392,315
20.614	Safety Incentive Grants for Use of Seatbelts	—	43,515
20.700	Pipeline Safety	—	1,071,561
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants	127,807	270,782
	<i>Highway Planning and Construction Cluster:</i>		
20.205	Highway Planning and Construction	—	583,491,756
20.219	Recreational Trails Program	900,542	1,117,400
	<i>Total Highway Planning and Construction Cluster</i>	<u>900,542</u>	<u>584,609,156</u>
	<i>Federal Transit Cluster:</i>		
20.500	Federal Transit Capital Investment Grants	6,689,167	6,689,167
20.507	Federal Transit Formula Grants	5,477,169	5,477,169
20.526	Bus and Bus Facilities Formula Program	2,483,191	2,483,191
	<i>Total Federal Transit Cluster</i>	<u>14,649,527</u>	<u>14,649,527</u>
	<i>Transit Services Programs Cluster:</i>		
20.513	Enhanced Mobility for Seniors and Individuals with Disabilities	1,115,231	3,539,674
20.516	Job Access Reverse Commute	938,309	1,103,476
20.521	New Freedom Program	1,055,801	1,187,380
	<i>Total Transit Service Program Cluster</i>	<u>3,109,341</u>	<u>5,830,530</u>

COMMONWEALTH OF MASSACHUSETTS

Schedule of Expenditures of Federal Awards

Year ended June 30, 2017

CDFA number	Federal Agency, Program, or Cluster Title	Passed through to subrecipients	Total federal expenditures
20.600	Highway Safety Cluster:		
20.616	State and Community Highway Safety	\$ 1,531,727	\$ 5,124,504
	National Priority Safety Programs	1,574,595	4,520,623
	Total Highway Safety Cluster	3,106,322	9,645,127
	Total U.S. Department of Transportation	37,333,598	643,291,304
	<b>Equal Employment Opportunity Commission:</b>		
30.002	Employment Discrimination State and Local Fair Employment Practices Agency Contracts	—	2,744,086
	<b>National Endowment for the Arts:</b>		
45.024	Promotion of the Arts Grants to Organizations and Individuals	—	355
45.025	Promotion of the Arts Partnership Agreements	912,950	912,950
45.149	Promotion of the Humanities Division of Preservation and Access	—	17,848
45.310	State Library Program	548,386	3,222,988
	Total National Endowment for the Arts	1,461,336	4,154,141
	<b>Small Business Administration:</b>		
59.061	State Trade and Export Promotion Pilot Grant Program	283,139	285,869
	<b>U.S. Department of Veterans Affairs:</b>		
64.014	Veterans State Domiciliary Care	—	3,256,164
64.015	Veterans State Nursing Home Care	—	16,951,774
64.203	State Cemetery Grants	—	790,163
	Total U.S. Department of Veterans Affairs:	—	20,998,101
	<b>U.S. Environmental Protection Agency:</b>		
66.032	State Indoor Radon Grants	—	149,643
66.034	Surveys, Studies, Investigations, Demonstrations and Special Purpose Activities Relating to the Clean Air Act	—	633,390
66.040	State Clean Diesel Grant Program	—	1,061
66.110	Healthy Communities Grant Program	18,139	18,411
66.454	Water Quality Management Planning	214,982	461,975
66.456	National Estuary Program	1,061,985	1,937,785
66.461	Regional Wetland Program Development Grants	—	35,805
66.472	Beach Monitoring and Notification Program Implementation Grants	—	212,697
66.605	Performance Partnership Grants	1,888,072	14,284,581
66.700	Consolidated Pesticide Enforcement Cooperative Agreements	—	440,576
66.701	Toxic Substances Compliance Monitoring Cooperative Agreements	—	134,086
66.707	TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	—	408,396
66.708	Pollution Prevention Grants Program	34,117	44,430
66.802	Superfund State, Political Subdivision, and Indian Tribe Site Specific Cooperative Agreements	—	1,173,471
66.804	State and Tribal Underground Storage Tanks Program	—	505,181
66.805	Leaking Underground Storage Tank Trust Fund Program	—	627,188
66.817	State and Tribal Response Program Grants	100	352,944
66.818	Brownfields Assessment and Cleanup Cooperative Agreements	—	7,210
66.999	Environmental Protection Agency – Miscellaneous	—	818,539
	Total U.S. Environmental Protection Agency	3,217,395	22,247,369
	<b>U.S. Department of Energy:</b>		
81.041	State Energy Program	—	857,524
81.042	Weatherization Assistance for Low-Income Persons	5,869,570	6,540,218
81.086	Conservation Research and Development	—	29,994
81.119	State Energy Program Special Projects	—	128,668
81.138	State Heating Oil and Propane Program	—	22,286
	Total U.S. Department of Energy	5,869,570	7,578,690
	<b>U.S. Department of Education:</b>		
84.002	Adult education State Grant Program	10,404,243	12,694,719
84.010	Title I Grants to Local Educational Agencies	228,027,575	239,787,608
84.011	Migrant Education State Grant Program	1,609,736	1,795,556
84.013	Title I Program for Neglected and Delinquent Children	380,780	2,325,170
84.048	Vocational Education Basic Grants to States	15,514,489	17,714,274
84.126	Rehabilitation Services Vocational Rehabilitation Grants to States	151,800	70,235,267
84.144	Migrant Education Coordination Program	84,487	84,487
84.161	Rehabilitation Services Client Assistance Program	—	300,630
84.169	Independent Living State Grants	—	25,160
84.177	Rehabilitation Services Independent Living Services for Older Individuals Who are Blind	—	616,793
84.181	Special Education Grants for Infants and Families with Disabilities	1,644,750	7,683,018
84.184	Safe and Drug-Free Schools and Communities National Programs	71,338	235,913
84.187	Supported Employment Services for Individuals with Severe Disabilities	56,715	372,835

COMMONWEALTH OF MASSACHUSETTS

Schedule of Expenditures of Federal Awards

Year ended June 30, 2017

CDFA number	Federal Agency, Program, or Cluster Title	Passed through to subrecipients	Total federal expenditures
84.196	Education for Homeless Children and Youth	\$ 716,481	\$ 955,927
84.282	Charter Schools	985,118	1,118,252
84.287	Twenty-First Century Community Learning Centers	16,201,591	16,987,671
84.323	Special Education – State Personnel Development	177,924	1,252,184
84.330	Advanced Placement Program	799,406	799,406
84.334	Gaining Early Awareness and Readiness for Undergraduate Programs	4,127,380	5,418,310
84.358	Rural Education	63,539	63,539
84.360	High School Graduation Initiative	—	410,064
84.365	English Language Acquisition Grants	12,889,989	13,804,033
84.366	Mathematics and Science Partnerships	2,026,832	2,162,594
84.367	Improving Teacher Quality State Grants	40,900,231	43,584,062
84.369	Grants for State Assessments and Related Activities	—	7,398,488
84.372	Statewide Data Systems	—	1,506,332
84.374	Teacher Incentive Fund	—	874,533
84.377	School Improvement Grants	8,329,148	9,285,635
84.378	College Access Challenge Grant Program	87,522	87,948
84.412	Race to the Top – Early Learning Challenge	253,071	2,843,650
84.419	Preschool Development Grants	13,352,686	14,655,899
84.421	Disability Innovation Fund	—	108,716
84.999	Department of Education – Miscellaneous	—	145,755
	Special Education Cluster (IDEA):		
84.027	Special Education Grants to States	256,651,952	287,056,758
84.173	Special Education Preschool Grants	8,097,432	9,514,069
	Total Special Education Cluster (IDEA)	264,749,384	296,570,827
	Total U.S. Department of Education	623,606,215	773,905,255
	<b>National Archives and Records Administration:</b>		
89.003	National Historical Publications and Records Grants	9,512	41,441
	<b>U.S. Election Assistance Commission:</b>		
90.401	Help America Vote Act Requirements Payments	—	2,572,922
	<b>U.S. Department of Health and Human Services:</b>		
93.041	Special Programs for the Aging Title VII, Chapter 3 Programs for Prevention of Elder Abuse, Neglect, and Exploitation	34,932	44,425
93.042	Special Programs for the Aging Title VII, Chapter 2 Long Term Care Ombudsman Services for Older Individuals	—	94,172
93.043	Special Programs for the Aging Title III, Part D Disease Prevention and Health Promotion Services	383,376	383,376
93.048	Special Programs for the Aging Title IV and Title II Discretionary Projects	—	339,896
93.051	Alzheimer's Disease Demonstration Grants to States	34,277	34,926
93.052	National Family Caregiver Support	2,972,684	3,084,451
93.069	Public Health Emergency Preparedness	5,083,915	15,288,987
93.070	Environmental Public Health and Emergency Response	—	2,625,715
93.071	Medicare Enrollment Assistance Program	291,065	292,117
93.072	Lifespan Respite Care Program	220,138	233,429
93.073	Birth Defects and Developmental Disabilities – Prevention and Surveillance	522,968	1,125,595
93.079	Cooperative Agreements to Promote Adolescent Health through School-Based HIV/STD Prevention and School-Based Surveillance	58,296	476,823
93.087	Enhance the Safety of Children Affected by Parental Methamphetamine or Other Substance Abuse	438,776	659,827
93.090	Guardianship Assistance	—	5,702,620
93.092	Affordable Care Act (ACA) Personal Responsibility Education Program	580,106	821,417
93.103	Food and Drug Administration Research	—	1,711,886
93.104	Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances	—	310,545
93.110	Maternal and Child Health Federal Consolidated Programs	—	851,454
93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	—	2,061,913
93.127	Emergency Medical Services for Children	—	107,403
93.130	Primary Care Services Resource Coordination and Development	—	289,828
93.136	Injury Prevention and Control Research and State and Community Based Programs	600,208	2,181,896
93.150	Projects for Assistance in Transition from Homelessness	1,713,780	1,716,898
93.153	Coordinated Services and Access to Research for Women, Infants, Children, and Youth	264,336	525,140
93.165	Grants To States for Loan Repayment Program	565,000	565,000
93.184	Disabilities Prevention	49,658	260,326
93.217	Family Planning Services	1,229,913	1,323,627
93.234	Traumatic Brain Injury State Demonstration Grant Program	—	303,735
93.236	Grants for Dental Public Health Residency Training	20,000	152,324
93.240	State Capacity Building	—	403,427
93.241	State Rural Hospital Flexibility Program	—	344,669
93.243	Substance Abuse and Mental Health Services Projects of Regional and National Significance	3,770,936	13,011,368
93.251	Universal Newborn Hearing Screening	—	227,720
93.262	Occupational Safety and Health Program	—	846,112
93.268	Immunization Cooperative Agreements	—	79,277,345
93.270	Adult Viral Hepatitis Prevention and Control	—	516,210

**COMMONWEALTH OF MASSACHUSETTS**

Schedule of Expenditures of Federal Awards

Year ended June 30, 2017

CDFA number	Federal Agency, Program, or Cluster Title	Passed through to subrecipients	Total federal expenditures
93.276	Drug-Free Communities Support Program Grants	\$ 59,968	\$ 142,580
93.283	Centers for Disease Control and Prevention Investigations and Technical Assistance	980,410	3,851,409
93.296	State Partnership Grant Program to Improve Minority Health	37,664	186,483
93.301	Small Rural Hospital Improvement Grant Program	81,293	81,293
93.305	National State Based Tobacco Control Programs	26,712	1,759,977
93.314	Early Hearing Detection and Intervention Information System Surveillance Program	—	134,998
93.323	Epidemiology and Laboratory Capacity for Infectious Diseases	—	2,370,544
93.324	State Health Insurance Assistance Program	796,605	1,044,303
93.336	Behavioral Risk Factor Surveillance System	—	356,298
93.369	ACL Independent Living State Grants	—	247,715
93.432	ACL Centers for Independent Living	—	1,357,030
93.464	ACL Assistive Technology	43,921	495,381
93.500	Pregnancy Assistance Fund Program	1,248,321	1,489,457
93.511	Affordable Care Act (ACA) Grants to States for Health Insurance Premium Review	—	888,564
93.517	Affordable Care Act – Aging and Disability Resource Center	10,000	171,319
93.521	The Affordable Care Act: Building Epidemiology, Laboratory, and Health Information Systems Capacity in the Epidemiology and Laboratory Capacity for Infectious Disease and Emerging Infections Program Cooperative Agreements	—	1,518,681
93.535	Affordable Care Act Program for Early Detection of Certain Medical Conditions Related to Environmental Health Hazards	456,171	649,082
93.539	PPHF 2012: Prevention and Public Health Fund (Affordable Care Act) – Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance financed in part by 2012 Prevention and Public Health Funds	—	3,653,557
93.556	Promoting Safe and Stable Families	—	4,672,684
93.563	Child Support Enforcement	—	66,660,055
93.566	Refugee and Entrant Assistance State Administered Programs	3,140,320	12,309,173
93.568	Low-Income Home Energy Assistance	133,267,813	137,362,999
93.569	Community Services Block Grant	14,961,310	15,664,191
93.576	Refugee and Entrant Assistance Discretionary Grants	677,306	714,797
93.583	Refugee and Entrant Assistance Wilson / Fish Program	590,489	3,977,906
93.584	Refugee and Entrant Assistance Targeted Assistance Grants	802,761	844,209
93.586	State Court improvement Program	—	537,248
93.590	Child Abuse Prevention Activities	522,340	540,246
93.597	Grants to States for Access and Visitation Programs	—	187,338
93.599	Chafee Education and Training Vouchers Program	—	867,115
93.600	Head Start	—	187,720
93.603	Adoption Incentive Payments	—	26,179
93.609	The Affordable Care Act – Medicaid Adult Quality Grants Department of Health and Human Services	—	92,223
93.624	ACA – State Innovation Models: Funding for Model Design and Model Testing Assistance	—	16,746,360
93.626	Affordable Care Act State Health Insurance Assistance Program (SHIP) and Aging and Disability Resource Center Options Counseling for Medicare-Medicaid Individuals in States with Approved Financial Alignment Models	10,394	10,394
93.628	Affordable Care Act Implementation Support for State Demonstrations to Integrate Care for Medicare-Medicaid Enrollees	—	134,179
93.630	Developmental Disabilities Basic Support and Advocacy Grants	171,828	1,330,557
93.631	Developmental Disabilities Projects of National Significance	—	2,178
93.634	ACA Support for Demonstration Ombudsman Programs Serving Beneficiaries of State Demonstrations to Integrate Care for Medicare-Medicaid	9,950	360,839
93.643	Children's Justice Grants to States	—	337,899
93.644	Adult Medicaid Quality: Improving Maternal and Infant Health Outcomes in Medicaid and CHIP	—	99,251
93.645	Child Welfare Services State Grants	—	2,587,449
93.652	Adoption Opportunities	—	430,667
93.658	Foster Care Title IV-E	—	106,008,622
93.659	Adoption Assistance	—	27,766,694
93.667	Social Services Block Grant	—	79,221,911
93.669	Child Abuse and Neglect State Grants	—	424,088
93.671	Family Violence Prevention and Services / Grants for Battered Women's Shelters Grants to States and Indian Tribes	1,433,421	1,965,336
93.674	Chafee Foster Care Independence Program	—	2,911,856
93.733	Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance – financed in part by the Prevention and Public Health Fund (PPHF-2012)	—	253,993
93.735	State Public Health Approaches for Ensuring QUILTINE Capacity – Funded in part by 2012 Prevention and Public Health Funds (PPHF-2012)	—	338,325
93.747	Elder Abuse Prevention Interventions Program	—	59,402
93.753	Child Lead Poisoning Prevention Surveillance financed in part by Prevention and Public Health Program	—	425,753
93.755	Surveillance for Diseases Among Immigrants and Refugees financed in part by Prevention and Public Health Funds	—	21,144
93.757	State Public Health Actions to Prevent and Control Diabetes, Heart Disease, Obesity and Associated Risk Factors and Promote School Health financed in part by Prevention and Public Health Funding	1,721,752	5,113,673
93.758	Preventive Health and Health Services Block Grant funded solely with Prevention and Public Health Funds	569,241	3,658,732
93.767	State Children's Insurance Program	—	609,367,563
93.773	Medicare Hospital Insurance	—	9,534,863

**COMMONWEALTH OF MASSACHUSETTS**

Schedule of Expenditures of Federal Awards

Year ended June 30, 2017

CDFA number	Federal Agency, Program, or Cluster Title	Passed through to subrecipients	Total federal expenditures
93.791	Money Follows the Person Rebalancing Demonstration	\$ —	\$ 23,117,635
93.800	Organized Approaches to Increase Colorectal Cancer Screening	—	780,545
93.810	Paul Coverdell National Acute Stroke Program National Center for Chronic Disease Prevention and Health Promotion	—	575,880
93.815	Domestic Ebola Supplement to the Epidemiology and Laboratory Capacity for Infectious Diseases	—	737,567
93.817	Hospital Preparedness Program Ebola Preparedness and Response Activities	718,970	3,082,821
93.829	Section 223 Demonstration Programs to Improve Community Mental Health Services	149,999	611,006
93.881	The Health Insurance Enforcement and Consumer Protections Grant Program	—	65,974
93.889	National Bioterrorism Hospital Preparedness Program	1,953,752	4,268,801
93.913	Grants to States for Operation of Offices of Rural Health	—	168,921
93.917	HIV Care Formula Grants	4,433,118	20,706,220
93.928	Special Projects of National Significance	179,569	970,559
93.938	Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	—	7,496
93.940	HIV Prevention Activities Health Department Based	1,868,701	5,628,000
93.943	Epidemiologic Research Studies of Acquired Immunodeficiency Syndrome and Human Immunodeficiency Virus Infection in Selected Population Groups	—	563,975
93.944	Human Immunodeficiency Virus/ Acquired Immunodeficiency Virus Syndrome Surveillance	207,811	1,477,069
93.945	Assistance Programs for Chronic Disease Prevention and Control	—	943,994
93.946	Cooperative Agreements to Support State-Based Safe Motherhood and Infant Health Initiative Programs	—	339,307
93.958	Block Grants for Community Mental Health Services	9,695,283	9,783,657
93.959	Block Grants for Prevention and Treatment of Substance Abuse	15,167,598	40,401,551
93.977	Preventive Health Services Sexually Transmitted Diseases Control Grants	50,010	2,359,884
93.994	Maternal and Child Health Services Block Grant to the States	1,415,203	10,060,182
93.999	Department of Health and Human Services – Miscellaneous	—	53,941
	<b>Aging Cluster:</b>		
93.044	Special Programs for the Aging Title III, Part B Grants for Supportive Services and Senior Centers	7,560,947	9,346,084
93.045	Special Programs for the Aging Title III, Part Nutrition Services	10,604,131	10,625,671
93.053	Nutrition Services Incentive Program	2,711,565	5,946,102
	Total Aging Cluster	<u>20,876,643</u>	<u>25,917,857</u>
	<b>Maternal, Infant, and Early Childhood Home Visiting Cluster:</b>		
93.505	Affordable Care Act Maternal, Infant, and Early Childhood Home Visiting Cluster	1,910,637	4,635,787
93.870	Maternal, Infant and Early Childhood Home Visiting Grant Program	2,920,885	3,930,242
	Total Maternal, Infant, and Early Childhood Home Visiting Cluster	<u>4,831,522</u>	<u>8,566,029</u>
	<b>TANF Cluster:</b>		
93.558	Temporary Assistance for Needy Families	—	363,839,113
	Total TANF Cluster	<u>—</u>	<u>363,839,113</u>
	<b>CCDF Cluster:</b>		
93.575	Child Care and Development Block Grant	—	121,856,117
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund	—	81,700,019
	Total CCDF Cluster	<u>—</u>	<u>203,556,136</u>
	<b>Medicaid Cluster:</b>		
93.775	State Medicaid Fraud Control Units	—	3,126,989
93.777	State Survey and Certification of Health Care Providers and Suppliers	—	9,441,024
93.778	Medical Assistance Program	—	9,359,002,191
	Total Medicaid Cluster	<u>—</u>	<u>9,371,570,204</u>
	<i>Total U.S. Department of Health and Human Services</i>	<u>242,002,533</u>	<u>11,372,505,408</u>
	<b>Social Security Administration:</b>		
96.008	Social Security Benefits Planning, Assistance, and Outreach Program	—	183,452
	<b>Disability Insurance/SSI Cluster:</b>		
96.001	Social Security Disability Insurance	—	48,531,965
96.006	Supplemental Security Income	—	2,988,187
	Total Disability Insurance/SSI Cluster	<u>—</u>	<u>51,520,152</u>
	<i>Total Social Security Administration</i>	<u>—</u>	<u>51,703,604</u>

**COMMONWEALTH OF MASSACHUSETTS**

Schedule of Expenditures of Federal Awards

Year ended June 30, 2017

CDFA number	Federal Agency, Program, or Cluster Title	Passed through to subrecipients	Total federal expenditures
<b>U.S. Department of Homeland Security:</b>			
97.008	Non-Profit Security Program	\$ 66,032	\$ 66,902
97.012	Boating Safety Financial Assistance	—	1,659,233
97.023	Community Assistance Program State Support Services Element	—	141,482
97.029	Flood Mitigation Assistance	1,501,738	1,516,644
97.036	Public Assistance Grants	41,256,447	47,429,547
97.039	Hazard Mitigation Grant	7,315,037	7,718,398
97.041	National Dam Safety Program	—	133,248
97.042	Emergency Management Performance Grants	2,104,189	7,664,450
97.043	State Fire Training Systems Grants	—	20,000
97.044	Assistance to Firefighters Grant	—	432,573
97.047	Pre-Disaster Mitigation	754,650	788,667
97.056	Port Security Grant Program	—	144,573
97.067	Homeland Security Grant Program	19,292,224	23,966,142
97.091	Homeland Security Biowatch Program	—	1,598,270
	<i>Total U.S. Department of Homeland Security:</i>	<u>72,290,317</u>	<u>93,280,129</u>
	<b>Grand Total</b>	<u>\$ 1,816,008,222</u>	<u>\$ 16,992,012,157</u>

## COMMONWEALTH OF MASSACHUSETTS

### Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2017

#### **(1) Reporting Entity**

The Commonwealth of Massachusetts (the Commonwealth) reporting entity is defined in note 1 to its June 30, 2017 basic financial statements; except that the Massachusetts School Building Authority, the Pension Reserves Investment Trust Fund, the Massachusetts Municipal Depository Trust, the Massachusetts State Lottery Commission, the Institutions of Higher Education (which include the University of Massachusetts, the State Universities, and the Community Colleges), and all of the discretely presented component units are excluded, except for the Massachusetts Department of Transportation (MassDOT). Accordingly, the accompanying Schedule of Expenditures of Federal Awards (SEFA or Schedule) presents the federal award programs administered by the Commonwealth, as defined above, for the year ended June 30, 2017.

#### **(2) Basis of Presentation**

The accompanying SEFA is presented on the cash basis of accounting.

The SEFA is drawn primarily from the Massachusetts Management Accounting and Reporting System (MMARS), the centralized accounting system.

The Commonwealth receives payments from the federal government on behalf of Medicare eligible patients for whom it has provided medical services at its state operated medical facilities. Since these payments represent insurance coverage provided directly to individuals under the Medicare entitlement program, they are not included as federal financial assistance.

#### **(3) Matching and Indirect Costs**

Matching costs, i.e., the nonfederal share of certain program costs, are not included in the accompanying Schedule except for the Commonwealth's share of Unemployment Insurance.

The Commonwealth has elected not to use the 10-percent de minimus indirect cost rate allowed under the Uniform Guidance.

#### **(4) Relationship to Federal Financial Reports**

The regulations and guidelines governing the preparation of federal financial reports vary by federal agency and among programs administered by the same agency. Accordingly, the amounts reported in the federal financial reports do not necessarily agree with the amounts reported in the accompanying Schedule.

**COMMONWEALTH OF MASSACHUSETTS**

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2017

**(5) Noncash Awards**

The Commonwealth is the recipient of federal financial assistance programs that do not result in cash receipts or disbursements. Noncash awards received by the Commonwealth are included in the Schedule as follows:

<u>CFDA number</u>	<u>Program title</u>	<u>Noncash awards</u>
10.551	Supplemental Nutrition Assistance Program	\$ 1,163,046,621
10.555	National School Lunch Program	25,507,162
10.558	Child and Adult Care Food Program	283,728
10.559	Summer Food Service Program for Children	2,579
93.268	Immunization Cooperative Agreements	<u>76,284,926</u>
	Total	\$ <u><u>1,265,125,016</u></u>

Commodity inventories for the Food Donation Program at June 30, 2017 totaled approximately \$1,997,400.

**(6) Unemployment Insurance Program (UI) CFDA 17.225**

The U.S. Department of Labor, in consultation with the OMB, has determined that for the purpose of audits and reporting under the OMB Circular, Commonwealth UI funds as well as federal funds should be considered federal awards for determining Type A programs. The Commonwealth receives federal funds for administrative purposes. Commonwealth unemployment taxes must be deposited to a Commonwealth account in the Federal Unemployment Trust Fund, used only to pay benefits under the federally approved Commonwealth law. Commonwealth UI funds as well as federal funds are included on the Schedule. The following schedule provides a breakdown of the state and federal portions of the total expended under CFDA Number 17.225:

Commonwealth UI Funds – Benefits	\$ 1,489,275,092
Federal UI Funds – Benefits	12,278,774
Federal UI Funds – ARRA	210,481
Federal UI Funds – Administration	<u>59,502,266</u>
Total expenditures	\$ <u><u>1,561,266,613</u></u>

**COMMONWEALTH OF MASSACHUSETTS**

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2017

**(7) Loans**

The HOME Investment Partnerships Program (CFDA 14.239) is administered by the Commonwealth's Department of Housing and Community Development to expand the supply of affordable housing in the Commonwealth. Details of fiscal year 2017 loan activity are as follows:

<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
\$ <u>212,656,799</u>	\$ <u>6,312,370</u>	\$ <u>(1,576,785)</u>	\$ <u>217,392,385</u>

**COMMONWEALTH OF MASSACHUSETTS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2017

**(1) Summary of Auditors' Results**

***Financial Statements***

- (a) Type of report issued on whether the financial statements were prepared in accordance with generally accepted accounting principles: **Unmodified**
- (b) Internal control deficiencies over financial reporting disclosed by the audit of the financial statements:
  - Material weaknesses: **No**
  - Significant deficiencies: **Yes**
- (c) Noncompliance material to the financial statements: **No**

***Federal Awards***

- (d) Internal control deficiencies over major programs disclosed by the audit:
  - Material weaknesses: **Yes**
  - Significant deficiencies: **Yes**
- (e) Type of report issued on compliance for major programs:
  - Qualified (Noncompliance) - Section 8 Project-Based Cluster
  - The opinions for all other programs are unmodified.
- (f) Audit findings that are required to be reported in accordance with 2 CFR 200.516(a): **Yes**
- (g) Major Programs
  - U.S. Department of Agriculture*
    - Special Supplemental Nutrition Program for Women, Infants and Children (10.557)
  - U.S. Department of Education*
    - Title I Grants to Local Educational Agencies (84.010)
    - Special Education Cluster (IDEA) (84.027 and 84.173)
  - U.S. Department of Housing and Urban Development*
    - Community Development Block Grants/State's Program (14.228)
    - HOME Investment Partnerships Program (14.239)
    - Section 8 Project-Based Cluster (14.182 and 14.856)
  - U.S. Department of Labor*
    - Employment Service Cluster (17.207 and 17.801)

**COMMONWEALTH OF MASSACHUSETTS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2017

*U.S. Department of Transportation*

- High-Speed Rail Corridors and Intercity Passenger Rail Service – Capital Assistance Grants (20.319)
- Federal Transit Cluster (20.500, 20.507 and 20.526)

*U.S. Department of Health and Human Services*

- Immunization Cooperative Agreements (93.268)
- Medicaid Cluster (93.775, 93.777 and 93.778)

(h) Dollar threshold used to distinguish between type A and type B programs: **\$30 million**

(i) Auditee qualified as low-risk auditee: **No**

**(2) Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards***

See accompanying pages 20 through 43.

**(3) Findings and Questioned Costs Relating to Federal Awards**

See accompanying pages 45 through 118.

**FINDINGS RELATING TO THE FINANCIAL  
STATEMENTS REPORTED IN ACCORDANCE WITH  
*GOVERNMENT AUDITING STANDARDS***

## COMMONWEALTH OF MASSACHUSETTS

### Schedule of Findings and Questioned Costs

Year ended June 30, 2017

#### Office of the Comptroller

**Finding Reference:** 2017-001

#### Financial Reporting

**Type of Finding:** Significant Deficiency

**Prior Year Finding:** Yes, 2016-002 and 2015-002

**Statistically Valid Sample:** No

#### **Observation**

The Commonwealth of Massachusetts Comprehensive Annual Financial Report (CAFR) reporting process is highly dependent upon state agencies to prepare financial reporting packages designed by the Office of the Comptroller (CTR). These financial reporting packages are completed by accounting personnel within each state agency who have varying levels of knowledge, experience, and understanding of generally accepted accounting principles (GAAP). Although these financial reporting packages are subject to review by CTR's Financial Reporting and Analysis Bureau (FRAB), adjustments to the CAFR continue to occur as errors and inaccuracies are often times not identified and resolved timely.

Although the deficiencies relative to the CAFR financial reporting processes have been reported for a number of years, problems continue to be identified. Some of the more chronic problems are noted below:

- Capital Asset activity for the Massachusetts Department of Transportation (MDOT) continues to experience inaccuracies and delays resulting in MDOT chronically being one of the last if not the last component unit to report final audited activity to the CTR.
- Management estimates are not submitted timely and accurately. For example the Executive Office of Labor and Workforce Development (EOLWD) had multiple versions of its allowance for uncollectible receivables. Often times there were significant changes among versions. The final version included a recorded audit adjustment of approximately \$64 million dollars to increase the reported allowance.

#### **Recommendation**

We recommend that the CTR annually review its CAFR instructions with the goal of clarifying and updating its instructions. We also recommend that CTR review its quality assurance protocols to ensure that the proper amount of analysis is performed prior to accepting departmental information.

We continue to suggest that consideration be given as to whether a hard close of the Commonwealth's financial records takes place at interim dates throughout the year such that certain account balances, are not reconciled on just an annual basis. While it may not be practical to perform a hard close on an entity-wide basis, there are many accounts within the control of the Comptroller's office for which an interim hard close would facilitate the closing process at year-end.

## COMMONWEALTH OF MASSACHUSETTS

### Schedule of Findings and Questioned Costs

Year ended June 30, 2017

We also recommend that the CTR revisit its CAFR calendar to ensure that there is proper time allowed to complete its CAFR. We continue to believe that a date no later than December 1<sup>st</sup> of each year be used as milestone for having a complete draft CAFR (including all component unit information as well) available for review. Otherwise, meeting the December 31<sup>st</sup> reporting deadline could be compromised.

#### ***Views of Responsible Officials and Corrective Actions***

The Financial Reporting Team works closely with the Comptroller's ESS Unit to monitor and correct any rejected MassDOT capital asset transactions on a timely basis. During FY17, the focus was only on rejected FI (capital asset increase/decrease) transactions. Starting in FY2018 the ESS Unit reviews, weekly, MMARS for all rejected capital asset transaction types and works with Financial Reporting and MassDOT to process the transactions to final in MMARS. Constant communication in the form of emails and ad-hoc conference calls are occurring in order to stay on top of MassDOT's capital asset transactions.

Increased scrutiny over all GAAP packages will be stressed during the FY18 CAFR reporting process with specific attention paid to: 1) departments with large and complex accruals and/or: 2) departments which have historically had issues with their GAAP reporting. Over the spring and summer, the Financial Reporting Team will set-up meetings with specific identified departments to review their FY17 GAAP reporting submissions and walk them through any issues or questions that we think may arise that they should be aware of when preparing their FY18 submissions. We continue to stress the importance for the departments to fully understand our GAAP reporting requirements.

While we strive to prepare timely and accurate financial statements, there are situations that may be out of the Comptroller's control that affect its ability to enforce timely completion of a hard close. For example, the continual late enactment of the fiscal year close out budget remains an issue which in turn pushes the preparation of the SBFR and the CAFR up to and possibly past their reporting deadlines. The Financial Reporting Team does prepare and review the annual report calendar with the goal of providing a "final draft" as early in December as possible.

#### ***Responsible Official(s)***

Michael Rodino, Director of Financial Reporting, CTR

#### ***Implementation Date***

FY2018

# COMMONWEALTH OF MASSACHUSETTS

## Schedule of Findings and Questioned Costs

Year ended June 30, 2017

### Office of the Comptroller

**Finding Reference:** 2017-002

### SEFA Reporting

**Type of Finding:** Significant Deficiency

**Prior Year Finding:** Yes, 2016-003

**Statistically Valid Sample:** No

### Observation

The Schedule of Expenditures of Federal Awards (SEFA) and accompanying notes is compiled by the Office of the Comptroller (CTR) based primarily on data recorded in the Massachusetts Management Accounting and Reporting System (MMARS) as well as data provided by certain departments.

KPMG identified an error in the reporting of HOME Investment Partnerships Program activity (CFDA # 14.239). For SEFA reporting, the balance of HOME loans outstanding as of the beginning of the year is reported as expenditures of federal awards. The Department of Housing and Community Development (DHCD) incorrectly provided HOME loans authorized as opposed to the outstanding balance of HOME loans when reporting loan activity to the CTR and the CTR failed to identify and correct the error. The error totaling approximately \$5 million dollars was subsequently adjusted.

Additionally, for convenience of reporting, the Commonwealth uses cash receipts as a proxy for cash disbursements for certain programs in preparing its SEFA. 2 CFR 200.502, *Basis for Determining Federal Awards Expended*, subsection (a), *Determining Federal Awards Expended*, requires:

The determination of when a Federal award is expended must be based on when the activity related to the Federal award occurs. Generally, the activity pertains to events that require the non-Federal entity to comply with Federal statutes, regulations, and the terms and conditions of Federal awards, such as: expenditure/expense transactions associated with awards including grants, cost-reimbursement contracts under the FAR, compacts with Indian Tribes, cooperative agreements, and direct appropriations; the disbursement of funds to subrecipients; the use of loan proceeds under loan and loan guarantee programs; the receipt of property; the receipt of surplus property; the receipt or use of program income; the distribution or use of food commodities; the disbursement of amounts entitling the non-Federal entity to an interest subsidy; and the period when insurance is in force.

The programs reported using cash receipts include the Commonwealth's largest federal programs such as the Medical Assistance Program and the State Children's Insurance Program, to a name a few. Programs reported using a cash receipts basis often times have complicated federal financial participation or FFP rates which require a detailed analysis of spending categories in order to determine the proper allocation between federal and state resources. Rather than obtain this analysis which requires input from various other state departments, the Comptroller's Office uses cash receipts as an approximation. For fiscal 2017, CTR performed a limited reconciliation between the two methods. However, the reconciliation did not include all programs and was not formally reviewed by someone other than the preparer.

**COMMONWEALTH OF MASSACHUSETTS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2017

***Recommendation***

We recommend that management strengthen processes and controls to identify and resolve SEFA reporting errors in a timely basis. We also recommend that the Comptroller's Office perform a complete and formal reconciliation for those programs reported on a cash receipt basis to ensure that this method results in a reasonable approximation of the method required by 2 CFR 200.502(a).

***Views of Responsible Officials and Corrective Actions***

Prior to FY17 the loan balances were not incorporated into the SEFA due to incorrect information provided by DHCD. Semi-annual reporting of loan balances has been implemented whereby DHCD provides updated schedules of their entire loan portfolio for review by CTR staff.

We agree that the reconciliation process needs to be improved. During the spring/summer of 2018, the entire SEFA preparation process including the revenue to expenditure reconciliation will be reviewed and procedures established to assure that the SEFA preparation and reconciliation are performed and appropriately reviewed by management.

As part of this review, the determination to use revenues as a proxy for expenditures will be revisited to determine the feasibility of using expenditures for all programs in order to comply with 2 CFR 200.502.

***Responsible Official(s)***

Michael Rodino, Director of Financial Reporting, CTR

***Implementation Date***

FY2018

## COMMONWEALTH OF MASSACHUSETTS

### Schedule of Findings and Questioned Costs

Year ended June 30, 2017

#### **Executive Office of Labor and Workforce Development**

**Finding Reference:** 2017-003

#### **Allowance for Uncollectible Receivables**

**Type of Finding:** Significant Deficiency

**Prior Year Finding:** No

**Statistically Valid Sample:** No

#### ***Observation***

During our audit, we reviewed the Executive Office of Labor and Workforce Development's (EOLWD) allowance methodology and related documentation to support its estimate of uncollectible receivables and noted the following:

- The analysis is not performed at the employer-type level.
- The methodology does not factor in the likelihood of collections of a particular assessment year decreases over time.
- Approximately 85% of the gross employer accounts receivable balance has been outstanding greater than 24 months.
- Overpayments allowance calculation methodology did not change from the prior year and is not based upon an aging analysis.

As a result of our analysis, management recorded an increase in their allowance for doubtful accounts of approximately \$64 million.

#### ***Recommendation***

We recommend that EOLWD annually update its methodology based upon a look back of its actual collection experience. The methodology should properly reflect receivable type, including various employer types, and incorporate an accounts receivable aging analysis. The look back period should be established by management and should include sufficient history to accurately estimate the net realizable value of its receivables at year-end.

#### ***Views of Responsible Officials and Corrective Actions***

EOLWD has revised the allowance methodology to include a process of gathering detail of receivables by year. The receivable detail will be reviewed by fiscal year for aging purposes. Receivables that are more than six years old will be assigned a higher percentage of allowance.

In addition to the steps above, EOLWD will compile detail of Amounts Billed vs. Amounts Collected for the most recent years (past five to six years) as the system allows, to calculate a percentage of unpaid amounts. This

**COMMONWEALTH OF MASSACHUSETTS**  
Schedule of Findings and Questioned Costs  
Year ended June 30, 2017

percentage of unpaid amounts will be used to calculate the allowance on the closed fiscal year's revenue accruals.

***Responsible Official(s)***

Aaron D'Elia, Chief Financial Officer, Executive Office of Labor and Workforce Development

***Implementation Date***

June 2018

**COMMONWEALTH OF MASSACHUSETTS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2017

**Executive Office of Labor and Workforce Development**

**Finding Reference:** 2017-004

**UI Online User Access Review**

**Type of Finding:** Significant Deficiency

**Prior Year Finding:** Yes, 2016-007

**Statistically Valid Sample:** No

***Observation***

As also noted in the prior year, management performs a periodic review of all users with access to UI Online to determine whether access is appropriately restricted and is commensurate with the users' job responsibilities. The central UI Online administration team sends out via email a list of all users in UI Online to a group of reviewers. However, management does not obtain confirmation that all reviewers complete the access review of their delegates and request the revocation of excessive access rights accordingly. As such, KPMG was unable to determine whether the review is performed for all employees and whether any identified deviations were appropriately followed up on.

A user access review is a detective control that can identify users that have inappropriate access and whose accounts may have been used to perform unauthorized activity. Without a user access review, the risk increases that there are users with inappropriate access to the system who may perform unauthorized transactions.

***Recommendation***

Management should consider to:

- Reinforce the importance of the user access review with all people performing the review.
- Strengthen the user access review by identifying which reviewer is responsible for which user and by getting positive confirmation from the reviewers that they have completed the review.
- If deviations are identified, ensure access is changed accordingly for all identified deviations and that the reviewers obtain a new access list to confirm the deviations are resolved.

***Views of Responsible Officials and Corrective Actions***

All access is verified by senior management on a quarterly basis and they are responsible for updating the status of their staff to the UI Online administrative function. Each quarter they will be required to complete a form of review and submit it to UI Online administration stating that their review is complete. One month from the assessment being requested the list will be verified for completeness.

***Responsible Official(s)***

Cari Birkhauser, Director Systems Integration, Executive Office of Labor and Workforce Development

***Implementation Date***

Fully implemented

## COMMONWEALTH OF MASSACHUSETTS

### Schedule of Findings and Questioned Costs

Year ended June 30, 2017

#### Executive Office of Labor and Workforce Development

**Finding Reference:** 2017-005

#### UI Online Change Review and Segregation of Duties

**Type of Finding:** Significant Deficiency

**Prior Year Finding:** Yes, 2016-008

**Statistically Valid Sample:** No

#### ***Observation***

As reported in the prior year, developers do not have access to migrate changes to production. However, the Build Team that is responsible to migrate changes to production, and accordingly has such access, also has access to develop changes. This is a breach in segregation of duties as a set of users is able to develop as well as implement changes. As a compensating control, management performs a periodic review of changes to the UI Online application to detect any unauthorized change. For this control, management relies on a manually populated Excel sheet prepared by an employee of the Build Team based on information in the source-code control system (Microsoft Team Foundation Server). This Excel sheet is then sent to the UI Online administration team who compares it to the Release Notes document, which lists all change tickets from the Change Ticketing tool that were supposed to be migrated to production. The Excel sheet is manually populated and as such management cannot ensure that the Excel document completely and accurately lists all changes to the system and hence that the change review is over a complete population of changes.

During FY17 management has initiated a process to migrate the UI Online environment to a cloud hosting provider. As part of that migration, management also plans to revise the build and release process. Management plans to remediate this exception as part of the revision to these processes.

KPMG concluded that there is no technically enforced segregation of duties between developing and migrating changes, and that there is no effective review of all changes migrated to production. Therefore, there are no sufficient controls in place to prevent or detect potential unauthorized changes to the UI Online application.

#### ***Recommendation***

Management should consider to:

- Revise the technology used for software development so that it can technically enforce segregation of duties which would prevent unauthorized changes to production; and/or
- Implement a report from Team Foundation Server that is able to provide a complete and accurate list of all changes to the production environment. This report should then be reviewed so that any unauthorized change (defined as a change without a corresponding approved change ticket) is detected.

#### ***Views of Responsible Officials and Corrective Actions***

With the migration of UI Online to AWS in late November 2017, the UI Online deployment process has been separated from Build and Deploy. The development team is responsible for creating the build packages based

**COMMONWEALTH OF MASSACHUSETTS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2017

upon approved changes from the business. The actual deployment process is fully automated based upon the lasted TFS build set in UAT. Only that version is available for deployment to production and requires final approval from the EOLWD IT Director which ultimately initiates the deployment.

Any changes to the build / source cannot be applied to packages that are already in UAT, and only through the approved SDLC can changes be applied into the DEV Main instance.

***Responsible Official(s)***

Anthony (Tony) Fantasia, Senior Director of IT Operations & Service Management, Executive Office of Labor and Workforce Development

***Implementation Date***

December 2017

## COMMONWEALTH OF MASSACHUSETTS

### Schedule of Findings and Questioned Costs

Year ended June 30, 2017

#### Executive Office of Health and Human Services

**Finding Reference:** 2017-006

#### HIX SOC Reports

**Type of Finding:** Significant Deficiency

**Prior Year Finding:** Yes, 2016-010

**Statistically Valid Sample:** No

#### **Observation**

The Health Information Exchange / Integrated Eligibility System (HIX/IES) is an application, based on the hCentive platform, leveraged both by the Commonwealth Connector Authority (CCA) and Executive Office of Health and Human Services (EOHHS). Commonwealth citizens can use the application to get potentially subsidized insurance through the Affordable Care Act (ACA) which falls under the purview of the CCA. In addition, for citizens meeting certain Medicaid eligibility criteria – including income criteria – the HIX/IES application interfaces information entered in the HIX/IES system to the Medicaid Management Information System (MMIS). The management and hosting of the HIX/IES is out-sourced to a third-party vendor. MassIT owns the contract with this vendor.

As noted in the prior year, the Commonwealth was contractually requiring the vendor to release a Service Organization Control (SOC) 1 Type 1 report. A SOC1 Type 1 report only provide assurance on the design and implementation of relevant controls. It does not provide assurance on the operating effectiveness of those controls during the period. Operating effectiveness of controls is included in a SOC1 Type 2 report. For 2017, the vendor provided a SOC1 Type 2 report, however that only covered the period of 5/1/2017 through 10/31/2017 which therefore only encompassed the last two months of FY17. As such, the Commonwealth does not have sufficient information to determine whether controls were in-place and operating effectively throughout the fiscal year and therefore it is not feasible to rely on general IT controls for the effective operating of the system throughout the year.

The risk increases that the vendor is not adequately in control of the Commonwealth's HIX/IES environment as well as that the Commonwealth agencies and entities using the system do not have the appropriate user controls in place. This could lead to unauthorized access or unauthorized changes to the system and its data.

#### **Recommendation**

Management should consider to:

- Going forward, align with the vendor that reports are provided that (in the aggregate) cover the entire fiscal year.
- Setup a process to review the report once received and to review the controls tested and the results of testing. Furthermore, map the User Entity Control Considerations to controls within the Commonwealth agencies and entities to ensure that adequate controls are in place at the Commonwealth agencies and entities. Only the combination of effective controls at the vendor with effective controls at the user organizations can lead to an effectively operating control environment for HIX/IES.

## COMMONWEALTH OF MASSACHUSETTS

### Schedule of Findings and Questioned Costs

Year ended June 30, 2017

#### ***Views of Responsible Officials and Corrective Actions***

The finding identified is acknowledged. The HIX/IES Program is working with the program vendor to produce the report for the entire state fiscal year (FY) and to review the report when it is received in December 2017.

The MA-HIX Security Management Program (SMP), under the direction of the Executive Office of Health & Human Services (EOHHS) Chief Information Security Officer (CISO), maintains Continuous Monitoring Program, also known as Security Oversight and Monitoring (SOAM) that aligns with the CMS requirement that each State Based Marketplace implement and operate a proactive compliance and risk-based monitoring program. The MA-HIX SMP adheres to the CMS MARS-E 2.0 Framework which includes Annual Attestations, Change Reporting, Independent Assessments, Triennial Controls Validation & Auditing, Quarterly POAM submissions, and a robust vulnerability management program. The MARS-E 2.0 Framework is inclusive of IRS 1075 Safeguards controls. This program includes weekly meetings between Commonwealth Agencies, Optum, and Material Vendors to address Risk and Compliance objectives.

The MA-HIX SMP is responsible for ongoing CMS MARS-e and IRS 1075 compliance and risk-based control objectives including updates and submissions of mandated CMS System Security Plan (SSP), IRS Safeguard Security Report, (SSR), Optum & 3rd Party Penetration Tests, Infrastructure & Application Scan Reviews, Quarterly POAM Submissions, Annual Attestations, Change Reporting, and Connection Agreements.

In addition, the HIX / IES Program is adding a Security Manager resource to the Security Management Program Team and a Senior Privacy Analyst that will reside in the program's administration office. These additional resources are expected to be added by December 1, 2017 with the objective to expand the security and privacy governance and oversight role of the team across the business, operational, and technical areas of the MA-HIX program.

In the absence of the SOC report expected in December, the MA-HIX Security Management Program maintains a CMS mandated Continuous Monitoring Program which includes ongoing assessment of management, technical, and operational security and privacy controls aligned with CMS MARS-e 2.0 and IRS 1075 Safeguards requirements. This ongoing process exceeds the objectives of the anticipated SOC report in terms of:

- Detailed analysis of the MA-HIX current-state business, technical, and operational environment against applicable control requirements via the following:
  - Change Advisory Board (CAB) – Security maintains gating authority on all planned system and infrastructure changes that proceed through daily scheduled CAB review meetings.
  - Executive Leadership Team (XLT) – Security is one of 5 core members of the MA-HIX Executive Leadership Team (the “XLT”) under the Program Leader.
  - Major & Minor Release (Go/No-Go Stakeholder) – Security is a primary stakeholder with gating authority on all planned major and minor releases following established criteria based on multi-level dynamic application code scan results, compliance validation reviews, and two annual Pen Tests scheduled at 6 month intervals.
- Frequency and depth of technical assessments and mitigation actions for system and infrastructure components leveraging enterprise-class tools with continually update vulnerability and threat information.

## COMMONWEALTH OF MASSACHUSETTS

### Schedule of Findings and Questioned Costs

Year ended June 30, 2017

- Accessibility to Federal, State, Industry-Specific, and Cross-Section threat information.
- Proactive defense perimeter and associated capabilities to safeguard member information while ensuring ongoing high-availability of MA-HIX application portal and surround systems environment.
- Executive sponsorship in terms of dedicated funding and direct allocation of skilled security and privacy resources from the Commonwealth, Systems Integrator, and Material Vendor organizations supports the mission of the MA-HIX Security Management Program including participation in weekly reoccurring security meetings.

The MA-HIX Security Management Program (SMP) is responsible for continually addressing the following CMS and IRS mandated deliverables and processes in collaboration with the Commonwealth agencies, Systems Integrator, and Material Vendors:

- Annual Attestation Review (AAR): Perform and submit an endorsed annual review of security and privacy controls following a CMS triennial schedule.
- System Security Plan (SSP): Submit annual updates (or more frequently based on changes) of the MA-HIX System Security Plan.
- Privacy Impact Assessment (PIA): Submit annual updates to the Privacy Impact Assessment in alignment with 45 CFR 155.260 compliance.
- Information Security Risk Assessment (ISRA): Perform an annual Risk Assessment following NIST 800-30 "Guide to Conducting Risk Assessments".
- Quarterly POAM Submissions: Submit quarterly Plan of Action & Milestone submissions (POAM) to CMS spanning technical, operational, and management controls.
- IRS Corrective Action Plan (CAP): Submit mitigation updates to the IRS every 6 months on findings resulting from triennial IRS Onsite Safeguards Reviews (Just completed in June 2017).
- IRS Safeguard Security Report (SSR): Submit annual updates to the IRS Safeguards Security Report (SSR) aligned with IRS 1075 Safeguard Requirements.
- Technical Application Code Scans: Review multi-level Dynamic Code Scans for each major and minor release. Scans performed by both software developer (hCentive) and separately by systems integrator (Optum) for each release and then compared.
- Bi-annual Penetration Testing: As mentioned above, the Commonwealth and Optum each perform annual Penetration ("Pen") test cycles spaced 6 months apart with results being shared between the entities, triaged, and mitigated including contractual provisions with 3<sup>rd</sup> Party testers to perform regression cycles to ensure closure of original findings.
- Triennial renewal of CMS Authority to Connect (ATC) and IRS approvals to use Federal Tax Information (FTI) requires ongoing leadership and oversight by the MA-HIX Security Management Program with applicable Commonwealth agencies, Systems Integrator, and Material Vendors to achieve interim milestones towards these Federally mandated connectivity agreements for the Federal Data Services Hub (FDSH).

#### **Responsible Official(s)**

Tracy Williams, Program Direction, HIX/IES Program, Executive Office of Health and Human Services

#### **Implementation Date**

Fully implemented

## COMMONWEALTH OF MASSACHUSETTS

### Schedule of Findings and Questioned Costs

Year ended June 30, 2017

#### Executive Office of Health and Human Services

**Finding Reference:** 2017-007

#### **MA21 – Change Management**

**Type of Finding:** Significant Deficiency

**Prior Year Finding:** Yes, 2016-012

**Statistically Valid Sample:** No

#### **Observation**

As identified in the prior year, users who have the ability to develop code changes for MA21 also have the ability to migrate these changes to production. Starting in November of 2016, management performs a formal weekly review of all changes implemented in the production environment to detect any changes that were not appropriately authorized or where the developer also implemented the change. However, upon inspection of the reviews performed KPMG noted that:

- If the review identified occasions where the developer also implemented the change, no documented follow-up was available to evidence that management ascertained whether or not this was an appropriate and approved change.
- For one of the 19 weeks since implementation of the control, the control was not performed.

KPMG concluded that there is no technically enforced segregation of duties between developing and migrating changes, and that there is no effective review of all changes migrated to production. Therefore, there are no sufficient controls in place covering the fiscal year to prevent or detect potential unauthorized changes to the MA21 application.

#### **Recommendation**

Management should consider to:

- Technically segregate people with the ability to develop code from the people that have the ability to migrate code to production.
- Strengthen the weekly review of a report with all changes to the production environment to ensure only authorized personnel migrated appropriately approved changes. The review should be performed consistently, and in case a developer implemented his/her own change, additional documented follow-up should be performed to determine whether the change was authorized.

#### **Views of Responsible Officials and Corrective Actions**

The MA21 team has a small pool of technical staff so complete segregation of duties is infeasible. Technical staff not only supports the development of functionality but also provides production on call support, including the production of developed functionality to production. Given these staffing limitations, MassHealth has implemented a compensating control by adding additional checks and balances to create a buffer between the development of code and the migration of that code to production. Using this compensating control, the MA21 team explicitly identifies all code an on call staff member has created and all code an on call staff member has migrated to production. On a weekly basis a team reviews all code that was migrated to the production environment and specifically code that was created and migrated to production by members of the On Call

**COMMONWEALTH OF MASSACHUSETTS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2017

team. This review is performed to ensure that all code migrated to production was appropriate and approved by management.

The weekly review process is constantly being improved. For example, a new change to this process is the implementation during the weekly review of the report with all changes to production environment that where any instance of a developer implementing his/her own change is identified, the email containing the description of the change and management's pre-approval are embedded into the log. Consequently, there is an auditable trail of approvals for each change implemented into production.

***Responsible Official(s)***

Amanda Joubert, Director of MassHealth Eligibility, Executive Office of Health and Human Services

***Implementation Date***

December 2017

## COMMONWEALTH OF MASSACHUSETTS

### Schedule of Findings and Questioned Costs

Year ended June 30, 2017

#### Executive Office of Health and Human Services

**Finding Reference:** 2017-008

#### **MA21 – Application Administrative Access**

**Type of Finding:** Significant Deficiency

**Prior Year Finding:** Yes, 2016-013

**Statistically Valid Sample:** No

#### **Observation**

As identified in the prior year, KPMG identified accounts with administrative access to the MA21 application that were considered inappropriate. For 2017, 2 such accounts were identified and management revoked access for these 2 accounts after identification. In the prior year, 4 accounts with inappropriate administrative access were identified.

Administrative access grants a user extensive access to the system and allows that user to circumvent other controls that may exist. Hence, access to administrative accounts should be restricted to a small set of appropriate individuals. Furthermore, administrative access presents the risk that inappropriate access is inadvertently granted to new or existing users resulting in inappropriate changes made to the application and data that could potentially impact financial data and transactions in the application.

#### **Recommendation**

Management should consider to:

- Periodically review administrative access to all key databases, operating systems and applications to ensure that all administrative access is appropriately restricted to individuals who require such access to perform their job responsibilities.
- Reinforce the importance of restricting administrative access with all IT personnel and the need to revoke administrative access upon termination or reassignment of individuals.

#### **Views of Responsible Officials and Corrective Actions**

Requests for administrative-level access will require written justification and approval by the authorized Application Manager. If administrative-level access is no longer needed, the user terminates employment or reassigned to another role, management will be responsible for requesting the user's access be revoked or modified. All requests will be maintained for auditing purposes. Refer to the MassHealth procedure titled, "A Guide for Onboarding and Offboarding Employees and Vendors at MassHealth IT".

To further our efforts to improve controls to mitigate risk, MassHealth Security will conduct a biannual review of users with administrative-level access to determine if the administrative-level access is still required to perform their job responsibilities. Users found not to need administrative-level access will be revoked or modified and a biannual summary report will be drafted and stored for audit purposes; along with supporting documentation such as email correspondence and system account lists. The semiannual reviews will be conducted during the December and June timeframes.

**COMMONWEALTH OF MASSACHUSETTS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2017

Inherent in this process and enforced by the biannual review; the importance of restricting administrative-level access will become standard practice.

***Responsible Official(s)***

Amanda Joubert, Director of MassHealth Eligibility, Executive Office of Health and Human Services

***Implementation Date***

December 2017

## COMMONWEALTH OF MASSACHUSETTS

### Schedule of Findings and Questioned Costs

Year ended June 30, 2017

#### **Executive Office of Health and Human Services**

**Finding Reference:** 2017-009

#### **MA21 – Terminations**

**Type of Finding:** Significant Deficiency

**Prior Year Finding:** Yes, 2016-015

**Statistically Valid Sample:** No

#### ***Observation***

As noted in the prior year, KPMG determined that active access to MA21 was still available for terminated employees. 46 of the 77 employees terminated during FY17 until the time of our testing, still had active access. In 2016 there were also a number of users that retained access after termination.

Upon termination access should be revoked swiftly to prevent unauthorized access to the system either by the terminated individuals or by active employees leveraging the account of the terminated employee. If access is not revoked timely, the risk increases that there is unauthorized access to the systems which could result in unauthorized transactions and a breach in system confidentiality.

#### ***Recommendation***

Management should consider to:

- Perform a periodic review of all terminations to ensure that their access was revoked. If individuals are identified whose access was not revoked timely, perform an impact analysis to determine whether any inappropriate access resulted from the untimely access revocation.
- Reinforce the importance of the termination process, and the resulting access revocation, with all involved personnel including HR, supervisors and managers as well as IT.
- Retain documentation for all terminations and resulting access revocations so that an audit trail of a users' access is available.

#### ***Views of Responsible Officials and Corrective Actions***

MassHealth Security will receive a weekly list of terminations produced by the EOHHS Human Resources from the Customer Support Group for immediate network and application access deactivation. MA21 deletions identified using this list will be deactivated and documented for audit purposes.

To maintain our efforts to improve controls to mitigate risk, MassHealth Security will conduct a biannual review of active application users to determine if their access is still appropriate to perform their job responsibilities. Responses from managers of terminated employees found with current application access will be immediately deactivated. Access modifications identified during the review will be assessed, validated and processed. A post-review will be conducted to confirm the changes. Biannual reviews will be conducted during the December and June timeframes.

**COMMONWEALTH OF MASSACHUSETTS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2017

A biannual summary report will be documented and stored for audit purposes along with supporting documentation.

***Responsible Official(s)***

Amanda Joubert, Director of MassHealth Eligibility, Executive Office of Health and Human Services

***Implementation Date***

December 2017

## COMMONWEALTH OF MASSACHUSETTS

### Schedule of Findings and Questioned Costs

Year ended June 30, 2017

#### Executive Office of Health and Human Services

**Finding Reference:** 2017-010

#### **MMIS – Access Provisioning**

**Type of Finding:** Significant Deficiency

**Prior Year Finding:** Yes, 2016-016 and 2015-009

**Statistically Valid Sample:** No

#### **Observation**

As noted in prior years, KPMG identified that access was granted to the Medicaid Management Information System (MMIS) without appropriately documented approvals. In 2017, KPMG noted that for 12 of the 25 new users sampled, access provisioned wasn't equal to the access requested and approved.

If users are granted access to system functionality without appropriate approvals, the risk increases that inappropriate access is granted. This access could be used to perform unauthorized activity in the system which could compromise the confidentiality and integrity of the (financial) data in the system.

#### **Recommendation**

Management should consider to:

- Reinforce with responsible personnel that access can only be granted based on specific requests including appropriate approval.
- Perform a periodic review of (new) users and their (new) access to verify that all access is appropriate and commensurate with the employees' job responsibilities.

#### **Views of Responsible Officials and Corrective Actions**

Requests for MMIS access require approval by the authorized hiring manager and submitted using the Security Request Form through the EOHHS Customer Service Center for audit and tracking purpose. This process aligns with the MassHealth procedure titled, "A Guide for Onboarding and Offboarding Employees and Vendors at MassHealth IT" manual.

As noted previously, to maintain our efforts to improve controls to mitigate risk, MassHealth Security will conduct a biannual review of active application users to determine if their access is still appropriate to perform their job responsibilities. Responses from managers of terminated employees found with current application access will be immediately deactivated. Access modifications identified during the review will be assessed, validated and processed. A post-review will be conducted to confirm the changes. Biannual reviews will be conducted during the December and June timeframes.

A biannual summary report will be documented and stored for audit purposes along with supporting documentation.

#### **Responsible Official(s)**

Vamsi Vandrangi, Director of MMIS, Executive Office of Health and Human Services

#### **Implementation Date**

December 2017

## COMMONWEALTH OF MASSACHUSETTS

### Schedule of Findings and Questioned Costs

Year ended June 30, 2017

#### **Executive Office of Health and Human Services**

**Finding Reference:** 2017-011

#### **MMIS – Terminations**

**Type of Finding:** Significant Deficiency

**Prior Year Finding:** Yes, 2016-017 and 2015-011

**Statistically Valid Sample:** No

#### ***Observation***

As noted in prior years, KPMG identified multiple exceptions in the access revocation process where access had not been timely revoked upon termination. In the 2017 audit, KPMG identified 26 employees in the population of 117 terminated employees whose access had not been revoked at the time of testing and who still had active accounts in the Medicaid Management Information System (MMIS).

Upon termination, access should be revoked swiftly to prevent unauthorized access to the system either by the terminated individuals or by active employees leveraging the account of the terminated employee. If access is not revoked timely, the risk increases that there is unauthorized access to the systems which could result in unauthorized transactions and a breach in system confidentiality.

#### ***Recommendation***

Management should consider to:

- Perform a periodic review of all terminations to ensure that their access was revoked. If individuals are identified whose access was not revoked timely, perform an impact analysis to determine whether any inappropriate access resulted from the untimely access revocation.
- Reinforce the importance of the termination process, and the resulting access revocation, with all involved personnel including HR, supervisors and managers as well as IT.
- Retain documentation for all terminations and resulting access revocations so that an audit trail of a users' access is available.

#### ***Views of Responsible Officials and Corrective Actions***

MassHealth Security will receive a weekly list of terminations produced by the EOHHS Human Resources from the Customer Support Group for immediate network and application access deactivation. MMIS deletions identified using this list will be deactivated and documented for audit purposes.

As noted previously, to maintain our efforts to improve controls to mitigate risk, MassHealth Security will conduct a biannual review of active application users to determine if their access is still appropriate to perform their job responsibilities. Responses from managers of terminated employees found with current application access will be immediately deactivated. Access modifications identified during the review will be assessed, validated and processed. A post-review will be conducted to confirm the changes. Biannual Reviews will be conducted during the December and June timeframes.

**COMMONWEALTH OF MASSACHUSETTS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2017

A biannual summary report will be documented and stored for audit purposes along with supporting documentation.

***Responsible Official(s)***

Vamsi Vandurangi, Director of MMIS, Executive Office of Health and Human Services

***Implementation Date***

December 2017

## COMMONWEALTH OF MASSACHUSETTS

### Schedule of Findings and Questioned Costs

Year ended June 30, 2017

#### **Executive Office of Health and Human Services**

**Finding Reference:** 2017-012

#### **MMIS and MA21 – User Access Reviews**

**Type of Finding:** Significant Deficiency

**Prior Year Finding:** Yes, 2016-018 and 2015-010

**Statistically Valid Sample:** No

#### ***Observation***

As noted in prior years, a formal periodic review of all users and their access rights in MMIS and MA21 is not performed. Also, there is no formal periodic review of the users with the ability to perform specific high privileged functions. Since 2016, a review is performed of users with active accounts that have not used the account for a long period of time. However, that review by design does not capture users that are actively using their account but are inappropriate to have access.

A user access review is a detective control that can identify users who have inappropriate access and whose accounts may have been used to perform unauthorized activity. Without a user access review the risk increases that there are users with inappropriate access to the system and who perform unauthorized transactions.

#### ***Recommendation***

Management should consider to:

- Implement a user access review for MMIS and MA21. Reviewers should be aware of the importance of their review. Furthermore, which reviewer is responsible for which user should be identified and reviewers should provide positive confirmation that they have completed the review.
- If deviations are identified, ensure access is changed accordingly for all identified deviations and that the reviewers obtain a new access list to confirm the deviations are resolved.

#### ***Views of Responsible Officials and Corrective Actions***

To further our efforts toward continuous improvement and to mitigate risk, MassHealth Security will conduct biannual reviews of active application users to determine if their access is still appropriate to perform their job responsibilities. Responses from managers of terminated employees found with current application access will be immediately deactivated. Access modifications identified during the review will be assessed, validated and processed. A post-review will be conducted to confirm the changes. Biannual Reviews will be conducted during the December and June timeframes.

A biannual summary report will be documented and stored for audit purposes along with supporting documentation.

#### ***Responsible Official(s)***

Amanda Joubert, Director of MassHealth Eligibility, Executive Office of Health and Human Services  
Vamsi Vandrangi, Director of MMIS, Executive Office of Health and Human Services

#### ***Implementation Date***

December 2017

**COMMONWEALTH OF MASSACHUSETTS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2017

**Department of Transitional Assistance**

**Finding Reference:** 2017-013

**BEACON – Change Management**

**Type of Finding:** Significant Deficiency

**Prior Year Finding:** Yes, 2016-019

**Statistically Valid Sample:** No

***Observation***

As noted in the prior year, users who have the ability to develop code changes for BEACON also have the ability to migrate these changes to production. In addition, management does not perform a formal periodic review of all changes to the production environment. Management planned to revise the deployment responsibilities so that developers would not be able to migrate changes in FY17. However, these remediation efforts were not completed during the year.

KPMG concluded that there is no technically enforced segregation of duties between developing and migrating changes, and that there is no effective review of all changes migrated to production. Therefore, there are no sufficient controls in place to prevent or detect potential unauthorized changes to the BEACON application.

***Recommendation***

Management should consider to:

- Technically segregate people with the ability to develop code from the people that have the ability to migrate code to production.
- Perform a periodic review of a list of all changes to the production environment to ensure only authorized personnel migrated appropriately approved changes. The list used should be a system generated list of changes and should not be based on a secondary source such as a ticketing system.

***Views of Responsible Officials and Corrective Actions***

The following changes below will be made to the BEACON system and change management processes to technically segregate people with the ability to develop code from the people that have the ability to migrate code to production and monitor for unauthorized changes:

- Access to move code to production will be restricted to a limited set of individuals that are not part of the development team.
- Log all attempts to access the accounts used for the migration of changes as well as all activity when the account is used.
- Management will review all failed logon attempts.

***Responsible Official(s)***

Anand Selvaraj, Assistant Chief Information Officer, Department of Transitional Assistance

***Implementation Date***

January 2018

**COMMONWEALTH OF MASSACHUSETTS**

Schedule of Findings and Questioned Costs

Year ended June 30, 2017

**Department of Transitional Assistance**

**Finding Reference:** 2017-014

**BEACON – Terminations**

**Type of Finding:** Significant Deficiency

**Prior Year Finding:** Yes, 2016-021

**Statistically Valid Sample:** No

**Observation**

As noted in the prior year, terminated employees still had active access to BEACON or access was not revoked in a timely fashion. In FY17, KPMG noted that 3 of the 63 employees terminated during the fiscal year still retained active accounts at the time of testing. Access has since been removed by management.

Upon termination access should be revoked swiftly to prevent unauthorized access to the system either by the terminated individuals or by active employees leveraging the account of the terminated employee. If access is not revoked timely, the risk increases that there is unauthorized access to the systems which could result in unauthorized transactions and a breach in system confidentiality.

**Recommendation**

Management should consider to:

- Perform a periodic review of all terminations to ensure that their access was revoked. If individuals are identified whose access was not revoked timely, perform an impact analysis to determine whether any inappropriate access resulted from the untimely access revocation.
- Reinforce the importance of the termination process, and the resulting access revocation, with all involved personnel including HR, supervisors and managers as well as IT.
- Retain documentation for all terminations and resulting access revocations so that an audit trail of a users' access is available.

**Views of Responsible Officials and Corrective Actions**

The importance of prompt notification from the Department of Transitional Assistance (DTA) HR department on user terminations will be reinforced by both the DTA Security Officer and the DTA Compliance Officer. DTA HR had reinstated a bimonthly termination notification to ensure that Security is notified before the user terminates or ASAP afterwards however, DTA HR did not notify Security on the termination of the 3 missed users. DTA will continue to perform an annual access review in the spring and will perform an additional review of the BEACON system using a termination report provided from EHS HR in the winter.

**Responsible Official(s)**

Anand Selvaraj, Assistant Chief Information Officer, Department of Transitional Assistance

**Implementation Date**

January 2018

**FINDINGS AND QUESTIONED COSTS RELATING TO  
FEDERAL AWARDS**

**COMMONWEALTH OF MASSACHUSETTS**

Findings and Questioned Costs Relating to Federal Awards

Year ended June 30, 2017

**Department of Elementary and Secondary Education**

**Title I Grants to Local Educational Agencies (84.010)**

**Federal Award Number:** S010A160021      **Award Year:** 2017

**U.S. Department of Education**

**Finding Reference:** 2017-015

**Maintenance of Effort and Reporting**

**Type of Finding:** Significant Deficiency

**Prior Year Finding:** No

**Statistically Valid Sample:** No

***Requirement***

In accordance with 20 USC 7801, each year, a State Educational Agency (SEA) must submit its average State per pupil expenditure (SPPE) data to the National Center for Education Statistics (NCES). These SPPE data are used by U.S. Department of Education (ED) to make allocations under several SEA programs. Local Educational Agencies (LEA) must submit data to the SEA for the SEA's report.

In accordance with 20 USC 7901, an LEA may receive funds under the Title I program only if the SEA finds that the combined fiscal effort per student or the aggregate expenditures of the LEA from State and local funds for free public education for the preceding year was not less than 90 percent of the combined fiscal effort or aggregate expenditures for the second preceding year, unless specifically waived by ED. If an LEA fails to maintain fiscal effort, the SEA must reduce the amount of the allocation of funds under an applicable program in any fiscal year in the exact proportion by which the LEA fails to maintain effort by falling below 90 percent of both the combined fiscal effort per student and aggregate expenditures (using the measure most favorable to the LEA).

The Uniform Guidance requires management to maintain internal control over Federal programs that provide reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

***Finding***

LEAs submit End-Of-Year Reports (EOYR) to the Department of Elementary and Secondary Education (DESE) that are used to both obtain SPPE required data, and determine if the LEA is in compliance with the maintenance of effort requirement noted in 20 USC 7901. DESE requires the following documents to accompany these reports:

- A Certification Statement signed by both the LEA Superintendent and School Committee Chairperson, which certifies that all the statements contained in the EOYR are true to their best knowledge and belief, under penalties of perjury.

**COMMONWEALTH OF MASSACHUSETTS**

Findings and Questioned Costs Relating to Federal Awards

Year ended June 30, 2017

- An agreed-upon procedures report issued by a Certified Public Accountant (CPA) that identifies verification procedures performed by the CPA on certain data contained in the EOYR, and the results of applying those procedures.

Our testing of maintenance of effort and reporting requirements in fiscal year 2017 noted the following deficiencies:

- Certification Statements were not on file for 4 of 40 LEAs selected for testing.
- There is no formal process for reviewing and approving of LEA agreed-upon procedures reports and for follow up on any deficiencies reported.

***Recommendation***

We recommend that DESE management implement control procedures over the receipt of Certification Statements that accompany each LEA's EOYR. Additionally, we recommend that DESE implement a review and approval process over LEA agreed-upon procedures reports, in order to ensure compliance with maintenance of effort and reporting requirements.

***Questioned Costs***

None

***Views of Responsible Officials and Corrective Actions***

DESE concurs with the finding and has implemented a documented review and approval process over LEA agreed-upon procedures reports for the current fiscal year, in order to ensure compliance with maintenance of effort and reporting requirements.

***Responsible Official(s)***

John Sullivan, Associate Commissioner of School and District Finance, DESE

***Implementation Date***

November 1, 2017

**COMMONWEALTH OF MASSACHUSETTS**

Findings and Questioned Costs Relating to Federal Awards

Year ended June 30, 2017

**Department of Elementary and Secondary Education**

**Title I Grants to Local Educational Agencies (84.010)**

**Federal Award Number:** S010A160021      **Award Year:** 2017

**U.S. Department of Education**

**Finding Reference:** 2017-016

**Special Tests and Provisions -Annual Report Cards**

**Type of Finding:** Significant Deficiency and Noncompliance

**Prior Year Finding:** No

**Statistically Valid Sample:** No

***Requirement***

In accordance with 34 CFR section 200.19(b), a State Educational Agency (SEA) and its Local Educational Agencies (LEA) must report graduation rate data for all public high schools at the school, LEA, and State levels using the 4-year adjusted cohort rate. Graduation rate data must be reported both in the aggregate and disaggregated by each subgroup described in 34 CFR section 200.13(b)(7)(ii) using a 4-year adjusted cohort graduation rate. Only students who earn a regular high school diploma may be counted as a graduate for purposes of calculating the 4-year adjusted cohort graduation rate. To remove a student from the cohort, a school or LEA must confirm, in writing, that the student transferred out, immigrated to another country, or is deceased. To confirm that a student transferred out, the school or LEA must have official written documentation that the student enrolled in another school or in an educational program that culminates in the award of a regular high school diploma. A student who is retained in grade, enrolls in a GED program, or leaves school for any other reason may not be counted as having transferred out for the purpose of calculating graduation rate and must remain in the adjusted cohort.

The Uniform Guidance requires management to maintain internal control over Federal programs that provide reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

***Finding***

Our testing of Annual Report Card requirements in fiscal year 2017 noted that the Department of Elementary and Secondary Education (DESE) does not maintain a formally documented policy or communication that specifically addresses to LEAs the requirement to have written confirmation when a student has transferred out, immigrated to another country, or is deceased, whenever a student is removed from the cohort.

***Recommendation***

We recommend that DESE management implement a formally documented policy or communication that specifically addresses the requirement of LEAs to have written confirmation when a student has transferred out, immigrated to another country, or is deceased whenever a student is removed from the cohort, in accordance with 34 CFR section 200.19(b).

**COMMONWEALTH OF MASSACHUSETTS**

Findings and Questioned Costs Relating to Federal Awards

Year ended June 30, 2017

***Questioned Costs***

None

***Views of Responsible Officials and Corrective Actions***

DESE concurs with the finding and will implement the following corrective actions.

DESE will revise its data collection policies for school districts around reporting the enrollment status of students to address this finding. Specifically, DESE will require school districts have written confirmation to document the departure of a student from a school district. Any school district reporting a student as a transfer to another in-state or out-of-state school (public or private) will be required to have written documentation verifying the transfer. Examples of this written confirmation may include a request for records from the enrolling school or a written notification from the parent or guardian documenting the move or transfer. School districts will be notified that any move of the student that is not accompanied by a written confirmation should be considered to be dropout from that school. Only verified transfers will be accepted as candidates to be removed from the graduation cohort.

***Responsible Official(s)***

Robert Curtin, Director of Center for District and School Accountability, DESE

***Implementation Date***

June 30, 2018

**COMMONWEALTH OF MASSACHUSETTS**

Findings and Questioned Costs Relating to Federal Awards

Year ended June 30, 2017

**Department of Elementary and Secondary Education**

**Title I Grants to Local Educational Agencies (84.010)**

**Federal Award Number:** S010A160021      **Award Year:** 2017

**U.S. Department of Education**

**Finding Reference:** 2017-017

**Special Tests and Provisions-Assessment System Security**

**Type of Finding:** Significant Deficiency and Noncompliance

**Prior Year Finding:** No

**Statistically Valid Sample:** No

***Requirement***

In accordance with 20 USC 6311(b)(3)(C)(iii), State Educational Agencies (SEA), in consultation with Local Educational Agencies (LEA), are required to establish and maintain an assessment system that is valid, reliable, and consistent with relevant professional and technical standards. Within their assessment system, SEAs must have policies and procedures to maintain test security and ensure that LEAs implement those policies and procedures.

The Uniform Guidance requires management to maintain internal control over Federal programs that provide reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

***Finding***

Our testing of Assessment System Security requirements in fiscal year 2017 noted the following deficiencies:

- The Department of Elementary and Secondary Education (DESE) visited 43 LEAs in fiscal year 2017 and observed the administration of the LEA's Massachusetts Comprehensive Assessment System (MCAS) testing. It was noted that the decision process regarding which LEAs to visit (risk assessment) was not documented and that there is no process to ensure that every LEA is visited for this purpose over at set timespan.
- DESE receives allegations of potential testing irregularities from teachers and others through emails and phone calls and notifies the applicable LEA to enable the investigation of the allegations. It was noted that a log of allegation emails and phone calls was not maintained by DESE in fiscal year 2017.
- DESE offers MCAS administration training to all LEA principal and school district leaders through classroom settings, webinars, and phone conferences. Although attendance at these seminars is maintained, DESE does not review attendance records to determine the risk of noncompliance as a result of LEAs not attending recent training sessions.

## COMMONWEALTH OF MASSACHUSETTS

### Findings and Questioned Costs Relating to Federal Awards

Year ended June 30, 2017

#### **Recommendation**

We recommend that DESE management implement procedures for:

- Documenting risk assessments in regard to the determination of which LEA will be visited for observation of the administration of MCAS testing and developing a cyclical plan such that all LEAs are visited for this purpose over a set time span.
- Maintaining a log of allegations of potential testing irregularities, in order to ensure that all allegations are investigated and resolved.
- Reviewing attendance records for MCAS administrative training sessions, in order to evaluate noncompliance risk for any LEAs not attending recent training.

#### **Questioned Costs**

None

#### **Views of Responsible Officials and Corrective Actions**

DESE concurs with the finding and will implement the following corrective actions.

- DESE is in the process of updating its risk assessment process to ensure that the entire decision process on how DESE selects schools for observation is memorialized.
- DESE is in the process of moving to an online system, based on the ServiceNow platform, for tracking, collecting, and responding to all reported testing irregularities reported by phone, fax, or email to DESE.
- DESE currently follows up after MCAS trainings in several ways. Training webinars are recorded and made available online a week later. The bi-weekly Student Assessment Update (emailed to all principals and test coordinators) directs those who were unable to attend the training on the original day to view the recording. At the end of testing, principals must certify on the Principal's Certification of Proper Test Administration (PCPA) that they participated in all required trainings. Finally, when DESE observes schools during MCAS test administration, a question on the observation form asks whether anyone from the school attended a training session, and corrective action is noted for the school if necessary. DESE will document the non-attendance to training sessions into our risk assessment process.

#### **Responsible Official(s)**

Michol Staple- Associate Commissioner of Student Assessment, DESE

David Ragsdale- Test Security Specialist, DESE

Robert E. Lee- Chief Analyst of DATA, DESE

#### **Implementation Date**

June 30, 2018

## COMMONWEALTH OF MASSACHUSETTS

Findings and Questioned Costs Relating to Federal Awards

Year ended June 30, 2017

### Department of Elementary and Secondary Education

#### Title I Grants to Local Educational Agencies (84.010)

Federal Award Number: S010A160021 Award Year: 2017

#### U.S. Department of Education

Finding Reference: 2017-018

#### Eligibility and Earmarking

Type of Finding: Significant Deficiency

Prior Year Finding: No

Statistically Valid Sample: No

#### *Requirement*

In accordance with 34 CFR 200.71, 200.71 and 200.73, the U.S. Department of Education (ED) allocates funds by formula for basic grants, concentration grants, targeted grants, and education finance incentive grants, through State Educational Agencies (SEA), to each eligible Local Educational Agency (LEA) for which the Bureau of the Census has provided data on the number of children from low-income families residing in the school attendance areas of the LEA (the "Census list"). If there is an LEA in a State that is not on the Census list, the SEA must determine that the LEA is eligible under specific formulas identified in this section and adjust the initial allocations provided by ED for any eligible LEA that is not on the Census list. In making these adjustments, the SEA must ensure that no eligible LEA is reduced below their hold harmless level. The LEA's hold harmless level is 85, 90, or 95 percent of the amount it was allocated in the previous year depending on its percentage of formula children.

The Uniform Guidance requires management to maintain internal control over Federal programs that provide reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

#### *Finding*

The Department of Elementary and Secondary Education's (DESE) Associate Commissioner prepares Title I allocation worksheets that calculate eligibility of LEAs in Massachusetts that are not on the Census list and adjusts the initial allocations provided by ED for any such eligible LEA based on the criteria in 34 CFR 200.71, 200.71 and 200.73. Our testing of eligibility and earmarking requirements noted the following:

- The allocation amounts for all school districts changed slightly when the amounts were carried forward between the worksheet that calculates and determines eligible and ineligible school districts and the worksheets that calculate and determine compliance with hold harmless/earmarking requirements. There were also slight differences between the worksheet that calculates additional amounts allocated to new and expanded charter schools and the final Title I allocations to these schools.
- An allocation for additional funding was added to all eligible school districts within the final allocation worksheet. Although this additional funding was not significant, the basis of this allocation was not documented. DESE's Director of School Improvement Grant Programs reviews and approves the Title I allocation worksheets. However, this review and approval is not documented.

## COMMONWEALTH OF MASSACHUSETTS

### Findings and Questioned Costs Relating to Federal Awards

Year ended June 30, 2017

#### ***Recommendation***

We recommend that DESE implement procedures to ensure that the reason and methodology for all changes to the Title I allocation process is documented. Additionally, we recommend that DESE implement procedures for documenting the review and approval process over Title I allocation worksheets that calculate both eligible and ineligible LEAs, and hold harmless/earmarking allocations in order to ensure compliance with these program requirements.

#### ***Questioned Costs***

None

#### ***Views of Responsible Officials and Corrective Actions***

DESE concurs with the finding and will revise its Title I allocation procedure to ensure that all aspects of the allocation process are documented comprehensively.

The DESE will revise its Title I allocation procedure to ensure that all aspects of the allocation process are documented comprehensively. This documentation will include the following: (1) all calculation worksheets and all columns therein will be appropriately labeled and described to include the formula included and/or the origin of the data contained within; (2) when changing between software systems during the allocation procedure, documentation will be maintained to show the status of the calculations at the time of the change; (3) all mid-year corrections and/or revisions will be documented to note the date and nature of the changes; and (4) communication between offices responsible for the calculations and then the dissemination to school districts will be documented to ensure proper hand-off of responsibilities in the process.

#### ***Responsible Official(s)***

Robert Curtin, Director of Center for District and School Accountability, DESE

#### ***Implementation Date***

June 30, 2018

**COMMONWEALTH OF MASSACHUSETTS**

Findings and Questioned Costs Relating to Federal Awards

Year ended June 30, 2017

**Department of Elementary and Secondary Education**

**Special Education Cluster (84.027/84.173)**

**Federal Award Number:** H027A160076      **Award Year:** 2017

**Title I Grants to Local Educational Agencies (84.010)**

**Federal Award Number:** S011A160021      **Award Year:** 2017

**U.S. Department of Education**

**Finding Reference:** 2017-019

**Subrecipient Monitoring**

**Type of Finding:** Significant Deficiency and Noncompliance

**Prior Year Finding:** No

**Statistically Valid Sample:** No

***Requirement***

In accordance with 2 CFR 200.331(a), a pass-through entity must ensure that every subaward is clearly identified to the subrecipient as a subaward and includes the following information at the time of the subaward and if any of these data elements change, include the changes in subsequent subaward modification. When some of this information is not available, the pass-through entity must provide the best information available to describe the Federal award and subaward. Required information includes:

- (1) Federal Award Identification.
  - i. Subrecipient name (which must match the name associated with its unique entity identifier);
  - ii. Subrecipient's unique entity identifier;
  - iii. Federal Award Identification Number (FAIN);
  - iv. Federal Award Date (see §200.39 Federal award date) of award to the recipient by the Federal agency;
  - v. Subaward Period of Performance Start and End Date;
  - vi. Amount of Federal Funds Obligated by this action by the pass-through entity to the subrecipient;
  - vii. Total Amount of Federal Funds Obligated to the subrecipient by the pass-through entity including the current obligation;
  - viii. Total Amount of the Federal Award committed to the subrecipient by the pass-through entity;
  - ix. Federal award project description, as required to be responsive to the Federal Funding Accountability and Transparency Act (FFATA);
  - x. Name of Federal awarding agency, pass-through entity, and contact information for awarding official of the Pass-through entity;
  - xi. CFDA Number and Name; the pass-through entity must identify the dollar amount made available under each Federal award and the CFDA number at time of disbursement;

## COMMONWEALTH OF MASSACHUSETTS

### Findings and Questioned Costs Relating to Federal Awards

Year ended June 30, 2017

- xii. Identification of whether the award is R&D; and
  - xiii. Indirect cost rate for the Federal award (including if the de minimis rate is charged per §200.414 Indirect (F&A) costs)
- (2) All requirements imposed by the pass-through entity on the subrecipient so that the Federal award is used in accordance with Federal statutes, regulations and the terms and conditions of the Federal award;
  - (3) Any additional requirements that the pass-through entity imposes on the subrecipient in order for the pass-through entity to meet its own responsibility to the Federal awarding agency including identification of any required financial and performance reports;
  - (4) An approved federally recognized indirect cost rate negotiated between the subrecipient and the Federal Government or, if no such rate exists, either a rate negotiated between the pass-through entity and the subrecipient (in compliance with this part), or a de minimis indirect cost rate as defined in §200.414 Indirect (F&A) costs, paragraph (f);
  - (5) A requirement that the subrecipient permit the pass-through entity and auditors to have access to the subrecipient's records and financial statements as necessary for the pass-through entity to meet the requirements of this part; and
  - (6) Appropriate terms and conditions concerning closeout of the subaward."

In accordance with 2 CFR Section 200.331, the pass-through entity is further required to:

- monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, complies with the terms and conditions of the subaward, and achieves performance goals, and;
- follow-up and ensure that subrecipients take timely and appropriate action on all deficiencies pertaining to the Federal award provided to the subrecipient by the State that were detected through audits, on-site reviews and other means.
- issue a management decision for audit findings pertaining to the Federal award provided to the subrecipient

In accordance with 2 CFR Section 200.521, the pass-through entity responsible for issuing a management decision must do so within six months of acceptance of the audit report by the Federal Audit Clearinghouse.

The Uniform Guidance requires management to maintain internal control over Federal programs that provide reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

#### ***Finding***

During our testing of subrecipient monitoring in fiscal year 2017, we noted the following deficiencies:

Related to both programs:

- The Department of Elementary and Secondary Education (DESE) did not communicate the Federal Award Identification Number (FAIN) and the Federal Award Date to its subrecipients in fiscal year 2017.
- DESE did not issue a Management Decision for the two charter schools selected for testwork both of which had audit findings related to DESE programs.

## COMMONWEALTH OF MASSACHUSETTS

### Findings and Questioned Costs Relating to Federal Awards

Year ended June 30, 2017

- DESE uses master listings for each major program that track, within a six-year cycle, the year that a program review will be performed on each subrecipient. We noted the master listings did not include a new charter school subrecipient that received DESE funding in fiscal 2017.
- DESE does not document its risk assessment process for the “Data Audits” performed on electronic data submitted by its subrecipients.

Related to the Special Education Cluster:

- DESE policies and procedures require it to issue draft and final On-site Visit Summaries within 45 and 60 business days, respectively, of performing Coordinated Program Reviews (CPR) of its subrecipients. We noted that draft On-site Visit Summaries were not timely issued for 9 of 12 CPRs selected for testing. Additionally, we noted that final On-site Visit Summaries were not timely issued for 12 of 12 CPRs selected for testing.

#### ***Recommendation***

We recommend that DESE management implement control procedures to ensure that:

- FAIN numbers and Federal award dates are provided to the subrecipients of the Special Education Cluster and the Title I Program;
- Management Decisions be issued in accordance with 2 CFR Sections 200.331 and 200.521;
- Master listings that track each subrecipient on a timely basis;
- The criteria for the selection of the subrecipients subject to its Data Audits be formally documented; and
- Draft and final On-site Visit Summaries of the CPR process be issued timely in accordance with DESE policies and procedures.

#### ***Questioned Costs***

None

#### ***Views of Responsible Officials and Corrective Actions***

DESE concurs with the finding and will implement the following corrective actions.

- DESE is adding the FAIN and federal awarding agency information into the Award Notice within the DESE EdGrants management system. The agency is also looking into adding a web link in our award notice to subrecipients that directs them to an upload of the federal award letter on our website.
- The DESE Charter School Unit will be working with the Audit and Compliance Unit in regards to audit findings on Charter Schools. The Audit and Compliance Unit will be issuing Management Decisions using their Single Audit Resolution process for all Charter School audits with findings on DESE programs.
- The DESE Public Schools Monitoring Unit (PSM) will update procedures and create a protocol process for other DESE Units for communicating changes in sub recipient to ensure the master list is current at all times.

**COMMONWEALTH OF MASSACHUSETTS**

Findings and Questioned Costs Relating to Federal Awards

Year ended June 30, 2017

- The Audit Compliance Unit has developed a risk assessment process for determining DATA reviews based on DATA specific risk factors. This process will be incorporated with the current risk assessment process currently being performed by the unit for determining grant compliance reviews.
- Starting in the 2018-2019 school year, the Office of Public School Monitoring (PSM) will begin the process of Tiered Focused Monitoring, which will replace the Coordinated Program Review system. Within the new system, PSM will issue its own reports focusing on special education and civil rights criteria only. The new process of Tiered Focused Monitoring should correct the issue with regard to timeliness in issuing draft and final reports.

***Responsible Official(s)***

Jennifer Ahern - Grants Manager, DESE

Vandana Rastogi-Kelly -Director of Public School Monitoring, DESE

Jeffrey Benbenek, Edward Sylvanowicz-Audit and Compliance Unit, DESE

***Implementation Date***

June 30, 2018

**COMMONWEALTH OF MASSACHUSETTS**

Findings and Questioned Costs Relating to Federal Awards

Year ended June 30, 2017

**Department of Elementary and Secondary Education**

**Special Education Cluster (84.027/84.173)**

**Federal Award Number:** H027A160076      **Award Year:** 2017

**U.S. Department of Education**

**Finding Reference:** 2017-020

**Maintenance of Effort**

**Type of Finding:** Significant Deficiency

**Prior Year Finding:** No

**Statistically Valid Sample:** No

***Requirement***

In accordance with 34 CFR section 300.163, a state may not reduce the amount of State financial support for special education and related services for children with disabilities (or State financial support otherwise made available because of the excess costs of educating those children) below the amount of State financial support provided for the preceding fiscal year. The Secretary reduces the allocation of funds for any fiscal year following the fiscal year in which the State fails to comply with this requirement by the amount by which the State failed to meet the requirement. If, for any fiscal year, a State fails to meet the State-level maintenance of effort requirement (or is granted a waiver from this requirement), the financial support required of the State in future years for maintenance of effort must be the amount that would have been required in the absence of that failure (or waiver) and not the reduced level of the State's support.

The Uniform Guidance requires management to maintain internal control over Federal programs that provide reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

***Finding***

The Department of Elementary and Secondary Education's (DESE) Budget Director prepares the maintenance of effort calculation, which is reviewed and approved by the DESE Senior Associate Commissioner for Administration & Finance. However this review and approval is not documented.

***Recommendation***

We recommend that DESE implement procedures for documenting the review and approval process over the Special Education Cluster maintenance of effort calculation, in order to ensure compliance with this requirement.

***Questioned Costs***

None

**COMMONWEALTH OF MASSACHUSETTS**

Findings and Questioned Costs Relating to Federal Awards

Year ended June 30, 2017

***Views of Responsible Officials and Corrective Actions***

DESE concurs with the finding and has updated Budget procedures to include the review and approval process over the Special Education Cluster maintenance of effort calculation.

***Responsible Official(s)***

William J. Bell, Senior Associate Commissioner of Administration of Finance, DESE

***Implementation Date***

December 1, 2017

**COMMONWEALTH OF MASSACHUSETTS**

Findings and Questioned Costs Relating to Federal Awards

Year ended June 30, 2017

**Department of Housing and Community Development**

**Community Development Block Grants/State's Program (14.228)**

<b>Federal Award Number:</b>	B-15-DC-25-0001	<b>Award Year:</b>	2015
	B-16-DC-25-0001	<b>Award Year:</b>	2016

**U.S. Department of Housing and Urban Development**

**Finding Reference:** 2017-021

**Cash Management**

**Type of Finding:** Significant Deficiency and Noncompliance

**Prior Year Finding:** No

**Statistically Valid Sample:** No

**Requirement**

U. S. Department of the Treasury (Treasury) regulations at 31 CFR part 205, which implement the Cash Management Improvement Act of 1990 (CMIA), as amended (Pub. L. No. 101-453; 31 USC 6501 et seq.), require State recipients to enter into agreements that prescribe specific methods of drawing down Federal funds (funding techniques) for selected large programs.

Within the CMIA for 14.228 Community Development Block Grants (CDBG)/State's Program, "The State shall request funds... The amount of the request shall be the actual sum of expenditures that have been incurred, recorded, identified and reconciled as billable since the last weekly draw request was processed."

Additionally, pass-through entities must monitor cash drawdowns by their subrecipients to ensure that the time elapsing between the transfer of Federal funds to the subrecipient and their disbursement for program purposes is minimized as required by the applicable cash management requirements in the Federal award to the recipient (2 CFR 200.305(b)(1)).

Further, in accordance with 2 CFR 200.303(a), Non-Federal entities must establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with the guidance in "Standards for Internal Control in the Federal Government" issued by the Comptroller General of the United States or the "Internal Control Integrated Framework", issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

**Finding**

During our testwork over cash management, we noted the following:

- For 4 of the 40 items tested, we noted the cash requests were not consistent with the CMIA. The requests were more frequent than weekly.
- The financial management chapter of the CDBG Operations Manual encourages grantees to maintain a balance of \$10,000 in their local accounts. This policy appears to be in conflict with the federal

## COMMONWEALTH OF MASSACHUSETTS

### Findings and Questioned Costs Relating to Federal Awards

Year ended June 30, 2017

requirements. During our testwork, we noted instances where subrecipients appear to have sufficient grant funds on hand at the time additional grant funds were requested:

- 8 of the 40 subrecipients tested self-reported more than \$10,000 funds on hand at the time a draw down request was made.
- 10 of the 40 subrecipients tested had bank accounts with balances greater than \$10,000.
- The Department of Housing and Community Development (DHCD) provides its subrecipients with advance funds, as it can take 28-days to process disbursements through the Commonwealth’s accounting system. The CDBG Operations Manual requires the advances be limited to meet only the actual immediate cash required and the advance be as close as administratively feasible to actual disbursements. During our testwork, 27 of 40 of the subrecipients tested lacked adequate documentation of anticipated expenditure dates or amounts.
- The financial management chapter of the CDBG Operations Manual requires the grantee to disburse any program income it received prior to making or permitting additional draws from DHCD. However, DHCD does not appear to enforce this policy. During our testwork, 5 of 40 subrecipients tested received federal funds from DHCD while maintaining program income balances.

#### ***Recommendation***

We recommend that DHCD monitor reimbursements to its subrecipients in accordance with applicable federal and departmental guidelines.

#### ***Questioned Costs***

Not determinable

#### ***Views of Responsible Officials and Corrective Actions***

- DHCD will be monitoring our HUD drawdowns and coordinating with our accounting department to process only 1 drawdown request through IDIS and LOCCS per week.
- DHCD has updated the cash management policy in our financial management chapter of the CDBG Operations Manual to eliminate confusion. The policy now states that, “Grantees should maintain below the allowable balance of \$10,000 in their account whenever possible”. DHCD will enforce this policy through the drawdown process and will consider withholding payments for subrecipients when necessary.
- The financial management chapter of the CDBG Operations Manual states, “The standard State MMARS payment lag for disbursement of funds in this object code is 28 days. However, utilizing scheduled payment dates, drawdowns can be processed within two weeks.” Our financial management policy also states that we do not recommend that cities and towns advance funds on a routine basis, but that option should be available for drawdown delays, payroll, small contractors or unforeseen circumstances. Going forward however, DHCD will require additional information from the sub-grantees when requesting advances, to ensure that the additional funds are for immediate cash needs.

**COMMONWEALTH OF MASSACHUSETTS**

Findings and Questioned Costs Relating to Federal Awards

Year ended June 30, 2017

- DHCD and HUD are working collaboratively to make updates to the program income policy and its enforcement.

***Responsible Official(s)***

Mark Southard, DCS Community Development Unit Manager, DHCD

Chuna Keophannga, Finance Manager, OAF-DCS Fiscal Compliance Unit, DHCD

***Implementation Date***

March 31, 2018

**COMMONWEALTH OF MASSACHUSETTS**

Findings and Questioned Costs Relating to Federal Awards

Year ended June 30, 2017

**Department of Housing and Community Development**

**Community Development Block Grants/State's Program (14.228)**

**Federal Award Number:** B-15-DC-25-0001      **Award Year:** 2015  
B-16-DC-25-0001      **Award Year:** 2016

**U.S. Department of Housing and Urban Development**

**Finding Reference:** 2017-022

**Subrecipient Monitoring**

**Type of Finding:** Significant Deficiency and Noncompliance

**Prior Year Finding:** No

**Statistically Valid Sample:** No

***Requirement***

The State is required to monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes and complies with the terms and conditions of the subaward.

According to 2 CFR 200.331(b), a pass-through entity must evaluate each subrecipient's risk of noncompliance with Federal statutes, regulations, and the terms and conditions of the subaward for purposes of determining appropriate subrecipient monitoring.

Additionally, according to 2 CFR 200.331(d), a pass-through entity must monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the subaward; and that subaward performance goals are achieved.

Prior to the submission to HUD for its annual grant, the grantee must certify to HUD that it has met the citizen participation requirements in 24 CFR sections 91.115 and 570.486, as applicable.

Further, in accordance with 2 CFR 200.303(a), Non-Federal entities must establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with the guidance in "Standards for Internal Control in the Federal Government" issued by the Comptroller General of the United States or the "Internal Control Integrated Framework", issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

**COMMONWEALTH OF MASSACHUSETTS**

Findings and Questioned Costs Relating to Federal Awards

Year ended June 30, 2017

***Finding***

The Department of Housing and Community Development (DHCD) performs a risk assessment over its CDBG subrecipients to determine its monitoring plan. The plan is developed by the Program and Fiscal Representatives assigned to that particular agency or community. Program Managers and the Finance Director then review the plan for consistency and determine the effect on staff's workload. During our testwork over subrecipient monitoring we noted the controls performed over the risk evaluation are not documented.

Additionally, for one its subrecipients, DHCD did not monitor that subrecipient's compliance with the citizen participation federal requirements.

***Recommendation***

We recommend that DHCD evaluate, supervise, and monitor its subrecipients in accordance with applicable federal and departmental guidelines.

***Questioned Costs***

Not determinable

***Views of Responsible Officials and Corrective Actions***

DHCD has a well-established procedure for monitoring subrecipients and carrying out a risk assessment. The procedure has been historically managed by a Senior Program Representative with oversight from management. The responsible staff person has been recently elevated to a management position and will maintain responsibility for the monitoring process. The Senior Program Representative initiates the process by convening a meeting that includes all program representatives, fiscal representatives, the Finance Director and the Community Development Manager. This meeting is arranged through email and is not scheduled unless each person can attend.

During the risk assessment meeting, each grant is discussed and ranked using the established risk assessment guidelines and monitoring visits are scheduled based on this assessment. Program representatives and fiscal representatives identify the monitoring dates based on their schedules and workloads. Management is present to ensure that schedules and workloads are accommodated. This is all documented (the risk assessment ranking, history for repeat grantees, schedule of monitorings, results and clearance) on a spreadsheet, which is maintained and updated throughout the year, and reviewed by the Program Managers and Fiscal Director.

However, DHCD recognizes that additional documentation of the approval of the risk assessments is recommended. Going forward, the Fiscal Director and the Community Development Manager will sign off, using an attached checklist, as evidence that they have approved the risk assessment and monitoring plan.

With regard to the instance of a subrecipient not being monitored for citizen participation requirements, DHCD acknowledges that the staff person missed this during the visit. DHCD has already informed staff that all relevant items on the monitoring checklist must be reviewed going forward.

**COMMONWEALTH OF MASSACHUSETTS**

Findings and Questioned Costs Relating to Federal Awards

Year ended June 30, 2017

***Responsible Official(s)***

Mark Southard, DCS Community Development Unit Manager, DHCD

Chuna Keophannga, Finance Manager, OAF-DCS Fiscal Compliance Unit, DHCD

***Implementation Date***

March 31, 2018

**COMMONWEALTH OF MASSACHUSETTS**

Findings and Questioned Costs Relating to Federal Awards

Year ended June 30, 2017

**Department of Housing and Community Development**

**Community Development Block Grants/State's Program (14.228)**

**Federal Award Number:** B-15-DC-25-0001      **Award Year:** 2015  
B-16-DC-25-0001      **Award Year:** 2016

**U.S. Department of Housing and Urban Development**

**Finding Reference:** 2017-023

**Subrecipient Monitoring**

**Type of Finding:** Significant Deficiency and Noncompliance

**Prior Year Finding:** No

**Statistically Valid Sample:** No

***Requirement***

According to 2 CFR 200.331(a), a pass-through entity must: "ensure that every subaward is clearly identified to the subrecipient as a subaward and includes the following information at the time of the subaward and if any of these data elements change, include the changes in subsequent subaward modification. When some of this information is not available, the pass-through entity must provide the best information available to describe the Federal award and subaward. Required information includes:

- (1) Federal Award Identification.
  - i. Subrecipient name (which must match the name associated with its unique entity identifier);
  - ii. Subrecipient's unique entity identifier;
  - iii. Federal Award Identification Number (FAIN);
  - iv. Federal Award Date (see §200.39 Federal award date) of award to the recipient by the Federal agency;
  - v. Subaward Period of Performance Start and End Date;
  - vi. Amount of Federal Funds Obligated by this action by the pass-through entity to the subrecipient;
  - vii. Total Amount of Federal Funds Obligated to the subrecipient by the pass-through entity including the current obligation;
  - viii. Total Amount of the Federal Award committed to the subrecipient by the pass-through entity;
  - ix. Federal award project description, as required to be responsive to the Federal Funding Accountability and Transparency Act (FFATA);
  - x. Name of Federal awarding agency, pass-through entity, and contact information for awarding official of the Pass-through entity;

**COMMONWEALTH OF MASSACHUSETTS**

Findings and Questioned Costs Relating to Federal Awards

Year ended June 30, 2017

- xi. CFDA Number and Name; the pass-through entity must identify the dollar amount made available under each Federal award and the CFDA number at time of disbursement;
  - xii. Identification of whether the award is R&D; and
  - xiii. Indirect cost rate for the Federal award (including if the de minimis rate is charged per §200.414 Indirect (F&A) costs)
- (2) All requirements imposed by the pass-through entity on the subrecipient so that the Federal award is used in accordance with Federal statutes, regulations and the terms and conditions of the Federal award;
  - (3) Any additional requirements that the pass-through entity imposes on the subrecipient in order for the pass-through entity to meet its own responsibility to the Federal awarding agency including identification of any required financial and performance reports;
  - (4) An approved federally recognized indirect cost rate negotiated between the subrecipient and the Federal Government or, if no such rate exists, either a rate negotiated between the pass-through entity and the subrecipient (in compliance with this part), or a de minimis indirect cost rate as defined in §200.414 Indirect (F&A) costs, paragraph (f);
  - (5) A requirement that the subrecipient permit the pass-through entity and auditors to have access to the subrecipient's records and financial statements as necessary for the pass-through entity to meet the requirements of this part; and
  - (6) Appropriate terms and conditions concerning closeout of the subaward.

Further, in accordance with 2 CFR 200.303(a), Non-Federal entities must establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with the guidance in "Standards for Internal Control in the Federal Government" issued by the Comptroller General of the United States or the "Internal Control Integrated Framework", issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

***Finding***

The Department of Housing and Community Development (DHCD) did not consistently inform its CDBG program subrecipients of the above applicable required information.

***Recommendation***

We recommend that DHCD assess the design of its internal controls over subrecipient monitoring to ensure all subrecipients are informed of the expectations of being a subrecipient of federal funds.

***Questioned Costs***

None

**COMMONWEALTH OF MASSACHUSETTS**

Findings and Questioned Costs Relating to Federal Awards

Year ended June 30, 2017

***Views of Responsible Officials and Corrective Actions***

DHCD would like to acknowledge that the sample used for this finding was only missing the CFDA information required under 200.331(a)(1)(xi): "CFDA Number and Name; the pass through entity must identify the dollar amount made available under each Federal award and the CFDA number at the time of disbursement". All other information required under 200.331(a) was present.

DHCD has been in compliance with the recommendation made by KPMG relative to 2 CFR 200.331(a)(1)(xi) since February 1, 2017, as this recommendation was adopted by DHCD for all contracts at that time, based on the results of the FY 2016 audit. The contracts addressed in this finding were executed prior to February 1, 2017. We currently identify the required CFDA information on all federal grant subrecipient contracts and verification of the inclusion of the CFDA number is part of our internal contract review process.

***Responsible Official(s)***

Mark Southard, DCS Community Development Unit Manager, DHCD  
Chuna Keophannga, Finance Manager, OAF-DCS Fiscal Compliance Unit, DHCD

***Implementation Date***

February 1, 2017

**COMMONWEALTH OF MASSACHUSETTS**

Findings and Questioned Costs Relating to Federal Awards

Year ended June 30, 2017

**Department of Housing and Community Development**

**Community Development Block Grants/State's Program (14.228)**

**Federal Award Number:** B-15-DC-25-0001      **Award Year:** 2015  
B-16-DC-25-0001      **Award Year:** 2016

**U.S. Department of Housing and Urban Development**

**Finding Reference:** 2017-024

**Earmarking**

**Type of Finding:** Significant Deficiency

**Prior Year Finding:** No

**Statistically Valid Sample:** No

**Requirement**

Earmarking includes requirements that specify the minimum and/or maximum amount or percentage of the program's funding that must/may be used for specified activities, including funds provided to subrecipients. The State has various earmarking requirements under the CDBG program including:

- The Housing and Community Development Act of 1974 requires the State to certify that the aggregate use of the CDBG funds it receives, over a period specified by the State not to exceed 3 years, shall principally benefit low- and moderate-income persons. (24 CFR 570.484 and 42 USC 5304(b)(3)).
- The State may use no more than the aggregate of three percent of its grant funds for administrative purposes or technical assistance (42 USC 5306(d)).
- For planning and administrative costs under the CDBG program, the combined expenditures of the State and units of general local governments may not exceed 20 percent of the State's total allocation plus 20 percent of any program income, plus 20 percent of funds reallocated from HUD to the State for any given year. (24 CFR 570.483(b)(5), 570.483(c)(3), and 570.489(a)(3)).
- The amount of CDBG funds used for public services must not exceed 15 percent of the grant amount received for that year plus 15 percent of the program income attributed to the year. (42 USC 5305(a)(8)).

Further, in accordance with 2 CFR 200.303(a), Non-Federal entities must establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with the guidance in "Standards for Internal Control in the Federal Government" issued by the Comptroller General of the United States or the "Internal Control Integrated Framework", issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

## COMMONWEALTH OF MASSACHUSETTS

### Findings and Questioned Costs Relating to Federal Awards

Year ended June 30, 2017

#### ***Finding***

The Department of Housing and Community Development (DHCD) enters the earmarking requirements into the Integrated Disbursement and Information System (IDIS), a HUD nationwide database. Once the funded activities are entered into IDIS, DHCD can track and monitor its earmarking requirements using the PR26 CDBG Financial Summary Report.

During our testwork, we were unable to find documentation of the review of the PR26 reports once the information is entered in the system.

During our testwork, we noted no noncompliance with the CDBG earmarking requirements.

#### ***Recommendation***

We recommend that DHCD assess the design of its internal controls over earmarking to ensure all its key controls are adequately documented.

#### ***Questioned Costs***

None

#### ***Views of Responsible Officials and Corrective Actions***

DHCD has never been out of compliance with the earmarking requirements. DHCD's earmarking control begins with program design in which limits are imposed on applicants for administration and public social services that history has demonstrated keep applicants within the earmarking limits. Additionally, upon receipt of applications through the web-based Intelligrants Grant Management System (GMS), CDBG staff run the Fund Application Review report which calculates the percentage of low and moderate income activities as well as the administration percentage. When applications are approved for funding, the report is run again and the earmark calculations update for the funded applications only. Using this report, DHCD is able to verify compliance with the earmarking requirements during the application process and prior to funds being awarded. HUD's PR 26 Report is useful for confirming compliance once the activities have been entered into IDIS. In addition, HUD verifies compliance with the earmarking requirements annually during review of the state CAPER.

However, DHCD recognizes that additional documentation of the reviews of the PR26 reports is recommended. Going forward, DHCD intends to enhance the Fund Application Review Report to include the calculation for public social services so that all earmarking percentages are calculated together. In addition, the Fiscal Director and the Community Development Manager will sign off, using an attached checklist, as evidence that they have reviewed the Fund Application Review Report and the PR 26 Report for compliance with the earmarking requirements.

#### ***Responsible Official(s)***

Mark Southard, DCS Community Development Unit Manager, DHCD  
Chuna Keophannga, Finance Manager, OAF-DCS Fiscal Compliance Unit, DHCD

#### ***Implementation Date***

March 31, 2018

**COMMONWEALTH OF MASSACHUSETTS**

Findings and Questioned Costs Relating to Federal Awards

Year ended June 30, 2017

**Department of Housing and Community Development**

**Community Development Block Grants/State's Program (14.228)**

**Federal Award Number:** B-15-DC-25-0001      **Award Year:** 2015  
B-16-DC-25-0001      **Award Year:** 2016

**U.S. Department of Housing and Urban Development**

**Finding Reference:** 2017-025

**Reporting**

**Type of Finding:** Significant Deficiency and Noncompliance

**Prior Year Finding:** No

**Statistically Valid Sample:** No

**Requirement**

On an annual basis the Department of Housing and Community Development (DHCD) is required to report the amount of CDBG funds expended during the program year on the Performance and Evaluation Report. (24 CFR 91.520 (a) and (d)).

DHCD is also required to submit a performance reporting report on an annual basis - Section 3 Summary Report, Economic Opportunities for Low- and Very Low-Income Persons, (24 CFR 135.3(a)(1) and 135.90).

Further, in accordance with 2 CFR 200.303(a), Non-Federal entities must establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with the guidance in "Standards for Internal Control in the Federal Government" issued by the Comptroller General of the United States or the "Internal Control Integrated Framework", issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

**Finding**

DHCD identified controls that include the review and approval of such reports prior to submission. During our testwork, we were unable to verify such reviews occurred.

During our review of the Performance and Evaluation Report (PER) we noted that it was overstated by \$30,000.

**Recommendation**

We recommend that DHCD document its key controls including those noted above. Such documentation should also include evidence of any supervisory review.

DHCD should also submit amended reports for any discrepancies noted in prior filed reports.

**COMMONWEALTH OF MASSACHUSETTS**

Findings and Questioned Costs Relating to Federal Awards

Year ended June 30, 2017

***Questioned Costs***

None

***Views of Responsible Officials and Corrective Actions***

Both the CAPER and the Section 3 Report are completed and submitted on-line, and both are done with supervisory oversight. DHCD recognizes that additional documentation of the supervisory review is recommended. The review of both reports is on an attached checklist and will be signed off on by the appropriate supervisory position, as evidence that the report has been reviewed prior to submission to HUD.

DHCD acknowledges the \$30,000 transposition error. As necessary, DHCD will consult with HUD, which has already approved the CAPER, on how best to address the error.

***Responsible Official(s)***

Mark Southard, DCS Community Development Unit Manager, DHCD

Chuna Keophannga, Finance Manager, OAF-DCS Fiscal Compliance Unit, DHCD

***Implementation Date***

March 31, 2018

**COMMONWEALTH OF MASSACHUSETTS**

Findings and Questioned Costs Relating to Federal Awards

Year ended June 30, 2017

**Department of Housing and Community Development**

**Section 8 Project-Based Cluster (14.182, 14.856)**

**Federal Award Number:** N/A **Award Year:** 2016

**U.S. Department of Housing and Urban Development**

**Finding Reference:** 2017-026

**Subrecipient Monitoring**

**Type of Finding:** Material Weakness and Material Noncompliance

**Prior Year Finding:** No

**Statistically Valid Sample:** No

***Requirements***

The State is required to monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes and complies with the terms and conditions of the subaward.

According to 2 CFR 200.501(h), the pass-through entity is responsible for establishing requirements, as necessary, to ensure compliance by for-profit subrecipients. The agreement with the for-profit subrecipient must describe applicable compliance requirements and the for-profit subrecipient's compliance responsibility. Methods to ensure compliance for Federal awards made to for-profit subrecipients may include pre-award audits, monitoring during the agreement, and post-award audits. See also §200.331 requirements for pass-through entities.

According to 2 CFR 200.331(b), a pass-through entity must evaluate each subrecipient's risk of noncompliance with Federal statutes, regulations, and the terms and conditions of the subaward for purposes of determining appropriate subrecipient monitoring.

Additionally, according to 2 CFR 200.331(d), a pass-through entity must monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the subaward; and that subaward performance goals are achieved.

Further, in accordance with 2 CFR 200.303(a), Non-Federal entities must establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with the guidance in "Standards for Internal Control in the Federal Government" issued by the Comptroller General of the United States or the "Internal Control Integrated Framework", issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

## COMMONWEALTH OF MASSACHUSETTS

### Findings and Questioned Costs Relating to Federal Awards

Year ended June 30, 2017

#### ***Finding***

The Department of Housing and Community Development (DHCD) funds two types of projects within the Section 8 Project-Based Cluster (Section 8): Moderate Rehabilitation (MR) and New Construction and Substantial Rehabilitation (NC/SR). The MR developments are operated by Regional Administering Agencies (RAAs) and the NC/SR developments are operated predominately by Local Housing Authorities (LHAs); however certain for-profit entities also operate certain NC/SR developments. RAAs, LHAs and any for-profit entities managing MR and NC/SR developments are considered subrecipients as they are responsible for determining tenant eligibility, conducting the annual inspections, ensuring vacant units are not billed, and replacement reserves are maintained at the respective developments.

In accordance with departmental policies, DHCD is to conduct annual management reviews and inspections for each NC/SR development including:

- a review of 15 tenant files or 10% of the total tenant files;
- a review of the wait list;
- an analysis on vacancies and to ensure that yearly accruals to the reserves are in accordance with requirements; and
- the inspections require a random selection of at least one unit of each size in each building and at least one unit on every floor of each building.

During our testwork over the subrecipient monitoring of NC/SR developments we noted the following:

- None of the LHA's and or for-profit subrecipients were evaluated for risk of noncompliance in accordance with §200.331(b).
- One for-profit subrecipient which operates the largest NC/SR development, accounting for approximately 20% of the total NC/SR units and receiving approximately 40% of all fiscal 2017 Section 8 Project-Based Cluster funding, was not monitored in fiscal 2017. The last time this entity was monitored was 2009.
- For other NC/SR developments, DHCD is not following its departmental monitoring policies.
  - With regard to the policy to conduct annual management reviews: 2 of the remaining 25 developments, which equates to 4% of the total fiscal 2017 voucher expenditures, were not monitored during the year.
  - With regard to its policies over inspections: 5 other NC/SR developments did not receive inspections during the year.
  - With regard to its policies to review tenant files: 6 of the 21 developments monitored did not meet the minimum sampling of tenant files.

Departmental policies also require DHCD to monitor its MR developments. While the monitoring requirements are similar to those of NC/SR developments, we noted that the MR monitoring policies do not include the

## COMMONWEALTH OF MASSACHUSETTS

### Findings and Questioned Costs Relating to Federal Awards

Year ended June 30, 2017

Section 8 requirements to review the wait list, ensure vacant units are not billed and ensure replacement reserves are maintained at the respective developments.

#### **Recommendation**

We recommend that DHCD evaluate, supervise and monitor its subrecipients in accordance with applicable federal and departmental guidelines.

We also recommend that DHCD consider requiring any for-profit subrecipients that are not subject to an annual Uniform Guidance audit be subject to either enhanced DHCD monitoring procedures or be subject to program specific audit procedures.

#### **Questioned Costs**

Not determinable

#### **Views of Responsible Officials and Corrective Actions**

- DHCD acknowledges that it did not evaluate its Section 8 NC/SR subrecipients for risk of noncompliance in accordance with §200.331(b). DHCD conducts annual management reviews for each development in accordance with HUD requirements. However, DHCD will conduct the risk assessment as part of the monitoring procedures going forward.
- DHCD acknowledges that it did not conduct a management review of its for-profit subrecipient in state fiscal year 2017. DHCD completed its management review of this for-profit subrecipient in early state fiscal year 2018.
- DHCD acknowledges that two (2) of the remaining 25 LHA developments did not receive a management review in the state fiscal year 2017. DHCD will conduct management reviews for these two LHA subrecipients in state fiscal year 2018.
- DHCD acknowledges that five (5) NC/SR developments did not receive inspections during fiscal year 2017. DHCD will conduct the required inspections in conjunction with each management review moving forward. Also, DHCD staff will retain back-up hard copies of inspection forms in the event that staff experiences technical difficulties with on-site inspection hardware/software.
- DHCD acknowledges that six (6) of the 21 developments monitored did not meet the minimum sampling of tenant files. Moving forward, DHCD will sample the minimum number of tenant files at each management review.

It should be noted that DHCD conducted its fiscal year 2017 NC/SR management reviews using the guidance found in HUD Handbook 4350.1 – Multifamily Asset Management and Project Servicing, HUD Handbook 4350.3 – Occupancy Requirements of Subsidized Multifamily Housing Programs, and in the Form HUD-9834 – Management Reviews for Multifamily Housing Projects. DHCD has implemented procedures to ensure that all subrecipients will be monitored in accordance with federal guidelines and departmental policies going forward.

**COMMONWEALTH OF MASSACHUSETTS**

Findings and Questioned Costs Relating to Federal Awards

Year ended June 30, 2017

As it relates to the MR monitoring, DHCD acknowledges that the policy does not include the requirements related to the wait list, vacant units and replacement reserves. DHCD will update the policy for these requirements and will implement procedures going forward to ensure that these areas are reviewed during the monitoring of the subrecipients.

***Responsible Official(s)***

Laura Taylor, Director, Bureau of Housing Management, DHCD  
Ayo R. Yakubu-Owolewa, Finance Manager, Bureau of Housing Management, DHCD  
Robert Muollo, Jr., Asset Management/Redevelopment Specialist, DHCD  
Brendan Goodwin, Director, Bureau of Rental Assistance, DHCD

***Implementation Date***

July 1, 2018

**COMMONWEALTH OF MASSACHUSETTS**

Findings and Questioned Costs Relating to Federal Awards

Year ended June 30, 2017

**Department of Housing and Community Development**

**Section 8 Project-Based Cluster (14.182, 14.856)**

**Federal Award Number:** N/A **Award Year:** 2016

**U.S. Department of Housing and Urban Development**

**Finding Reference:** 2017-027

**Special Tests and Provisions - Contract Rent Adjustment**

**Type of Finding:** Significant Deficiency

**Prior Year Finding:** No

**Statistically Valid Sample:** No

**Requirement:**

The Public Housing Agencies (PHAs) or owner applies or ensures annual adjustments to contract rents are applied. The Housing Assistance Payments (HAP) contract specifies the method to be used to determine rent adjustments. Adjustments must not result in material differences between rents charged for assisted units and comparable unassisted units except as those differences existed at contract execution. Special adjustments to contract rents, within the original contract term, may also be made to the extent deemed necessary by the PHA or HUD (24 CFR sections 880.609, 881.601, 882.410, 882.808(e), 883.701, 884.109, 886.112, and 886.312).

Further, in accordance with 2 CFR 200.303(a), Non-Federal entities must establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with the guidance in "Standards for Internal Control in the Federal Government" issued by the Comptroller General of the United States or the "Internal Control Integrated Framework", issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

**Finding**

For Moderate Rehabilitation developments, department policies require the Project Based Voucher (PBV) managers to recalculate rates and review that rate increases are within allowable ranges.

The Department was not able to provide documentation to support that the PBV managers performed their review of the contract rent adjustment process.

During our testwork, we noted no noncompliance with the contract rent adjustment requirements.

**Recommendation**

We recommend that the PBV managers document their reviews of the contract rent adjustment process. Such documentation should also include evidence of any supervisory review of the PBV managers work.

**Questioned Costs**

None

**COMMONWEALTH OF MASSACHUSETTS**

Findings and Questioned Costs Relating to Federal Awards

Year ended June 30, 2017

***Views of Responsible Officials and Corrective Actions***

While the PBV Manager does review the contract rent adjustments, DHCD acknowledges that formal documentation of the reviews has not been maintained. Going forward, the PBV manager will electronically certify the contract rent adjustments after reviewing them, prior to submission to HUD. Documentation supporting the electronic certifications will be maintained as evidence of the review and compliance with the contract rent requirements.

***Responsible Official(s)***

Brendan Goodwin, Director, Bureau of Rental Assistance, DHCD  
Dan Tobyne, Rental Management Specialist, DHCD

***Implementation Date***

March 31, 2018

**COMMONWEALTH OF MASSACHUSETTS**

Findings and Questioned Costs Relating to Federal Awards

Year ended June 30, 2017

**Department of Housing and Community Development**

**Section 8 Project-Based Cluster (14.182, 14.856)**

**Federal Award Number:** N/A **Award Year:** 2016

**HOME Investment Partnerships Program (14.239)**

**Federal Award Number:** M16-SG5100 **Award Year:** 2016

**U.S. Department of Housing and Urban Development**

**Finding Reference:** 2017-028

**Cash Management**

**Type of Finding:** Significant Deficiency and Noncompliance

**Prior Year Finding:** No

**Statistically Valid Sample:** No

**Requirement:**

According to 2 CFR 200.302(b)(6), recipients of federal awards must establish written procedures to implement the requirements of 2 CFR 200.305, Payment.

Further, in accordance with 2 CFR 200.303(a), Non-Federal entities must establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with the guidance in "Standards for Internal Control in the Federal Government" issued by the Comptroller General of the United States or the "Internal Control Integrated Framework", issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

**Finding**

The Section 8 Project-Based Cluster and the HOME Investment Partnership Program do not have the specific written procedures described above.

**Recommendation**

We recommend that the Department of Housing and Community Development (DHCD) ensure that all required written procedures be in place for all its federally funded programs.

**Questioned Costs**

None

**Views of Responsible Officials and Corrective Actions**

DHCD is in agreement with the finding and will develop a written policy related to Cash Management, in accordance with 2 CFR 200.302(b)(6) and Federal award terms and conditions. The policy will be agency-wide for all Federal programs, including the Section 8 Project Based Cluster and HOME, and will be made available for all employees to use as a reference when utilizing Federal program funds.

**COMMONWEALTH OF MASSACHUSETTS**

Findings and Questioned Costs Relating to Federal Awards

Year ended June 30, 2017

***Responsible Official(s)***

Evelyn Martucci, Internal Controls Officer, DHCD

***Implementation Date***

July 1, 2018

**COMMONWEALTH OF MASSACHUSETTS**

Findings and Questioned Costs Relating to Federal Awards

Year ended June 30, 2017

**Department of Housing and Community Development**

**HOME Investment Partnerships Program (14.239)**

**Federal Award Number:** M16-SG250100      **Award Year:** 2016

**U.S. Department of Housing and Urban Development**

**Finding Reference:** 2017-029

**Eligibility and Housing Quality Standards**

**Type of Finding:** Significant Deficiency

**Prior Year Finding:** No

**Statistically Valid Sample:** No

***Requirement***

HOME-assisted units in a rental housing project must be occupied only by households that are eligible as low-income families and must meet certain limits on the rents that can be charged. The requirements also apply to the HOME-assisted non-owner-occupied units in single-family (1-4 unit) housing purchased with HOME funds. (24 CFR sections 92.216 and 92.252).

During the period of affordability (i.e., the period for which the non-Federal entity must maintain subsidized housing) for HOME assisted rental housing, the participating jurisdiction must perform on-site inspections to determine compliance with property standards and verify the information submitted by the owners no less than (a) every 3 years for projects containing 1 to 4 units, (b) every 2 years for projects containing 5 to 25 units, and (c) every year for projects containing 26 or more units. The participating jurisdiction must perform on-site inspections of rental housing occupied by tenants receiving HOME-assisted tenant-based rental assistance to determine compliance with housing quality standards (24 CFR sections 92.209(i), 92.251(f), and 92.504(d)).

Further, in accordance with 2 CFR 200.303(a), Non-Federal entities must establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with the guidance in "Standards for Internal Control in the Federal Government" issued by the Comptroller General of the United States or the "Internal Control Integrated Framework", issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

***Finding***

The HOME program includes the provision for third party vendors to perform various regulatory functions as required by the code of federal regulations. For example, all of the eligibility requirements and housing quality standards are contractually outsourced to a third party.

Monitoring as defined by COSO includes ongoing evaluations, separate evaluations, or some combinations of the two techniques to ascertain whether the third party is performing as expected. Ongoing evaluations, built into business processes at different levels of the entity, provide timely information. Separate evaluations, conducted periodically, will vary in scope and frequency depending on assessment of risks, effectiveness of ongoing evaluations, and other management considerations.

**COMMONWEALTH OF MASSACHUSETTS**

Findings and Questioned Costs Relating to Federal Awards

Year ended June 30, 2017

The Department of Housing and Community Development (DHCD) does have a contract with a third party that is specific in nature to the procedures to be performed by the third party. DHCD's monitoring of the third party includes but is not limited to (1) approval of sampling plans and/or audit approach; (2) periodic updates on results of the work being performed and potential impact to DHCD; (3) approval of third party suggested action items; (4) completion/execution of the sampling plan and/or audit approach; and (5) overall assessment of the quality of work being performed by the third party.

During our audit, we noted the following weaknesses in DHCD's monitoring of its third party:

1. The eligibility review process does not include monitoring for quality of work components.
2. The housing quality inspection process does not include monitoring for quality of work components. In addition, the monitoring process does not ensure the audit plan was executed as approved.
3. DHCD receives a monitoring report for each project from the third party. DHCD is currently not able to determine the specific units inspected based on the information provided in the report. The periodic updates on results of the work being performed lack documentation of review and approval by DHCD.

***Recommendation***

We recommend that DHCD enhance the monitoring of its third party to address the weaknesses noted above.

***Questioned Costs***

None

***Views of Responsible Officials and Corrective Actions***

DHCD works closely with the third party owner and staff and reviews the listing of projects and unit mix to be monitored with them. However, DHCD agrees that the eligibility and housing quality inspections processes could be strengthened by including quality control reviews of the work performed by the third party. Going forward, DHCD staff will periodically accompany the third party when they conduct their site visits.

In addition, DHCD will require the third party to identify the specific units that were monitored in the monitoring report provided to DHCD. This report is reviewed and approved by the HOME Program Manager, and documentary evidence of that review will be maintained in the files.

***Responsible Official(s)***

Rebecca Frawley Wachtel, Tax Credits and HOME Program Director, DHCD

***Implementation Date***

March 1, 2018

**COMMONWEALTH OF MASSACHUSETTS**

Findings and Questioned Costs Relating to Federal Awards

Year ended June 30, 2017

**Department of Housing and Community Development**

**HOME Investment Partnerships Program (14.239)**

**Federal Award Number:** M16-SG250100      **Award Year:** 2016

**U.S. Department of Housing and Urban Development**

**Finding Reference:** 2017-030

**Earmarking**

**Type of Finding:** Significant Deficiency

**Prior Year Finding:** No

**Statistically Valid Sample:** No

**Requirement:**

The HOME program has the following earmarking requirements:

- a. Each participating jurisdiction must invest HOME funds made available during a fiscal year so that, with respect to tenant-based rental assistance and rental units not less than 90 percent of (1) the families receiving assistance are families whose annual income do not exceed 60 percent of the median family income for the area, as determined and made available by HUD, with adjustments for smaller and larger families at the time of occupancy or at the time funds are invested, whichever is later, or (2) the dwelling units assisted with such funds are occupied by families having such incomes (24 CFR section 92.216).
- b. Each participating jurisdiction must invest HOME funds made available during a fiscal year so that with respect to homeownership assistance, 100 percent of these funds are invested in dwelling units that are occupied by households that qualify as low-income families (24 CFR section 92.217).
- c. Each participating jurisdiction must invest at least 15 percent of each year's HOME allocation in projects which are owned, developed, or sponsored by non-profit organizations which qualify as CHDOs. If, during the first 24 months of its participation in the HOME Program, a participating jurisdiction cannot identify a sufficient number of capable CHDOs, then up to 20 percent of the minimum 15 percent set-aside (but not more than \$150,000 during the 24-month period) may be made available to develop the capacity of CHDOs in the jurisdiction (24 CFR section 92.300).
- d. A participating jurisdiction may expend for HOME administrative and planning costs an amount of HOME funds that is not more than ten percent of the fiscal year HOME basic formula allocation plus any funds received in accordance with 24 CFR section 92.102(b) to meet or exceed threshold requirements that fiscal year. A participating jurisdiction may also use up to ten percent of any program income, as defined in 24 CFR section 92.2, calculated at the time of deposit in its local HOME account, for administrative and planning costs (24 CFR section 92.207).

Further, in accordance with 2 CFR 200.303(a), Non-Federal entities must establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with the guidance in "Standards for Internal

**COMMONWEALTH OF MASSACHUSETTS**

Findings and Questioned Costs Relating to Federal Awards

Year ended June 30, 2017

Control in the Federal Government” issued by the Comptroller General of the United States or the “Internal Control Integrated Framework”, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

***Finding:***

The Department of Housing and Community Development (DHCD) enters the earmarking requirements into the Integrated Disbursement and Information System (IDIS), a HUD nationwide database. Once the funded activities are entered into IDIS, DHCD can monitor the caps using the PR35 report.

During our testwork, we noted there is no evidence of the review of the PR35 report.

During our testwork, we noted no noncompliance with the HOME earmarking requirements.

***Recommendation***

We recommend that DHCD document its review of the PR35 – Grants, Subfund and Subgrant Report. Such documentation should also include evidence of any supervisory review.

***Questioned Costs***

None

***Views of Responsible Officials and Corrective Actions***

While the HUD IDIS PR35 Reports are being monitored to verify compliance with earmarking requirements, DHCD agrees that the reviews have not been consistently documented. Going forward, copies of the PR35 Reports reviewed at least quarterly will be initialed by the program supervisor and saved in the program files, as evidence of the review and continued compliance with the earmarking requirements.

***Responsible Official(s)***

Rebecca Frawley Wachtel, Tax Credits and HOME Program Director, DHCD

***Implementation Date***

March 31, 2018

**COMMONWEALTH OF MASSACHUSETTS**

Findings and Questioned Costs Relating to Federal Awards

Year ended June 30, 2017

**Department of Housing and Community Development**

**HOME Investment Partnerships Program (14.239)**

**Federal Award Number:** M16-SG250100      **Award Year:** 2016

**U.S. Department of Housing and Urban Development**

**Finding Reference:** 2017-031

**Period of Performance**

**Type of Finding:** Significant Deficiency

**Prior Year Finding:** No

**Statistically Valid Sample:** No

**Requirements**

If a participating jurisdiction does not complete a project within 4 years of the date of commitment of HOME funds, the project is considered to be terminated and the participating jurisdiction must repay all funds invested in the project (24 CFR section 92.205(e)(2)).

Further, in accordance with 2 CFR 200.303(a), Non-Federal entities must establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with the guidance in "Standards for Internal Control in the Federal Government" issued by the Comptroller General of the United States or the "Internal Control Integrated Framework", issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

**Finding**

The Department of Housing and Community Development (DHCD) identified the key controls over period of performance:

- The Associate Director of Housing Development and HOME Director have closing meetings every two weeks with quasi-public agencies to ensure that projects which are using HOME funds are completed within time.
- The Integrated Disbursement and Information System (IDIS), a HUD nationwide database, also identifies projects that are nearing the required project completion date. On a monthly basis the Associate Director and Director review the projects identified in IDIS.

During our testwork we were unable to verify the above controls were in place as they were not evidenced or documented during the year.

During our testwork, we noted no noncompliance with the projects period of performance expensed during the year.

**COMMONWEALTH OF MASSACHUSETTS**

Findings and Questioned Costs Relating to Federal Awards

Year ended June 30, 2017

***Recommendation***

We recommend that DHCD document its key controls including those noted above. Such documentation should also include evidence of any supervisory review.

***Questioned Costs***

None

***Views of Responsible Officials and Corrective Actions***

DHCD agrees that documentary evidence of the internal controls being performed over the period of performance requirements could be enhanced. For future loan closing status meetings with our staff and the quasi-public agencies, DHCD will maintain a listing of the people attending, to supplement the project spreadsheets already being maintained for each meeting that are updated by the Deputy Associate Director.

Additionally, copies of the HUD IDIS Reports reviewed for projects nearing completion will be initialed by the program supervisor and saved in the program files, as evidence of the review and verification that all projects are in compliance with the period of performance requirements.

***Responsible Official(s)***

Rebecca Frawley Wachtel, Tax Credits and HOME Program Director, DHCD

***Implementation Date***

March 1, 2018

**COMMONWEALTH OF MASSACHUSETTS**

Findings and Questioned Costs Relating to Federal Awards

Year ended June 30, 2017

**Executive Office of Labor and Workforce Development**

**Employment Service Cluster (17.207, 17.801)**

**Federal Award Number:** ES246241355A25; DV300181755525; DV266281555525

**U.S. Department of Labor**

**Finding Reference:** 2017-032

**Allowable Costs**

**Type of Finding:** Significant Deficiency and Noncompliance

**Prior Year Finding:** No

**Statistically Valid Sample:** No

**Requirement**

The standards for documentation of personnel expenses are outlined in 2 CFR 200.430 subsection (i) which requires:

- (1) *Standards for Documentation of Personnel Expenses* (1) Charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must:
- i. Be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated;
  - ii. Be incorporated into the official records of the non-Federal entity;
  - iii. Reasonably reflect the total activity for which the employee is compensated by the non-Federal entity, not exceeding 100% of compensated activities
  - iv. Encompass both federally assisted and all other activities compensated by the non-Federal entity on an integrated basis, but may include the use of subsidiary records as defined in the non-Federal entity's written policy;
  - v. Comply with the established accounting policies and practices of the non-Federal entity

Further, in accordance with 2 CFR 200.303(a), Non-Federal entities must establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with the guidance in "Standards for Internal Control in the Federal Government" issued by the Comptroller General of the United States or the "Internal Control Integrated Framework", issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

**COMMONWEALTH OF MASSACHUSETTS**

Findings and Questioned Costs Relating to Federal Awards

Year ended June 30, 2017

***Finding***

The Executive Office of Labor and Workforce Development (EOLWD) allocates administrative compensation (Administration, Support, and Technology (AS&T)) to Federal and State programs on the basis of relative direct payroll hours charged to that program compared to total direct payroll hours.

This allocation methodology is not supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated, as there is no after-the-fact analysis that the use of direct payroll hours reasonably reflects the total activity for which the employee is compensated.

***Recommendation***

We recommend that EOLWD analyze AS&T time and effort in order to develop a cost allocation methodology that most appropriately reflects effort expended on each program. We further recommend that EOLWD implement internal controls and procedures to ensure compliance with the above referenced federal requirements.

***Questioned Costs***

Not determinable

***Views of Responsible Officials and Corrective Actions***

EOLWD is working with the Office of the State Comptroller and has hired Public Consulting Group (PCG) to assist in designing new procedures for allocating indirect costs to Federal grants. This will incorporate internal controls and procedures to ensure compliance with the federal requirements.

***Responsible Official(s)***

Aaron D'Elia, Chief Financial Officer, EOLWD

***Implementation Date***

January 2019

**COMMONWEALTH OF MASSACHUSETTS**

Findings and Questioned Costs Relating to Federal Awards

Year ended June 30, 2017

**Executive Office of Labor and Workforce Development**

**Employment Service Cluster (17.207, 17.801)**

**Federal Award Number:** ES246241355A25; DV300181755525; DV266281555525

**U.S. Department of Labor**

**Finding Reference:** 2017-033

**Earmarking**

**Type of Finding:** Material Weakness and Noncompliance

**Prior Year Finding:** No

**Statistically Valid Sample:** No

**Requirement**

Ten percent of each State's Wagner-Peyser Act allotment shall be reserved by the State Workforce Agency to provide services and activities authorized by Section 7(b) of the Act (29 USC 49f(b)), which states that:

Ten percent of the sums allotted to each State pursuant to section 49e of this title shall be reserved for use in accordance with this subsection by the Governor of each such State to provide:

- (1) performance incentives for public employment service offices and programs, consistent with performance standards established by the Secretary, taking into account direct or indirect placements (including those resulting from self-directed job search or group job search activities assisted by such offices or programs), wages on entered employment, retention, and other appropriate factors;
  - (2) services for groups with special needs, carried out pursuant to joint agreements between the employment service and the appropriate local workforce investment board and chief elected official or officials or other public agencies or private nonprofit organizations;
- and
- (3) the extra costs of exemplary models for delivering services of the types described in subsection (a) of this section.

Further, in accordance with 2 CFR 200.303(a), Non-Federal entities must establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with the guidance in "Standards for Internal Control in the Federal Government" issued by the Comptroller General of the United States or the "Internal Control Integrated Framework", issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

**COMMONWEALTH OF MASSACHUSETTS**

Findings and Questioned Costs Relating to Federal Awards

Year ended June 30, 2017

***Finding***

During our testwork, we noted that the Executive Office of Labor and Workforce Development (EOLWD) allocates expenditures to the 10% earmarking requirement on a budget, not actual activity. Further, it is unclear if the budgeted expenditures meet the three uses specified in the regulations noted above and if compliance with these specified uses is tracked and monitored throughout the year.

***Recommendation***

We recommend that EOLWD define and document the types of expenditures that meet the 10% earmarking requirements enumerated in Section 7(b) of the Act (29 USC 49f(b)) . Further, we recommend that EOLWD implement internal controls and procedures to track and monitor actual expenditures on a regular basis throughout the year to ensure compliance with earmarking requirements.

***Questioned Costs***

Not determinable

***Views of Responsible Officials and Corrective Actions***

The Department of Career Services (DCS) will review policies and procedures related Federal Earmarking requirements to ensure that funding methodologies are clearly defined and demonstrated. DCS will also work with EOLWD Finance to review and enhance practices of tracking and monitoring of budgeted and actual expenditures.

***Responsible Official(s)***

Alice Sweeney, Director, Department of Career Services, EOLWD

***Implementation Date***

Ongoing

**COMMONWEALTH OF MASSACHUSETTS**

Findings and Questioned Costs Relating to Federal Awards

Year ended June 30, 2017

**Executive Office of Labor and Workforce Development**

**Employment Service Cluster (17.207, 17.801)**

**Federal Award Number:** ES246241355A25; DV300181755525; DV266281555525

**U.S. Department of Labor**

**Finding Reference:** 2017-034

**Eligibility and Subrecipient Monitoring**

**Type of Finding:** Significant Deficiency

**Prior Year Finding:** No

**Statistically Valid Sample:** No

**Requirement**

In accordance with 38 USC 4103A(a), the primary objective of the Disabled Veterans' Outreach Program (DVOP) is to provide career services to meet the employment needs of eligible veterans. In accordance with the statute, agency directives specify the following order of priority in the provision of services: (1) special disabled veterans, defined in 38 USC 4211; (2) other disabled veterans, defined in 38 USC 4211; and (3) other eligible veterans with significant barriers to employment (SBE), as defined in 38 USC 4211, 42 USC 11302(a), WIOA, Section 3(38), as well as Veterans' Program Letter (VPL) 03-14 and Training and Employment Guidance Letter (TEGL) 19-13, including Changes 1 and 2, as well as economically and educationally disadvantaged veterans.

Further, in accordance with 2 CFR 200.303(a), Non-Federal entities must establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with the guidance in "Standards for Internal Control in the Federal Government" issued by the Comptroller General of the United States or the "Internal Control Integrated Framework", issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

According to 2 CFR 200.331(b), a pass-through entity must evaluate each subrecipient's risk of noncompliance with Federal statutes, regulations, and the terms and conditions of the subaward for purposes of determining appropriate subrecipient monitoring.

Additionally, according to 2 CFR 200.331(d), a pass-through entity must monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the subaward; and that subaward performance goals are achieved.

**Finding**

The Department of Workforce Development (DWD), a department within the Executive Office of Labor and Workforce Development (EOLWD), staffs DVOP specialists within One-Stop Career Centers operated by third parties. These DWD specialists determine eligibility for those receiving services under the DVOP program.

**COMMONWEALTH OF MASSACHUSETTS**

Findings and Questioned Costs Relating to Federal Awards

Year ended June 30, 2017

During fiscal 2017, DWD suspended its past practice of monitoring the eligibility determinations of DVOP specialists.

Furthermore, while fiscal reviews of subrecipients were performed during this time, DWD suspended its onsite monitoring of subrecipient programmatic compliance at the One-Stop Career Centers. Additionally, there was no risk assessment performed during fiscal 2017 on its subrecipients.

***Recommendation***

We recommend that EOLWD reinstate its onsite monitoring of DVOP specialists and also reinstate its full program of onsite monitoring of its subrecipients.

We recommend that EOLWD perform an annual evaluation of each subrecipient's risk of noncompliance with Federal statutes, regulations, and the terms and conditions of the subaward for purposes of determining the appropriate subrecipient monitoring described in 2 CFR 200.331, which may include consideration of such factors as:

- (1) The subrecipient's prior experience with the same or similar subawards;
- (2) The results of previous audits, including whether or not the subrecipient receives a Single Audit, and the extent to which the same or similar subaward has been audited as a major program;
- (3) Whether the subrecipient has new personnel or new or substantially changed systems; and
- (4) The extent and results of Federal awarding agency monitoring.

***Questioned Costs***

None

***Views of Responsible Officials and Corrective Actions***

In fiscal year 2016 and fiscal year 2017, the Department of Career Services (DCS) refocused its programmatic reviews to align with the Workforce Innovation and Opportunity Act (WIOA) implementation readiness requirements.

DCS will review and make necessary enhancements to policies and practices related to a documented annual evaluation of subrecipients' risk for non-compliance with Federal statutes, regulations, terms and conditions. In fiscal year 2018, DCS Field Management Oversight (FMO) has begun its onsite fiscal and programmatic monitoring of the 16 Workforce Development Areas and the One-Stop Career Centers across all WIOA related programming, including DVOP and Wagner-Peyser Act funded Employment Services activities.

***Responsible Official(s)***

Alice Sweeney, Director, Department of Career Services, EOLWD

***Implementation Date***

Ongoing

**COMMONWEALTH OF MASSACHUSETTS**

Findings and Questioned Costs Relating to Federal Awards

Year ended June 30, 2017

**Executive Office of Labor and Workforce Development**

**Employment Service Cluster (17.207, 17.801)**

**Federal Award Number:** ES246241355A25; DV300181755525; DV266281555525

**U.S. Department of Labor**

**Finding Reference:** 2017-035

**Reporting**

**Type of Finding:** Significant Deficiency and Noncompliance

**Prior Year Finding:** No

**Statistically Valid Sample:** No

***Requirement***

On a quarterly basis, the Executive Office of Labor and Workforce Development (EOLWD) is required to report Federal cash receipts and related cash disbursements on Form 9130.

Further, in accordance with 2 CFR 200.303(a), Non-Federal entities must establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with the guidance in "Standards for Internal Control in the Federal Government" issued by the Comptroller General of the United States or the "Internal Control Integrated Framework", issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

***Finding***

During our testing, we noted that for 3 out of 5 samples selected, the Form 9130 report was not supported by detailed accounting records for the specified time frame. For 2 out of the 5 samples selected, the reports were submitted past the 30 day required window. For 2 out of 5 Form 9130 reports, we noted that the reports were prepared, reviewed, and certified by the same person and the reports were submitted on a consolidated basis, instead of by subgrant. For 2 out of 2 samples, selected, the VETS-402A report was not supported by detailed accounting records for the specified time frame and the report was prepared, reviewed, and submitted by the same person.

***Recommendation***

We recommend that EOLWD address challenges preventing the accurate and timely submission of the Form 9130 report and VETS-402A reports.

We recommend that the Form 9130 and VETS-402A reports be reviewed by an individual other than the preparer, who has the knowledge and authority to do so effectively. Additionally, we recommend that this review be documented.

**COMMONWEALTH OF MASSACHUSETTS**

Findings and Questioned Costs Relating to Federal Awards

Year ended June 30, 2017

***Questioned Costs***

Not determinable

***Views of Responsible Officials and Corrective Actions***

EOLWD has hired Public Consulting Group (PCG) to assist in standardizing and improving EOLWD's federal grants management policies and procedures, which will include enhancements to the 9130 federal reporting process.

Additionally, the Department of Career Services will work with EOLWD Finance to revise methodologies related to preparing, reviewing and submitting VETS-042 reporting.

***Responsible Official(s)***

Aaron D'Elia, Chief Financial Officer, EOLWD

Alice Sweeney, Director, Department of Career Services, EOLWD

***Implementation Date***

January 2019

**COMMONWEALTH OF MASSACHUSETTS**

Findings and Questioned Costs Relating to Federal Awards

Year ended June 30, 2017

**Massachusetts Department of Transportation**

**High-Speed Rail Corridors and Intercity Passenger Rail Service-Capital Assistance Grants (20.319)**

**Federal Award Number:** F-HSR-0040-11-01-00 **Award Year:** 2016

**U.S. Department of Transportation**

**Finding Reference:** 2017-036

**Subrecipient Monitoring**

**Type of Finding:** Significant Deficiency and Noncompliance

**Prior Year Finding:** Yes, 2016-033

**Statistically Valid Sample:** No

**Requirement**

2 CFR section 200.331(a) indicates that all pass-through entities must ensure that every subaward is clearly identified to the subrecipient as a subaward and includes the following information at the time of the subaward and if any of these data elements change, include the changes in subsequent subaward modification:

(1) Federal Award Identification.

- i. Subrecipient name (which must match the name associated with its unique entity identifier);
- ii. Subrecipient's unique entity identifier;
- iii. Federal Award Identification Number (FAIN);
- iv. Federal award date (see §200.39 Federal award date) of award to the recipient by the Federal agency
- v. Subaward Period of Performance Start and End Date;
- vi. Amount of Federal Funds Obligated by this action by the pass through entity to the subrecipient;
- vii. Total Amount of Federal Funds Obligated by this action by the pass through entity to the subrecipient;
- viii. Total Amount of the Federal Award committed to the subrecipient by the pass-through entity;
- ix. Federal award project description, as required to be responsive to the Federal Funding Accountability and Transparency Act (FFATA);
- x. Name of Federal awarding agency, pass-through entity, and contact information for awarding official;
- xi. CFDA Number and Name; the pass-through entity must identify the dollar amount made available under each Federal award and the CFDA number at time of disbursement;
- xii. Identification of whether the award is R&D; and

## COMMONWEALTH OF MASSACHUSETTS

### Findings and Questioned Costs Relating to Federal Awards

Year ended June 30, 2017

- xiii. Indirect cost rate for the Federal award (including if the de minimis rate is charged per §200.414 Indirect (F&A) costs).
- (2) All requirements imposed by the pass-through entity on the subrecipient so that the Federal award is used in accordance with Federal statutes, regulations and the terms and conditions of the Federal award;
- (3) Any additional requirements that the pass-through entity imposes on the subrecipient in order for the pass-through entity to meet its own responsibility to the Federal awarding agency including identification of any required financial and performance reports;
- (4) An approved federally recognized indirect cost rate negotiated between the subrecipient and the Federal government or, if no such rate exists, either a rate negotiated between the pass-through entity and the subrecipient (in compliance with this part), or a de minimis indirect cost rate as defined in § 200.414 Indirect (F&A) costs, paragraph (f);
- (5) A requirement that the subrecipient permit the pass-through entity and auditors to have access to the subrecipient's records and financial statements as necessary for the passthrough entity to meet the requirements of this part; and
- (6) Appropriate terms and conditions concerning closeout of the subaward.

Further, 2 CFR section 200.331(b) requires pass-through entities to evaluate each subrecipient's risk of noncompliance with Federal statutes, regulations, and the terms and conditions of the subaward for purposes of determining the appropriate subrecipient monitoring.

Further, in accordance with 2 CFR 200.303(a), Non-Federal entities must establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with the guidance in "Standards for Internal Control in the Federal Government" issued by the Comptroller General of the United States or the "Internal Control Integrated Framework", issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

#### ***Finding***

For the subrecipient selected (MBTA) for testing it was noted that award letters between MassDOT and the subrecipient were executed covering the period July 1, 2011 through June 30, 2018; however, these documents did not contain all of the required elements of 2 CFR section 200.331(a) listed above. The agreements contained only the subrecipient's name, subaward period of performance start and end dates, total amount of federal funds obligated to the subrecipient, the pass-through entity name and contact information for the awarding official, and the federal CFDA number for the award.

It was also noted that the MassDOT has standard subrecipient monitoring policies in place, which include the performance of periodic monitoring site visits and desk reviews of financial and operational reports, the frequency of which may be altered depending on the subrecipient. For the MBTA subrecipient selected for testing, we noted subrecipient monitoring was conducted in accordance with MassDOT's policies; however, the

**COMMONWEALTH OF MASSACHUSETTS**

Findings and Questioned Costs Relating to Federal Awards

Year ended June 30, 2017

MassDOT did not document its assessment of risk for each subrecipient used to determine the nature and extent of such subrecipient monitoring procedures.

The observation related to subrecipient award letters appears to be due to the format of such letters not being updated to reflect the requirements of the 2 CFR section 200.331. The observation related to subrecipient monitoring appears to be due to MassDOT's current policies not requiring formal documentation of the assessment of risk among its subrecipients used to develop the nature and extent of monitoring procedures.

MassDOT is not in compliance with the requirements related to subrecipient notification and documentation of subrecipient risk assessments in regards to its High Speed Rail subrecipients.

***Recommendation***

We recommend that MassDOT review and revise the award letters and related incorporated documents issued to its subrecipients to include all information described in 2 CFR section 200.331(a).

We also recommend that MassDOT update its subrecipient monitoring policies to require documentation of the assessment of risk associated with each subrecipient used to support the provision of the award to the subrecipient and to develop the nature and extent of monitoring procedures to be performed over the subrecipient in accordance with 2 CFR section 200.331(b).

***Questioned Costs***

None

***Views of Responsible Officials and Corrective Actions***

MassDOT completed the implementation of the above recommendation in September 2017.

***Responsible Official(s)***

Beth Pellegrini, Director of Revenue and Debt Management, MDOT

***Implementation Date***

September 2017

**COMMONWEALTH OF MASSACHUSETTS**

Findings and Questioned Costs Relating to Federal Awards

Year ended June 30, 2017

**Department of Public Health**

**Immunization Cooperative Agreements (93.268)**

**Federal Award Number:** 5 NH23IP000751-05-00      **Award Year:** 2017

**U.S. Department of Health and Human Services**

**Finding Reference:** 2017-037

**Period of Performance**

**Type of Finding:** Significant Deficiency and Noncompliance

**Prior Year Finding:** No

**Statistically Valid Sample:** No

**Requirement:**

A non-Federal entity may charge to the Federal award only allowable costs incurred during the period of performance and any costs incurred before the Federal awarding agency or pass-through entity made the Federal award that were authorized by the Federal awarding agency (2 CFR 200.309).

Further, in accordance with 2 CFR 200.303(a), Non-Federal entities must establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with the guidance in "Standards for Internal Control in the Federal Government" issued by the Comptroller General of the United States or the "Internal Control Integrated Framework", issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

**Finding:**

The Immunization grant awards have a five year project cycle, however the Centers for Disease Control and Prevention (CDC) provides funds on a budget period basis (known as the period of performance). All funds must be expended for services provided within the budget period. During the audit period there were two periods of performance in effect for the Immunization program:

- January 1, 2016 – March 31, 2017
- April 1, 2017 – June 30, 2018

We selected 29 transactions for testwork, 19 from the period beginning on January 1, 2016 and 10 from the period beginning on April 1, 2017. We noted one transaction for \$244 that was charged to the period beginning on April 1, 2017, was actually for activity incurred prior to April 2017.

Additionally, the key control identified, programmatic staff reviews the invoice for the date of service associated with the transaction and identifies the program code to be used, failed to detect and correct the error.

**COMMONWEALTH OF MASSACHUSETTS**

Findings and Questioned Costs Relating to Federal Awards

Year ended June 30, 2017

***Recommendation***

We recommend the Department of Public Health (DPH) assess the design of its internal controls over the period of performance to ensure that transactions are charged to the appropriate grant.

***Question Costs***

\$244

***Views of Responsible Officials and Corrective Actions***

The Bureau of Infectious Disease and Laboratory Sciences (the Bureau), will create an internal control procedure to reconcile "period of performance" to ensure that transactions are charged to the appropriate grant.

The Bureau evaluated the expense based on the scope and service date. The questioned cost charge of \$244 has been removed from the grant award and expensed to an appropriate account.

***Responsible Official(s)***

Cheryl Bernard-Dort, Director of Administration and Finance, Bureau of Infectious Disease and Laboratory Sciences.

Ceci Dunn, Director of Operations, Bureau of Infectious Disease and Laboratory Sciences.

***Implementation Date***

April 1, 2018

**COMMONWEALTH OF MASSACHUSETTS**

Findings and Questioned Costs Relating to Federal Awards

Year ended June 30, 2017

**Department of Public Health**

**Immunization Cooperative Agreements (93.268)**

**Federal Award Number:** 5 NH23IP000751-05-00      **Award Year:** 2017

**U.S. Department of Health and Human Services**

**Finding Reference:** 2017-038

**Special Tests and Provisions - Control, Accountability, and Safeguarding of Vaccine and Record of Immunization**

**Type of Finding:** Material Weakness and Noncompliance

**Prior Year Finding:** No

**Statistically Valid Sample:** No

***Requirement***

The Immunization Cooperative Agreements program consists of two parts: discretionary Section 317 immunization funding and Vaccine for Children (VFC) financed with mandatory Medicaid funding.

Effective control and accountability must be maintained for all vaccines under the VFC program. Vaccines must be adequately safeguarded and used solely for authorized purposes (42 USC 1396s).

A record of vaccine administered shall be made in each person's permanent medical record (or in a permanent office log or file to which a legal representative shall have access upon request) (42 USC 300aa-25), which includes:

- Date of administration of the vaccine;
- Vaccine manufacturer and lot number of the vaccine; and
- Name and address and, if appropriate, the title of the health care provider administering the vaccine.

Further, in accordance with 2 CFR 200.303(a), Non-Federal entities must establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with the guidance in "Standards for Internal Control in the Federal Government" issued by the Comptroller General of the United States or the "Internal Control Integrated Framework", issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

***Finding***

The Department of Public Health's (DPH) providers are responsible for administering and tracking vaccines. DPH performs site visits to ensure the providers are in compliance with the federal requirements. During our testwork we noted there was no evidence or documentation for the following key controls identified by DPH:

## COMMONWEALTH OF MASSACHUSETTS

### Findings and Questioned Costs Relating to Federal Awards

Year ended June 30, 2017

- At the beginning of each assessment year the immunization staff reviews a complete list of all provider sites in the Mass Immunization Information System (MIIS) to determine which providers require a site visit in the upcoming year. Throughout the year, the immunization staff will cross check between MIIS and CDC's online VFC Site Visit system to ensure that no providers have been improperly excluded from the planned list of site visits.
- Upon the conclusion of the site visit, the immunization staff member uploads the Site Visit Questionnaire (SVQ) online, and it is also retained in the provider's files. On a weekly basis, the Director of Disease Response Systems reviews the number of site visits conducted, tracks over-due site visits, reviews site scores, and identifies any outliers.
- One of the Assessment Epidemiologists routinely review the completed SVQ for each site.

Additionally, one of the 65 selections was not in compliance with the minimum amount of records required to be reviewed. The minimum number of records required to be reviewed is 10, there was only one file reviewed for compliance during the site visit.

#### ***Recommendation***

We recommend that DPH document its key controls including those noted above. Such documentation should also include evidence of any supervisory review as well as evidence that all required site visits have been planned and performed.

#### ***Question Costs***

Not determinable

#### ***Views of Responsible Officials and Corrective Actions***

Following the recommendation, the Bureau of Infectious Disease and Laboratory Sciences (Bureau) has developed a comprehensive spreadsheet to track the key controls noted above.

The minimum number of records required to be reviewed is 10. The Bureau current protocol has language to address situations where a site has vaccinated fewer than 10 children. The protocol has been discussed with the site visit reviewers and reviewed with all staff conducting site visits to ensure compliance with our protocol.

#### ***Responsible Official(s)***

Kathleen Shattuck, Associate Director, Immunization Program (Acting Assessment Coordinator)  
Kathryn Ahnger-Pier, Lead Assessment Epidemiologist  
Sarah Sweet, Assessment Epidemiologist

#### ***Implementation Date***

February 26, 2018

## COMMONWEALTH OF MASSACHUSETTS

Findings and Questioned Costs Relating to Federal Awards

Year ended June 30, 2017

### **Executive Office of Health and Human Services (MassHealth)**

#### **Medicaid Cluster (93.775, 93.777, 93.778)**

**Federal Award Number:** XIX-MAP17, XIX-ADM-17 **Award Year:** 2017

#### **U.S. Department of Health and Human Services**

**Finding Reference:** 2017-039

#### **Level of Effort**

**Type of Finding:** Significant Deficiency and Noncompliance

**Prior year finding:** No

**Statistically Valid Sample:** No

#### ***Requirement***

Waiver authorities in section 1915 of the Social Security Act are vehicles States can use to test new or existing ways to deliver and pay for health care services in the Medicaid Program. Per the Center for Medicare and Medicaid Services (CMS) Medicaid.gov website, Massachusetts currently has ten 1915 waivers. Annual reporting is required for each waiver in the form of a CMS 372 report. Generally the reports are due within 18 months of the period-end noted in the approved waiver document which can be fiscal year-end June or calendar year-end December. Also, per 200 CFR 200.303, MassHealth must establish and maintain effective internal controls over Federal awards that provides reasonable assurance that they are managing Federal awards in compliance with Federal statues, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

#### ***Finding***

Per correspondence with CMS and discussion with MassHealth, reporting on the status of seven of the ten waivers are currently delinquent. CMS is aware that these reports were due from March 31, 2016 to June 30, 2017 and that MassHealth is working on filing the reports to demonstrate compliance with the respective wavier requirements. As a result, the audit was unable to validate the respective waiver information back to MassHealth books and records.

#### ***Recommendation***

MassHealth should continue to prepare the required CMS 372 reports and file with CMS to demonstrate their compliance with the waiver requirements. These reports are not only required to be filed with a specific period of time annually, they are also required in order to obtain waiver renewals.

#### ***Questioned Costs***

Not determinable.

#### ***Views of Responsible Officials and Corrective Actions***

All of the reports due from March 31, 2016 to June 30, 2017 have been submitted to CMS.

#### ***Responsible Official(s)***

Amy Bernstein, Director, Community Based Waivers, MassHealth  
Laxmi Tierney, Director, Federal Finance Manager, MassHealth

#### ***Implementation Date***

November 29, 2017

## COMMONWEALTH OF MASSACHUSETTS

Findings and Questioned Costs Relating to Federal Awards

Year ended June 30, 2017

### Executive Office of Health and Human Services (MassHealth)

#### Medicaid Cluster (93.775, 93.777, 93.778)

Federal Award Number: XIX-MAP17, XIX-ADM-17 Award Year: 2017

#### U.S. Department of Health and Human Services

Finding Reference: 2017-040

#### Eligibility

Type of finding: Material Weakness

Prior Year Finding: Yes, 2016-041

Statistically Valid Sample: No

#### Requirement

Certain individuals are deemed categorically eligible for Medicaid based on information received, through an interface, from the Social Security Administration (SSA). In accordance with 42 CFR §435.120, the Supplemental Security Income (SSI) mandatory eligible coverage group for Medicaid covers a person who is aged, blind, or disabled and is receiving SSI or deemed to be receiving SSI. The SSA determines eligibility for SSI. If SSA determines that a person is eligible for SSI, MassHealth accepts SSA's determination as an automatic determination of eligibility for Medicaid. SSA is approximately 34% of the MassHealth non-MAGI eligibility population. SSA recipients are not required to be recertified by MassHealth as all information is interfaced with MassHealth from SSA. In addition, SSA recipients are not included in the MassHealth quality assurance process since the federal government determines eligibility. Also, per 200 CFR 200.303, MassHealth must establish and maintain effective internal controls over Federal awards that provides reasonable assurance that they are managing Federal awards in compliance with Federal statutes, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

#### Finding

MassHealth's process is to receive the SSA interface into a SDX data warehouse then the information is interfaced to MA21 and a second interface to MMIS. During the second interface, a daily exception report is produced of the various eligibility exceptions noted. Examples of these exceptions are eligibility begin/end dates that start/continue past a death date or an eligibility end date when there was no start date. There is also a weekly summary report of the exception codes and the volume of transactions that exception out during the interface. MassHealth is currently not working the exception reports to validate/correct the eligibility anomalies noted. Unresolved exceptions increases the risk of individuals receiving benefits who are no longer eligible for either fee for service or managed care services.

Audit procedures also included a review of selected case files. A total of 65 Medicaid files were selected for test work of which 32 were deemed eligible due to information provided by SSA. The SSA designation was verified for each individual as noted within MMIS system and per the SDX data warehouse. No compliance exceptions were noted for these selected items.

## COMMONWEALTH OF MASSACHUSETTS

### Findings and Questioned Costs Relating to Federal Awards

Year ended June 30, 2017

#### **Recommendation**

MassHealth has assigned a business owner within the Eligibility Quality Assurance Unit (EQUA) who is currently establishing a process with related controls for review of the SSA exception reports. MassHealth should finalize and execute the new procedures and ensure sufficient documentation is retained to support the executed procedures.

#### **Questioned Costs**

None

#### **Views of Responsible Officials and Corrective Actions**

MassHealth Operations currently receives daily reports from EHS-DL-EOHHS Operations Team (EHS). The report is titled: *MMIS Error Business Responses SSA Agency* (aka exceptions report). These are the exception reports mentioned in the Finding section of this document. MassHealth Operations started receiving these exceptions reports on October 21, 2016.

In previous conversations with KPMG, MassHealth was to assign a business owner within the Eligibility Quality Assurance Unit (EQUA). MassHealth Operations was also responsible for establishing a process with related controls for review of the SSA exception reports. MassHealth Operations would finalize and execute the new procedures and ensure sufficient documentation is retained to support the executed procedures.

Due to MassHealth Operational business needs, the Eligibility Quality Assurance staff was not available to review the reports and correct any discrepancies.

However, going forward, MassHealth Operations will review and correct any and all discrepancies on the exceptions reports. MassHealth will assign a BERS C to review, correct and maintain a data base to house said reports. MassHealth will also assign a reviewer to sign off on all corrected reported discrepancies.

MassHealth Operations' process going forward for the MMIS Error Business Responses SSA Agency (aka exceptions report will be as follows):

#### **Exceptions Report Process**

- a. Receive daily MMIS Error Business Responses SSA Agency Reports (exceptions report) from EHS-DL-EOHHS Operations Team (EHS).
- b. Assign said reports to BERS C.
- c. BERS C will research, investigate and provide feedback as to what action should be taken to correct the case.
- d. BERS C will forward the corrected exceptions report to the reviewer – Director, Manager or Supervisor BERS D.
- e. Reviewer will select a random sample for a second review and sign-off.
- f. Reports will be housed in a Shared Drive for easy access.

#### **Responsible Official(s)**

Rosana Senise, IMEC Director MassHealth Operations, MassHealth  
Donna M Saunders IMEC Manager MassHealth Operations, MassHealth

#### **Implementation Date**

October 1, 2017

## COMMONWEALTH OF MASSACHUSETTS

Findings and Questioned Costs Relating to Federal Awards

Year ended June 30, 2017

### Executive Office of Health and Human Services (MassHealth)

#### Medicaid Cluster (93.775, 93.777, 93.778)

Federal Award Number: XIX-MAP17, XIX-ADM-17 Award Year: 2017

#### U.S. Department of Health and Human Services

Finding Reference: 2017-041

#### Special Tests and Provisions – ADP Risk Analysis and System Security Review

Type of Finding: Significant Deficiency and Noncompliance

Prior Year Finding: Yes, 2016-042

Statistically Valid Sample: No

#### **Requirement**

State agencies must establish and maintain a program for conducting periodic risk analyses to ensure that appropriate, cost effective safeguards are incorporated into new and existing systems. State agencies must perform risk analyses whenever significant system changes occur. State agencies shall review the ADP system security installations involved in the administration of HHS programs on a biennial basis. At a minimum, the reviews shall include an evaluation of physical and data security operating procedures, and personnel practices. The State agency shall maintain reports on its biennial ADP system security reviews, together with pertinent supporting documentation, for HHS on-site reviews (45 CFR section 95.621). Also, per 2 CFR 200.303, MassHealth must establish and maintain effective internal controls over Federal awards that provides reasonable assurance that they are managing Federal awards in compliance with Federal statutes, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

#### **Finding**

MassHealth conducts a formal annual review of the system security for all applications, including the ADP Systems under the purview of 45 CFR § 95.621, within the MassHealth environment. This review is conducted as part of the annual mandated MassIT Executive Order 504 Self-Audit (Self-Audit) under the supervision of the Executive Office of Health and Human Services (EOHHS) Security Office, Office of the General Counsel, and Compliance Unit. The Self-Audit is a two part form with the first section focused on Information Identification and Classification and the second section focused on Threat Assessments. Historically, the information was compiled into an annual report submitted to leadership for review and assessment. The annual report for MassHealth was decommissioned in March 2017 as the ADP system security review is redesigned for the June 2019 biennial requirement. For fiscal year 2017, a comparison of the information collected was performed against prior year responses for any significant changes and/or recommendations to the application managers. In addition, EOHHS Compliance Group did review SOC reports for various third party providers that assist MassHealth in administering the Medicaid program.

MassHealth is currently redesigning the annual review to address the ADP risk analysis and system security review requirements including a linkage of the information collected above to ensure that appropriate, cost effective safeguards are incorporated into new and existing systems. Part of the redesign will also include a more formalized incorporation of the SOC reports into the assessment process.

**COMMONWEALTH OF MASSACHUSETTS**

Findings and Questioned Costs Relating to Federal Awards

Year ended June 30, 2017

***Recommendation***

MassHealth should complete the redesign of their annual review to address the ADP risk analysis and system security review requirements, including third party providers.

***Questioned Costs***

None

***Views of Responsible Officials and Corrective Actions***

EOHHS agrees with the assessment provided and plans to implement the recommendation outlined herein as it redesigns the process to be used for its ADP risk analysis. EOHHS plans to fully complete a redesign of its ADP risk analysis process by June 30, 2018. In the event EOHHS is unable to fully implement the redesigned process by that time, it will supplement its efforts by updating the Self-Audit it performed last year to ensure no degradation of currently baselined controls.

***Responsible Official(s)***

Aaron Weismann, Chief Information Security Officer, EOHHS

***Implementation Date***

June 30, 2018

## COMMONWEALTH OF MASSACHUSETTS

Findings and Questioned Costs Relating to Federal Awards

Year ended June 30, 2017

### Executive Office of Health and Human Services (MassHealth)

#### Medicaid Cluster (93.775, 93.777, 93.778)

Federal Award Number: XIX-MAP17 and XIX-ADM-17 Award Year: 2017

#### U.S. Department of Health and Human Services

Finding Reference: 2017-042

#### Allowable Costs/Cost Principles, Cash Management, Eligibility, Matching/Level of Effort/Earmarking, and Reporting

Type of Finding: Significant Deficiency

Prior Year Finding: Yes, 2016-043

Statistically Valid Sample: No

#### Requirement

MassHealth's utilizes MA21 primarily for non-magi eligibility information and MMIS for processing respective claims. Also, per 2 CFR 200.303, MassHealth must establish and maintain effective internal controls over Federal awards that provides reasonable assurance that they are managing Federal awards in compliance with Federal statues, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

#### Finding

The general control environments for MA21 was determined to not be operating as designed with regard to various access and change management considerations. In addition, access for MMIS was determined to not be operating as designed to enforce access in alignment with job responsibilities. (See 2017-007 to 2017-012 for related findings.) MassHealth utilizes these two systems to capture a variety of data that is used to determine allowable costs and activities, amounts to be drawn, eligibility, applicable FMAP percentages, and information for the respective SF425 and CM64 reports.

Without an effective general control environment, an external auditor is unable to assess whether the related application level controls (e.g. automated controls) such as edit checks, interfaces, report queries, etc., are operating effectively. Without properly controlled access and change management, the risk is an unauthorized user can alter the application level controls thereby affecting the completeness and accuracy of the resulting output. More specifically some of these edits checks include:

- (1) Various demographic and financial edit validations to assist with eligibility determinations.
- (2) Redetermination trigger dates for eligibility.
- (3) Access to the acute care and long term rate payment tables.
- (4) Report queries utilized for standard reports and utilization processes.

Although we were not able to rely on the general controls, we were able to identify and test certain higher level manual controls involving the reconciliation of the system generated information to summarized information utilized to manage the program. Ultimately, we performed more extensive compliance audit procedures including the review of various reconciliations involving the above queries and reports along with the testing of various manual eligibility determinations and allowable cost transactions. No compliance exceptions were noted for these selected items.

## COMMONWEALTH OF MASSACHUSETTS

Findings and Questioned Costs Relating to Federal Awards

Year ended June 30, 2017

### ***Recommendation***

MassHealth should develop an action plan with date specific milestones to address the general control information technology considerations (as enumerated in findings 2017-007 to 2017-012) as this would allow them to leverage their significant investment in technology as a reliable platform for executing their internal control requirements under the State Plan as well as the Code of Federal Regulations.

### ***Questioned Costs***

None

### ***Views of Responsible Officials and Corrective Actions***

Requests for MA21 and MMIS access require approval by the authorized hiring manager and are submitted using the Security Request Form through the EOHHS Customer Service Center for audit and tracking purposes. This process aligns with the MassHealth Security Operations procedures. MassHealth Security Operations continues to monitor and enhance our access process to strengthen controls.

To further our efforts to mitigate risk and improve controls, MassHealth Security Operations will conduct a biannual review of active application users to determine if their access is still appropriate to perform their job responsibilities. If responses indicate any inappropriate application access, the inappropriate access will be deactivated immediately. Access modifications identified during the review will be assessed, validated and processed. A post-review will be conducted to confirm the changes.

Biannual reviews will be conducted during the December and June timeframes. A biannual summary report will be documented and stored for audit purposes; along with supporting documentation.

In addition, the EOHHS Security Office is implementing a regular assessment program of Agency information systems, business processes, and facilities to ensure an effective general control environment across all of EOHHS. The Security Office commenced those assessments in October 2017 (beginning with MA21 and two other systems) and plans to completely formalize the program in mid-to-late 2018.

### ***Responsible Official(s)***

Aaron Weismann, Chief Security Officer, EOHHS

### ***Implementation Date***

December 2017

## COMMONWEALTH OF MASSACHUSETTS

Findings and Questioned Costs Relating to Federal Awards

Year ended June 30, 2017

### **Executive Office of Health and Human Services (MassHealth)**

#### **Medicaid Cluster (93.775, 93.777, 93.778)**

**Federal Award Number:** XIX-MAP17, XIX-ADM-17 **Award Year:** 2017

#### **U.S. Department of Health and Human Services**

**Finding Reference:** 2017-043

#### **Eligibility, Special Tests and Provisions – Utilization Control and Program Integrity, and Special Tests and Provisions – Inpatient Hospital and Long-Term Care Facility Audits**

**Type of Finding:** Significant Deficiency

**Prior Year Finding:** Yes, 2016-044

**Statistically Valid Sample:** No

#### ***Requirement***

The State plan must provide methods and procedures to safeguard against unnecessary utilization of care and services, including long-term care institutions. In addition, the State must have (1) methods or criteria for identifying suspected fraud cases; (2) methods for investigating these cases; and (3) procedures, developed in cooperation with legal authorities, for referring suspected fraud cases to law enforcement officials (42 CFR parts 455, 456, and 1002). Also, the State Medicaid agency must provide for the periodic audits of financial and statistical records of participating providers. The specific audit requirements will be established by the State Plan (42 CFR section 447.253). Also, per 2 CFR 200.303, MassHealth must establish and maintain effective internal controls over Federal awards that provides reasonable assurance they are managing Federal awards in compliance with Federal statutes, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

#### ***Finding***

The MassHealth Medicaid program includes the provision for third party vendors to perform various regulatory functions as required by the Code of Federal Regulations. For example, a substantial portion of the utilization programs are contractually outsourced to either a third party or a MassHealth sister agency such as the University of Massachusetts (hereafter collectively referred to as Third Parties). Inpatient Hospital and Long-Term Care Facility Audits and certain eligibility redeterminations for disability are also outsourced to Third Parties.

Monitoring as defined by Committee of Sponsoring Organization of the Treadway Commission (COSO) includes ongoing evaluations, separate evaluations, or some combinations of the two techniques to ascertain whether the Third Party is performing as expected. Ongoing evaluations, built into business processes at different levels of the entity, provide timely information. Separate evaluations, conducted periodically, will vary in scope and frequency depending on assessment of risks, effectiveness of ongoing evaluations, and other management considerations.

MassHealth does have contracts or Interdepartmental Service Agreements (ISA) with each of the Third Parties that are specific in nature to the procedures to be performed on behalf of MassHealth. In addition, the Third Parties have procedure manuals detailing how their teams execute the procedures either with their employees or through an additional vendor. These manuals also include any oversight/control procedures being performed by the Third Parties and any periodic deliverables that are due to MassHealth. Based on the nature of the ISAs, monitoring could include but should not be limited to (1) approval of sampling plans and/or audit approach; (2) periodic updates on results of the work being performed and potential impact to MassHealth; (3) approval of

## COMMONWEALTH OF MASSACHUSETTS

### Findings and Questioned Costs Relating to Federal Awards

Year ended June 30, 2017

Third Party suggested action items; (4) completion/execution of the sampling plan and/or audit approach; and (5) overall assessment of the quality of work being performed by the Third Party. Quality of work can entail the qualifications of the Third Party personnel, the concurrence with the audit procedures being performed, and/or verification through quality control procedures which could include reperformance. Risks to MassHealth could include (1) sampling plans being noncompliant based on state policy; (2) noncompliant providers; (3) inappropriate communications with provider; (4) noncompliance with approved sampling approach; (5) reviews not conducted by qualified personnel in accordance with contract provisions.

The following are outsourced activities that do not appear to address the associated risks above and/or to be adequately documented by the current MassHealth monitoring processes:

- (1) Performance of noninstitutional provider case utilization reviews is currently not being monitored in any of the areas noted above.
- (2) Acute hospital utilization monitoring process currently does not address the approval of the sampling plan and ensuring that the approved sampling plan was executed.
- (3) Inpatient hospital and long term care facility audits process does not include monitoring for quality of work components. In addition, the monitoring process does not ensure the audit plan was executed as approved.
- (4) The provider compliance unit receives monthly lists from the Third Party noting the current status of referred cases. MassHealth is currently not able to determine that the case status list is complete for all referred cases.
- (5) Non-SSI disability eligibility determinations are performed by Third Parties with no monitoring of the quality of the decisions made.

#### ***Recommendation***

MassHealth's assigned business owner to each outsourced process should establish effective monitoring controls over Third Parties, tailored to the specific subject matter being outsourced. The business owner would be responsible for collecting any necessary data and/or performing oversight functions as part of the monitoring process in order to effectively document the monitoring processes.

#### ***Questioned Costs***

None

#### ***Views of Responsible Officials and Corrective Actions***

- (1) Performance of noninstitutional provider case utilization reviews is currently not being monitored in any of the areas noted above.
  - MassHealth will establish a process that documents approval and sign off of our non-institutional provider case utilization reviews.
- (2) Acute hospital utilization monitoring process currently does not address the approval of the sampling plan and ensuring that the approved sampling plan was executed.
  - MassHealth will establish a process that documents approval and sign off of our utilization monitoring process sampling plan and better documents monitoring of the sampling plan throughout the year.

## COMMONWEALTH OF MASSACHUSETTS

### Findings and Questioned Costs Relating to Federal Awards

Year ended June 30, 2017

- (3) Inpatient hospital and long term care facility audits process does not include monitoring for quality of work components. In addition, the monitoring process does not ensure the audit plan was executed as approved.
- MassHealth will establish a process that documents approval and sign off of our auditing plan and better documents monitoring of the audit plan throughout the year.
- (4) The provider compliance unit receives monthly lists from the Third Party noting the current status of referred cases. MassHealth is currently not able to determine that the case status list is complete for all referred cases.
- MassHealth Program Integrity has established a designated mailbox for PCU activity, which contains requests from PCU, approvals and assignments from MH PI. On a quarterly basis, MassHealth Program Integrity will compile a list from the mailbox, compare it with PCU's quarterly list of cases and perform a reconciliation to ensure that both lists match.
- (5) Non-SSI disability eligibility determinations are performed by Third Parties with no monitoring of the quality of the decisions made.
- In the beginning of Fiscal Year 18 MassHealth Operations met with UMASS to address the recommendations submitted by KPMG to the Executive Office of Health and Human Services regarding the monitoring of the DES ISA.
  - MassHealth and UMASS agreed upon the following to be implemented throughout FY 18:
    - Review the ISA and determine areas that require change and or updating as they apply to MassHealth
    - Develop a plan to monitor the areas of the ISA as they apply to MassHealth
    - Meet quarterly to ensure UMASS is compliant with the requirements of the "Disability Evaluation Services" ISA

#### ***Responsible Official(s)***

Lydia Hatch, Director, Provider Network Program, EOHHS

Susan Harrison, Director, Program Integrity, EOHHS

Rosana Senise, IMEC Director, EOHHS

#### ***Implementation Date***

During fiscal year 2018

## COMMONWEALTH OF MASSACHUSETTS

Findings and Questioned Costs Relating to Federal Awards

Year ended June 30, 2017

### **Executive Office of Health and Human Services (MassHealth)**

#### **Medicaid Cluster (93.775, 93.777, 93.778)**

**Federal Award Number:** XIX-MAP17, XIX-ADM-17 **Award Year:** 2017

#### **U.S. Department of Health and Human Services**

**Finding Reference:** 2017-044

#### **Special Tests and Provisions – Utilization Control and Program Integrity**

**Type of Finding:** Significant Deficiency and Noncompliance

**Prior Year Finding:** Yes, 2016-045

**Statistically Valid Sample:** No

#### ***Requirement***

The State plan must provide methods and procedures to safeguard against unnecessary utilization of care and services, including long-term care institutions. In addition, the State must have (1) methods or criteria for identifying suspected fraud cases; (2) methods for investigating these cases; and (3) procedures, developed in cooperation with legal authorities, for referring suspected fraud cases to law enforcement officials (42 CFR parts 455, 456, and 1002). Also, per 2 CFR 200.303, MassHealth must establish and maintain effective internal controls over Federal awards that provides reasonable assurance that they are managing Federal awards in compliance with Federal statutes, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

#### ***Finding***

The Executive Office of Health and Human Services oversees the activities of MassHealth, the Department of Public Health (DPH) and the Department of Mental Health (DMH). DPH operates a system of four multi-specialty hospitals and DMH operates a system of five mental health facilities, hereafter collectively referred to as state-owned providers.

The DPH facilities provide acute and chronic hospital medical care to individuals for whom community facilities are not available or access to health care is restricted. The DMH facilities provide community based care and in/out patient care for qualified individuals.

These state-owned providers are included in the MassHealth provider population for receiving Medicaid funding for allowable services rendered. During fiscal year 2017, the hospitals received approximately \$98.7 million and the mental health facilities received approximately \$28.6 million in Medicaid payments.

MassHealth has established policies and procedures for actively monitoring its nonstate providers in accordance with the utilization standards noted above. However, MassHealth currently does not subject its state-owned providers to the same utilization controls as its nonstate providers.

While the state-owned providers do have their own processes to assure the delivery of safe and high quality care, those processes are not necessarily designed to ensure compliance with the utilization standards noted above.

#### ***Recommendation***

MassHealth has determined the state-owned providers should be subject to a separate Medicaid utilization process and is currently assessing the existing procedures at the nine facilities. MassHealth should complete

**COMMONWEALTH OF MASSACHUSETTS**

Findings and Questioned Costs Relating to Federal Awards

Year ended June 30, 2017

their assessment and then formalize the utilization process for these nine facilities. Once established, MassHealth should then determine how to monitor on a go-forward basis to ensure the process is executed and/or if the process needs to be updated.

***Questioned Costs***

Not determinable.

***Views of Responsible Officials and Corrective Actions***

OCA has developed a document and has clarified the MassHealth regulations and process around Utilization Standards and Control for state-owned providers. The program is being designed to leverage and be consistent with programs employed by the Department of Public Health (DPH) and the Department of Mental Health (DMH). The MassHealth program was fully implemented in late 2017. The state-owned providers will then be re-audited in about a six-month period.

***Responsible Official(s)***

Susan Harrison, Director of Program Integrity, EOHHS

***Implementation Date***

December 31, 2017

**COMMONWEALTH OF MASSACHUSETTS**

Findings and Questioned Costs Relating to Federal Awards

Year ended June 30, 2017

**Executive Office of Health and Human Services (MassHealth)**

**Medicaid Cluster (93.775, 93.777, 93.778)**

**Federal Award Number:** XIX-MAP17, XIX-ADM-17 **Award Year:** 2017

**U.S. Department of Health and Human Services**

**Finding Reference:** 2017-045

**Special Tests and Provisions – Utilization Control and Program Integrity**

**Type of Finding:** Significant Deficiency

**Prior Year Finding:** Yes, 2016-047

**Statistically Valid Sample:** No

***Requirement***

The State plan must provide methods and procedures to safeguard against unnecessary utilization of care and services, including long-term care institutions. In addition, the State must have (1) methods or criteria for identifying suspected fraud cases; (2) methods for investigating these cases; and (3) procedures, developed in cooperation with legal authorities, for referring suspected fraud cases to law enforcement officials (42 CFR parts 455, 456, and 1002). Also, per 2 CFR 200.303, MassHealth must establish and maintain effective internal controls over Federal awards that provides reasonable assurance that they are managing Federal awards in compliance with Federal statues, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

***Finding***

The Office of Long Term Services and Support Division of MassHealth (OLTSS) is responsible for performing case mix audits of nursing facilities as part of MassHealth’s utilization process. OLTSS policy is to annually review each of the approximately 400 nursing facilities serving Medicaid eligible providers.

From July to November 2016, a nurse is assigned the responsibility of performing the case mix audit. Each nurse maintains a spreadsheet evidencing the results of each case mix audit. The contents of the spreadsheets are not consistent from nurse to nurse and that the spreadsheets are not consistently reviewed. Additionally, there does not appear to be a population control in place to ensure that each nursing facility is subjected to an annual review. During November 2016, OLTSS designed a new process to address the consistency of documentation, review of work performed, and documentation that all reviews were completed. KPMG audited the new control process in place from December 2016 to June 2017 and found the process to be functioning as designed.

***Recommendation***

As noted above, the new process was in affect for a portion of the year. Effective July 1, 2017, OLTSS outsourced the nursing facility utilization process to a third party. MassHealth should finalize and execute the new process to monitor the third party during fiscal year 2018.

***Questioned Costs***

None

**COMMONWEALTH OF MASSACHUSETTS**

Findings and Questioned Costs Relating to Federal Awards

Year ended June 30, 2017

***Views of Responsible Officials and Corrective Actions***

Management was advised of a case mix finding for the FY 2016 audit review period during the second quarter of FY 2017, and, in November 2016, prior to receiving the final FY 2016 audit finding, implemented detailed, documented controls to fully correct this finding. As stated in this FY 2017 finding, the new control process has been independently audited and found to be functioning as designed. As such, no further corrective action from management is required. As mentioned in this FY 2017 finding, the Management Minutes Questionnaire (MMQ) case mix audit function has been transitioned to a Third Party Administrator (TPA) as of July 1, 2017. OLTSS is implementing all appropriate controls to ensure proper oversight of its TPA, including its case mix audit performance.

***Responsible Official(s)***

Ketly Jean-Louis, Director OLTSS Business Operations, MassHealth Office of Long Term Services and Supports

***Implementation Date***

November 2016

## COMMONWEALTH OF MASSACHUSETTS

Findings and Questioned Costs Relating to Federal Awards

Year ended June 30, 2017

### **Executive Office of Health and Human Services (MassHealth)**

#### **Medicaid Cluster (93.775, 93.777, 93.778)**

**Federal Award Number:** XIX-MAP17, XIX-ADM-17 **Award Year:** 2017

#### **U.S. Department of Health and Human Services**

**Finding Reference:** 2017-046

#### **Eligibility**

**Type of Finding:** Material Weakness

**Prior Year Finding:** Yes, 2016-048

**Statistically Valid Sample:** No

#### ***Requirement***

The State Medicaid agency or its designee is required to determine client eligibility in accordance with eligibility requirements defined in the approved State plan (42 CFR section 431.10). Also, per 2 CFR 200.303, MassHealth must establish and maintain effective internal controls over Federal awards that provides reasonable assurance they are managing Federal awards in compliance with Federal statutes, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

#### ***Finding***

MassHealth has a quality control process over Medicaid eligibility to address the quality of the information being collected and input into MA21 information technology system, primarily used for non-magi eligibility information which represents approximately 80% of Commonwealth of Massachusetts Medicaid recipients. The process involves weekly selections which approximate 3% of the cases. The results are compiled by the quality control unit into a report that is provided to the respective manager of the center reviewed. The managers have an opportunity to review the reports and notify the quality control unit whether they concur with the results. During fiscal year 2017, there were limited resources to execute the process on a consistent basis throughout the year. Four months were fully completed at the 3%, an additional two months had some selections performed, and the remaining six months were not addressed. During the review of 65 eligibility files, there were no compliance exceptions noted.

In addition, the process is intended to have the managers report back to the quality control unit that they have discussed the items with their teams and provide evidence that action was taken to correct any issues noted (close out process). The manager's close out process is not a formalized process. The quality control unit's documentation of the close out process is not consistent to demonstrate the respective manager's reply indicating concurrence and implementation of necessary changes.

#### ***Recommendation***

MassHealth should identify and allocate the appropriate resources to perform the quality control process to address the integrity of the eligibility information. In addition, MassHealth should enhance their documentation of the quality control close out process to demonstrate managers of the centers concurrence with the final report and implementation of necessary changes to improve eligibility determinations.

#### ***Questioned Costs***

None

## COMMONWEALTH OF MASSACHUSETTS

Findings and Questioned Costs Relating to Federal Awards

Year ended June 30, 2017

### ***Views of Responsible Officials and Corrective Actions***

The Eligibility Quality Assurance (EQA) unit continuously seeks to improve the quality of services provided to applicants, members and providers. EQA was established to ensure that MEC's provide the best possible products or services. EQA is focused on enhancing and improving the process that is used to create the end result. Among the parts of the process that are considered in QA are planning, design, development, production and service.

The EQA unit acquired additional resources to allow for the unit to perform the EQA duties. Effective fiscal year 2018, the EQA unit implemented the process described in this document.

The Manager at each MassHealth Enrollment Center will review the EQA results for their staff on a weekly basis. The Manager will have access to the EQA results on Tuesday for data from the prior week.

### **Weekly EQA MEC Selection Review Process:**

- (1) The Manager retrieves the EQA report on Tuesday the week after the EQA sample processed.
- (2) The Manager will meet with staff to inform the staff of their QA and to have them review and agree or disagree with discrepancies.
  - a. If the BERS agrees with the discrepancy, the BERS will correct the case.
  - b. If the BERS disagree with the discrepancy, the BERS will complete a dispute form and the Manager will submit that form to the IMEC Manager for review.
- (3) For all discrepancies that a BERS agrees with the discrepancy the BERS will make the appropriate corrections to the case and the MEC manager will verify the corrections. The Manager will need to sign off on the spreadsheet and submit the spreadsheet back to the EQA manager.
- (4) For all discrepancies that a BERS disputes the BERS will complete a dispute form and submit to their manager. The manager will submit the form to the IMEC manager for review.
- (5) IMEC Manager will review any disputed cases and will notify MEC managers of the results within 2-3 business days.
- (6) All documents will be maintained in a specific drive for auditing purposes.

### ***Responsible Official(s)***

Rosana Senise, IMEC Director MassHealth Operations, MassHealth  
Donna M Saunders IMEC Manager MassHealth Operations, MassHealth

### ***Implementation Date***

July 1, 2017

## COMMONWEALTH OF MASSACHUSETTS

Findings and Questioned Costs Relating to Federal Awards

Year ended June 30, 2017

### Executive Office of Health and Human Services (MassHealth)

#### Medicaid Cluster (93.775, 93.777, 93.778)

#### Children's Health Insurance Program (93.767)

**Federal Award Number:** XIX-MAP17, XIX-ADM-17 **Award Year:** 2017

#### U.S. Department of Health and Human Services

**Finding Reference:** 2017-047

#### Special Tests and Provisions – Provider Eligibility

**Type of Finding:** Significant Deficiency and Noncompliance

**Prior Year Finding:** Yes, 2016-049

**Statistically Valid Sample:** No

#### *Requirement*

In order to receive Medicaid payments, providers of medical services furnishing services must be licensed in accordance with Federal, State, and local laws and regulations to participate in the Medicaid program (42 CFR sections 431.107 and 447.10; and Section 1902(a)(9) of the Social Security Act (42 USC 1396a(a)(9)) and the providers must make certain disclosures to the State (42 CFR part 455, subpart B, sections 455.100 through 455.106). The State Medicaid agency must (a) have a method for verifying that any provider purporting to be licensed in accordance with the laws of any State is licensed by such State (b) confirm that the provider's license has not expired and there are no current limitations on the providers' license. (42 CFR 455.412). Also, per 2 CFR 200.303, MassHealth must establish and maintain effective internal controls over Federal awards that provides reasonable assurance they are managing Federal awards in compliance with Federal statutes, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

#### *Finding*

MassHealth's process includes the use of third parties (MAXIMUS and DentaQuest), to assist with ensuring all providers who are required to have a license under State law have a current license and are eligible to provide services. During fiscal year 2016, providers were revalidated under the Affordable Care Act (ACA) regulations. Provider information is maintained in the MMIS system and is updated as needed by the third parties. Many of the provider and license data points are required to be manually updated in the MMIS system (i.e. not populated by electronic interfaces).

During review of the 65 files selected for test work, 4 providers under the responsibility of DentaQuest and 1 under the responsibility of MAXIMUS were noted as having expired license dates on the provider screens within MMIS. MassHealth was able to provide current license information supporting the licenses were current and the respective date field within MMIS was not updated.

In addition, 22 of the 65 files have next revalidation dates within MMIS that were not within the next three to five years as required by federal regulations. 10 reflected the default date of December 31, 2299; while 12 had dates in the past 3-4 years that had not been updated. All 22 providers had recently completed the revalidation process. Also, 5 of 65 providers were not revalidated on time due to a misunderstanding with the third party and are being revalidated in fiscal year 2018. All 5 providers were under the responsibility of DentaQuest.

## COMMONWEALTH OF MASSACHUSETTS

### Findings and Questioned Costs Relating to Federal Awards

Year ended June 30, 2017

#### ***Recommendation***

MassHealth should enhance its internal controls for validating key points of provider data. One such control could be to use data queries designed to identify outlying data. For example, key expiration date fields could be queried to identify historical dates, dates within the next 30 to 60 days, and/or default dates.

#### ***Questioned Costs***

There are no questioned costs related to exceptions noted above as all providers were determined to have a current license or to be eligible for enrollment in Medicaid program.

#### ***Views of Responsible Officials and Corrective Actions***

##### *Licensing*

MassHealth has started to investigate the possibility to work with the MMIS and applicable licensing agencies to implement electronic interfaces. This process would allow license information to be submitted to the MMIS and have the provider license information updated as appropriate. This automatic process would be implemented in the later part of 2019.

MassHealth is also currently working with (MAXIMUS) to implement a monthly process to systematically identify providers whose license end date is prior to the query date. The identified providers will have their license information verified with the applicable boards. If the license is expired, the provider would be disenrolled. If the license has been renewed, the new expiration date would be entered into MMIS. This would be implementation in May 2018.

##### *Revalidation*

When MMIS was implemented in 2009, the "Next Recredentialing" date was set to a default of two years from the enrollment effective date. In 2017, the MMIS was updated to set a default date of five years to correspond with the ACA rules and MassHealth's current procedures. MassHealth is also reviewing the possibility of systematically updating the "Next Recredentialing" dates to 5 years for those existing providers who have not yet been selected for revalidation are currently showing a default date of two years or 12/31/2299.

#### ***Responsible Official(s)***

Janice Wadsworth, Director of Provider Operations, MassHealth

#### ***Implementation Date***

May 1, 2018



THOMAS G. SHACK III, ESQ.  
COMPTROLLER

# Commonwealth of Massachusetts

## OFFICE OF THE COMPTROLLER

ONE ASHBURTON PLACE, 9<sup>TH</sup> FLOOR  
BOSTON, MASSACHUSETTS 02108  
TELEPHONE (617) 727-5000  
WWW.MACOMPTROLLER.ORG

### **Commonwealth of Massachusetts Summary Schedule of Prior Year Audit Findings FY 2017**

The attached summary schedule of prior year findings (Schedule) lists the finding reference, initial finding reference, CFDA #, state agency, program and description for the findings included in the fiscal year 2016 Single Audit Report. It also lists the status of any other prior year finding whose corrective action plan has not been fully implemented. The Schedule indicates “fully” if the corrective action plan (CAP) was fully implemented, “partially” if the CAP was not fully implemented and “not implemented” if not implemented at all. If not fully implemented, an updated CAP is included.

Prior year findings that no longer warrant further action in accordance with the Uniform Guidance Section 200.511(b)(3) have been excluded from the Schedule.

Schedule of Prior Year Findings						
Finding Reference	CFDA #	Agency	Program(s)	Description/ Summary	Implementation Status	Corrective Action Plan
2016-001		TRE	State	Exclusive Benefit Rule	Fully	
2016-002 and 2015-002		CTR	State	Financial Reporting	Partially	See finding 2017-001
2016-003		CTR	State	SEFA Reporting	Partially	See finding 2017-002
2016-004		DOR	State	Allowance for Uncollectible Receivables	Fully	
2016-005		EOL	State	UI Online Access Removal	Fully	
2016-006		EOL	State	UI Online Database Administrative Access	Fully	
2016-007		EOL	State	UI Online Use Access Review	Partially	See finding 2017-004
2016-008		EOL	State	UI Online Change Review	Partially	See finding 2017-005
2016-009		EOL	State	UI Online Network Administrative Access	Fully	
2016-010		EHS	State	HIX SOC Reports	Partially	See finding 2017-006
2016-011		EHS	State	MA21 - Mainframe Administrative Access	Fully	
2016-012		EHS	State	MA21 - Change Management	Partially	See finding 2017-007
2016-013		EHS	State	MA21 - Application Administrative Access	Partially	See finding 2017-008
2016-014		EHS	State	MA21 - Access Provisioning	Fully	
2016-015		EHS	State	MA21 - Terminations	Partially	See finding 2017-009
2016-016 and 2015-009		EHS	State	MMIS - Access Provisioning	Partially	See finding 2017-010
2016-017 and 2015-011		EHS	State	MMIS - Terminations	Partially	See finding 2017-011
2016-018 and 2015-010		EHS	State	MMIS and MA21 - User Access Reviews	Partially	See finding 2017-012
2016-019		WEL	State	BEACON - Change Management	Partially	See finding 2017-013
2016-020		WEL	State	BEACON - Application Administrative Access	Fully	
2016-021		WEL	State	BEACON - Terminations	Partially	See finding 2017-014
2016-022		WEL	State	BEACON - Access Provisioning	Fully	
2016-023	10.555, 10.559	DOE	Child Nutrition Cluster	During the testing of federal matching requirements, it was noted that the department does not have procedures in place for documenting the review and approval process over monitoring matching requirements of the program cluster.	Fully	
2016-024	10.555, 10.559, 10.558	DOE	Child Nutrition Cluster; Child and Adult Care Food Program	Per testing of security portal/MMARS reconciliations for all three months selected for each major program for the year, the department did not document the reconciliation process.	Fully	
2016-025	10.555, 10.559, 10.558	DOE	Child Nutrition Cluster; Child and Adult Care Food Program	During the testing of subrecipient monitoring in fiscal year 2016, there were several deficiencies found over the monitoring control process to ensure compliance requirements.	Fully	
2016-026	10.555, 10.559, 10.558	DOE	Child Nutrition Cluster; Child and Adult Care Food Program	Per testing of the Federal reports issued by the department, the following deficiencies were found: a lake of segregation of duties in preparing & reviewing the reports; supporting documentation was not maintained on file; some amounts reported did not agree to supporting documentation provided.	Fully	
2016-027	14.881	OCD	Moving to Work Demonstration Program	The department did not consistently inform its Moving to Work program subrecipients of the Federal Award Identification requirement.	Partially	The subrecipient contracts have been updated to meet Federal compliance requirements. The department also updated the monitoring checklists which sent out to all the subrecipients in preparation for the FY 17 monitoring procedures.
2016-028	14.881, 93.568, 93.569	OCD	Moving to Work Demonstration , Low-Income Home Energy Assistance, Community Services Block Grant	The three programs audited do not have the specific written procedures for determining the allowability of costs in accordance with Subpart E -Cost Principles and the terms and conditions of the federal award requirement.	Fully	
2016-029	93.568, 93.569	OCD	Low-Income Home Energy Assistance, Community Services Block Grant	The department did not document its subrecipient risk assessment process. Additionally, the department did not identify the required CFDA information to its subrecipients.	Partially	The department fully updated the required CFDA information to its subrecipients. A risk assessment checklist has been implemented and will be used for monitoring beginning in the fall of 2017.
2016-030	17.225	EOL	Unemployment Insurance	During the testing, the 227 report 2 of 2 tested did not file either report; the 191 report 2 of 2 tested did not have documented management review over supporting documentation; the 2112 report 3 of 3 tested did not have documented management review over supporting documentation; UI-3 reports 1 of 2 tested did not have documented management review over the supporting documentation.	Fully	
2016-031	17.225	EOL	Unemployment Insurance	During the review the Department of Unemployment Assistance in various, the deficiencies were not consistent with established Benefit Accuracy Measurement (BAM) procedures.	Fully	
2016-032	17.225	EOL	Unemployment Insurance	For 1 of 25 selected State regular benefit check payment dates, there were no subsequent cash reimbursement requests associated the benefit payments. In addition, it was observed that through the year, some of the amounts requested from the federal fund did not properly net the repayments to the fund received by the department.	Fully	
2016-033	20.319	DOT	High-Speed Rail Corridors and Intercity Passenger Rail Service-Capital Assistance Grants	For the subrecipient selected (MBTA) for testing, it noted that the department is not in compliance with the requirements related to subrecipient notification and documentation of subrecipient risk assessments in regards to its High Speed Rail subrecipients.	Partially	See finding 2017-036

Schedule of Prior Year Findings						
Finding Reference	CFDA #	Agency	Program(s)	Description/ Summary	Implementation Status	Corrective Action Plan
2016-034	93.069	DPH	Public Health Emergency Preparedness (PHEP)	During the review of the requirement, it was noted the Office of Preparedness and Emergency Management (OPEM) calculated the required match incorrectly. OPEM was then able to demonstrate the match requirement by recalculated the requirement as a percentage of award amount.	Fully	
2016-035	93.069	DPH	Public Health Emergency Preparedness (PHEP)	During the review, it was noted the Office of Preparedness and Emergency Management (OPEM) does not track the total expenditures for the Cities Readiness Initiative (CRI) or Level On Chemical Lab.	Fully	
2016-036	93.069	DPH	Public Health Emergency Preparedness (PHEP)	During the review of the three (3) subrecipients' quarterly reports and advances, it was noted there were instances where the actual expenditures were less than the budget and the advance amounts were not adjusted. Also, the Office of Preparedness and Emergency Management (OPEM)'s documentation and evidence of review of the quarterly reports was inconsistent.	Fully	
2016-037	93.069	DPH	Public Health Emergency Preparedness (PHEP)	Per review of the department's subrecipients, not all are governed by the Uniform Financial Statement and independent Audit Report (UFR) requirement. Consequently, for those entities no evaluation of risk is performed.	Fully	
2016-038	93.069, 93.917	DPH	Public Health Emergency Preparedness (PHEP) & HIV Care Formula Grants	The department did not consistently inform its subrecipients of the Federal Award Identification requirement.	Fully	
2016-039	93.917	DPH	HIV Care Formula Grants (HIV)	During the testwork, it was noted the office of HIV/AIDS's Maintenance of Effort (MOE) calculation did not adequately measure the incremental effort or spending levels for the program from one year to the next. The using of consistent methodology for calculation has been re-performed and it appears to meet the requirement.	Fully	
2016-040	93.917	DPH	HIV Care Formula Grants (HIV)	The office of HIV/AIDS personnel perform weekly on-site monitoring of its subrecipients. Summary observations are evaluated weekly with management and formal meeting notes with action items are maintained as key control. However, two months during fiscal 2016 the notes were not maintained.	Fully	
2016-041	93.775, 93.777, 93.778	EHS	Medicaid Cluster	A total of 65 Medicaid files selected for testing, only 32 were deemed eligible due to information provide by Social Security Administration (SSA). The SSA designation was verified for each individual as noted with MMIS system and per the SDX data warehouse.	Partially	See finding 2017-040
2016-042	93.775, 93.777, 93.778	EHS	Medicaid Cluster	On an annual basis, the department conducts a formal review of the system security for all applications, including the ADP System under the purview of 45 CFR 95.621. During the testing, the department was unable to provide documentation to support their review and the process to access the accuracy of the information provided did not appear to have an oversight review.	Partially	See finding 2017-041
2016-043	93.775, 93.777, 93.778	EHS	Medicaid Cluster	The general control environments for MA21 and MMIS were determined to not be operating as designed with regard to various access and change management considerations. Without an effective general control environment, an external auditor is unable to assess whether the related application level controls are operating effectively.	Partially	See finding 2017-042
2016-044	93.775, 93.777, 93.778	EHS	Medicaid Cluster	The department contracted third party vendors to perform various regulatory functions as required by the code of federal regulations. Per reviewed of the department's assigned business owner to each outsourced process, several outsourced activities do not appear to address associated risks and/or to be adequately documented by the monitoring processes.	Partially	See finding 2017-043
2016-045	93.775, 93.777, 93.778	EHS	Medicaid Cluster	The department has established policies and procedures for actively monitoring its nonstate providers in accordance with the utilization standards, however it did not have the same one for its state-owned providers. Even though the state-owned providers do have their own processes, those processes are not necessarily designed to ensure compliance with the utilization standards.	Partially	See finding 2017-044
2016-046 and 2015-026	93.775, 93.777, 93.778	EHS	Medicaid Cluster	Per review of the fee for service claim expenditures, there was an overdrawn amount due to the change to MMIS to disallow TMA categories from Medicaid reimbursement that was not effective until the day after the claim period ended. The department is aware of amount overdrawn and plans to correct it.	Fully	
2016-047	93.775, 93.777, 93.778	EHS	Medicaid Cluster	For 25 case mix audits selected for testing, it noted no compliance exceptions as each of the nursing facility audit files contained the (1) MMIS report with any corrections noted, (2) initial notice of findings, and (3) exit conference agenda.	Partially	See finding 2017-045
2016-048	93.775, 93.777, 93.778	EHS	Medicaid Cluster	Per review of the department's quality control process over Medicaid Eligibility, it noted the quality control unit's documentation of the close out process is not consistent to demonstrate the respective managers replied indicating concurrence and implementation of necessary changes.	Partially	See finding 2017-046
2016-049	93.775, 93.777, 93.778, 93.767	EHS	Medicaid Cluster, Children's Health Insurance program	During the testing of 65 files, 8 providers were noted as having expired license dates on the provider screens within MMIS. The department was able to provide the current license on files, but MMIS system was not updated. In addition, 4 of the 65 files have next revalidation dates within MMIS that were not within the next 3 years as required by federal regulation.	Partially	See finding 2017-047