

Commonwealth of Massachusetts



Reports on Compliance and Internal Controls in Accordance with Government Auditing Standards and the Requirements of OMB Circular A-133 and the Schedule of Expenditures of Federal Awards

For the Fiscal Year Ended June 30, 2006

Martin J. Benison, CGFM
State Comptroller

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Our cover is from the collection of the Worcester Art Museum, which opened in 1898. The institution, founded by Stephen Salisbury III “for the benefit of all the people,” today houses more than 35,000 works of art representing more than 50 centuries of creative spirit.

The internationally renowned collection is housed in thirty-five galleries and includes the largest and finest group of Antiochian mosaics in America, on display in the Renaissance Court. The Museum's twelfth-century Romanesque Chapter House - one of the first medieval structures transported to the New World - adjoins galleries which features paintings, frescoes and liturgical objects from the European middle ages.

In 1898 the Museum opened the first New England gallery solely devoted to the permanent display of American portrait miniatures. The Museum was among the first to exhibit and collect photographs as fine art. The photography collection has grown to over 2,000 images that span the entire history of the medium.



Childe Hassam was born in Dorchester and cherished his New England heritage. Hassam was a member of the Boston Art Club and one of the founding members of a group of American artists known as the “Ten American Painters”, also known as The Ten.

He is quoted as saying “I was very fortunate, I think, in being brought up in Boston, which was the center of culture. I lived on Columbus Ave. in Boston. I was always interested in the movements of humanity in the street, and I painted my first picture from my window.”

*Childe Hassam, American, 1859 - 1935, Columbus Avenue, Rainy Day, oil on canvas
Bequest of Mrs. Charlotte E. W. Buffington, 1935-36
Worcester Art Museum, Worcester, Massachusetts*

Information sources:

*Historical Atlas of Massachusetts, Edited by Richard W. Wilke and Jack Tager
The University of Massachusetts Press, Amherst, Massachusetts, 1991*

*Secretary of State, Commonwealth of Massachusetts
Massachusetts Studies Project, University of Massachusetts*

*Story excerpts from Boston Firsts
Linda Morgenroth
Beacon Press, Boston, Massachusetts, 2006*

**Commonwealth of Massachusetts Reports on Compliance and Internal
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Requirements of OMB Circular A-133 and the Schedule of Expenditures of
Federal Awards for the Year Ended June 30, 2006**

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A. Joseph DeNucci
Auditor

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Speaker of the House

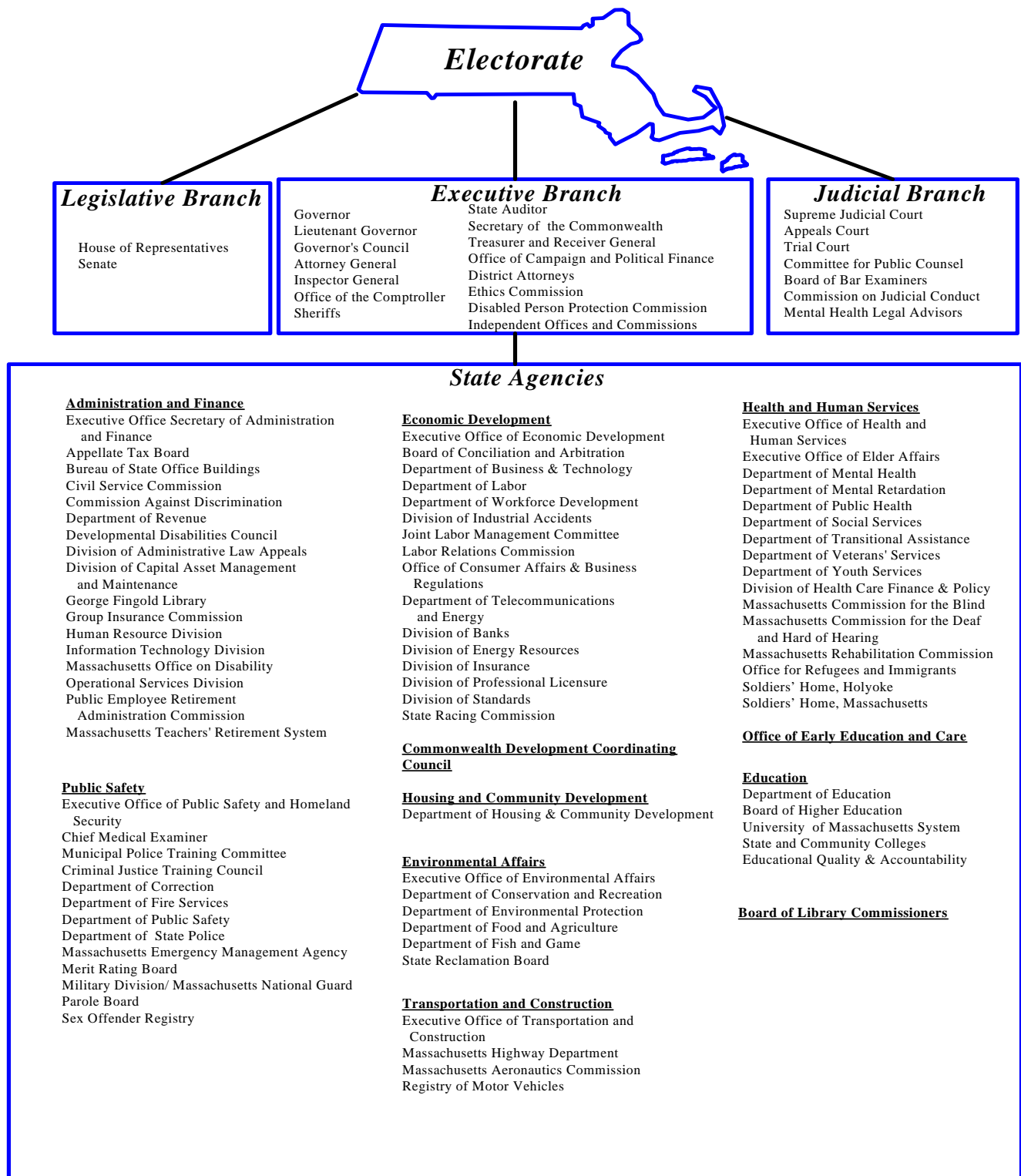
JUDICIAL OFFICERS

Margaret H. Marshall
Chief Justice, Supreme Judicial Court

Phillip Rapoza
Chief Justice, Appeals Court

Robert A. Mulligan
Chief Justice for Administration and Management, Trial Court

**Governor, Lieutenant Governor and Attorney General – Elect take office January 4, 2007*



**As of June 30, 2006*

ADVISORY BOARD TO THE COMPTROLLER

Thomas H. Trimarco (Chair)
Secretary for Administration and Finance

A. Joseph DeNucci
Auditor

Timothy P. Cahill
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Chief Justice for Administration and Management, Trial Court

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SECTION I

Independent Auditors' Reports



*Mrs. Elizabeth Freake and Baby Mary, about 1671-1674, unknown artist, American 17th Century, Oil on Canvas
Gift of Mr. and Mrs. Albert W. Rice, 1963.134, Worcester Art Museum, Worcester, Massachusetts*

The most famous of all 17th century American portraits, this painting reflects the adaptation by a colonial artist of the decorative linear mannerisms of Elizabethan portraiture some seventy-five years after the style had waned in England. Born May 22, 1642, the daughter of a merchant, Elizabeth Clarke married the successful merchant and attorney John Freake in 1661. They had eight children between 1662 and 1674.

Some firsts in the Arts and Culture:

<i>Oldest dance festival, Jacobs Pillow, Beckett</i>	<i>1933</i>
<i>Music society, Handel and Hayden Society.....</i>	<i>1815</i>
<i>Independent conservatory, New England Conservatory</i>	<i>1867</i>
<i>Continuously operating museum, Peabody Essex</i>	<i>1799</i>
<i>Vaudeville theater, Gaiety Museum</i>	<i>1883</i>
<i>Isabelle Stewart Gardner and Fenway Court, Boston</i>	<i>1903</i>
<i>Horticultural society, Massachusetts Horticultural Society, Boston.....</i>	<i>1827</i>
<i>First major American composer (William Billings) ...</i>	<i>1746-1800</i>



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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED UPON THE AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Mr. Martin Benison, Comptroller
The Commonwealth of Massachusetts

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 of Massachusetts ("Commonwealth"), as of and for the year ended June 30, 2006, which collectively comprise the Commonwealth's basic financial statements and have issued our report thereon dated December 22, 2006. We conducted our audit in accordance with 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.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the Commonwealth's internal control over financial reporting, applicable to the governmental activities, business-type activities, aggregate discretely presented component units, each major fund and the aggregate remaining funds information of the Commonwealth included within the scope of our audit as described in our report referred to above, in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting relating to the governmental activities, business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth whose financial statements are included within the scope of our audit that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Commonwealth's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, applicable to the Commonwealth for those matters relating to 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 included within the scope of our audit, as described in our

report referred to above, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Accordingly our testing of compliance did not extend to tests of compliance with laws, regulations, contracts and grant agreements for the governmental activities, business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth whose financial statements were audited by other auditors. 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*.

We noted certain matters that we reported to management of the Commonwealth in a separate letter dated December 22, 2006.

This report is intended solely for the information and use of management, the Honorable Members of the General Court and the federal awarding agencies, and pass-through grantor entities and is not intended to be and should not be used by anyone other than these specified parties.

December 22, 2006

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER COMPLIANCE APPLICABLE TO EACH MAJOR FEDERAL AWARD PROGRAM AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Mr. Martin Benison, Comptroller
The Commonwealth of Massachusetts

COMPLIANCE

We have audited the compliance of the Commonwealth of Massachusetts (the "Commonwealth"), for only those matters relating to compliance of the governmental activities, business-type activities, aggregate discretely presented component units, each major fund, and the aggregate remaining funds information of the Commonwealth included within the scope of our audit as described in our report on the basic financial statements dated December 22, 2006, and as further described in Note 2 to the Schedule of Expenditures of Federal Awards, with the types of compliance requirements described in the *U.S. Office of Management and Budget ("OMB") Circular A-133 Compliance Supplement* that are applicable to each of its major Federal programs for the year ended June 30, 2006. Our testing of compliance did not extend to tests of compliance with laws, regulations, contracts and grants for the governmental activities, business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth whose financial statements were audited by other auditors. The Commonwealth's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grant agreements applicable to each of its major federal programs is the responsibility of the Commonwealth's management. Our responsibility is to express an opinion on the Commonwealth's compliance based on our audit.

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 opinion. Our audit does not provide a legal determination on the Commonwealth's compliance with those requirements.

In our opinion, the portion of the Commonwealth included within the scope of our audit, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in Part

III of Section II, the accompanying Schedule of Findings and Questioned Costs and Section V as listed in the table of contents.

INTERNAL CONTROL OVER COMPLIANCE

The management of the Commonwealth is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grant agreements applicable to Federal programs. In planning and performing our audit, we considered the Commonwealth's internal control over compliance with requirements that could have a direct and material effect on a major federal program, applicable only to the governmental activities, business-type activities, aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the Commonwealth included within the scope of our audit as described in our report on the basic financial statements dated December 22, 2006 in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the Commonwealth's internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grant agreements caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

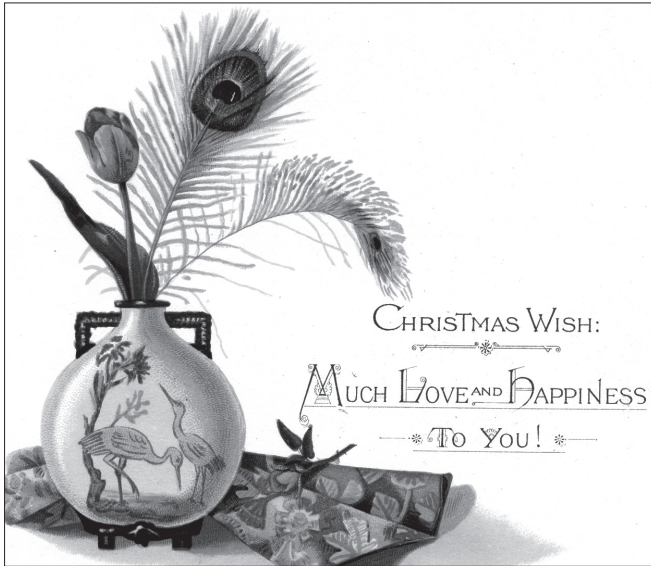
We have audited the basic financial statements of the governmental activities, business-type activities, aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the Commonwealth, as of and for the year ended June 30, 2006, which collectively comprise the Commonwealth's basic financial statements, and have issued our report thereon dated December 22, 2006. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for the purpose of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. This schedule is the responsibility of the management of the Commonwealth. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects when considered in relation to the basic financial statements taken as a whole.

This report is intended solely for the information of management, the Honorable Members of the General Court and federal awarding agencies, and pass-through grantor entities and is not intended to be and should not be used by anyone other than these specified parties.

December 22, 2006

SECTION II

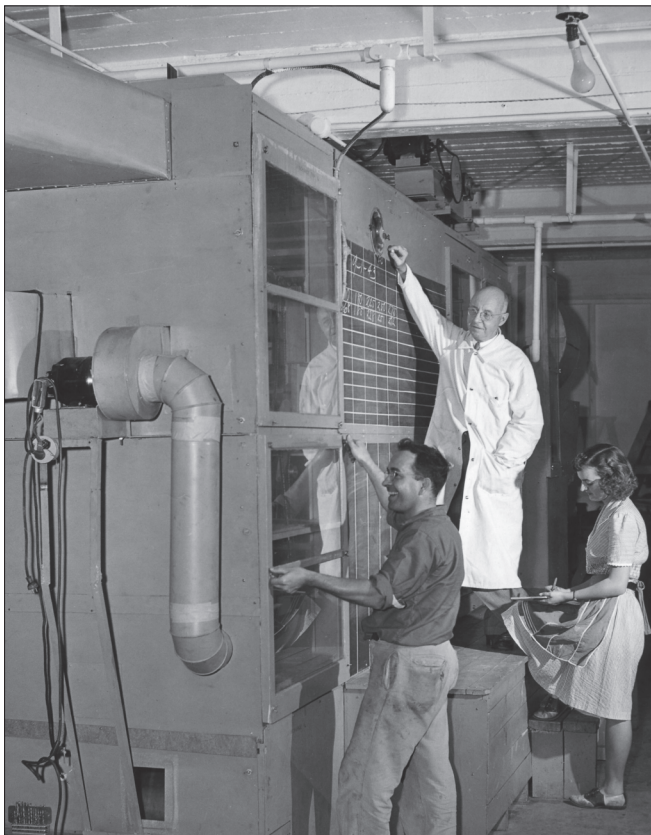
Schedule of Findings and Questioned Costs



Louis Prang Christmas card 1875, courtesy of Malcolm Warrington, Scrapalbum.com



Courtesy of the Baker Chocolate Factory, Walter Baker Lofts



Dehydrating carrots, Courtesy of Birdseye Foods and the Birdseye family

Selected firsts in Inventions and Innovations

Frozen food, Clarence Birdseye	1925
Millionaire, Elias Hasket Derby, Salem	
Automatic Bargain Basement	1909
Chocolate chip cookie, Ruth Wakefield	1930
Fried Clams, Essex	1914
Ready Made Suit	1826
World's largest man-made reservoir for drinking water, Quabbin	1930s
Printing press in the United States, Cambridge	1638
Christmas Card	1875
Frozen water trade	1806
Iron works, Saugus	1646
Vulcanized rubber, Charles Goodyear, Woburn	1839
Mint in English America, Boston	1652
Chocolate factory, Walter Baker, Dorchester	1765
Tannery, Lynn	1629
Steam shovel, William Otis	1836
Mutual fund, L. Sherman Adams	1924
Steam heated building, Eastern Hotel	1845
Credit union, established by the Women's Educational and Industrial Union, Boston	1913
Paper mill, Dorchester Lower Mills	1728
Commerical bank established	1686
Sewing machine, Elias Howe	1845
Typewriter, Charles Thurber, Worcester	1840
Safety Razor	1903



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Schedule of Findings and Questioned Costs For the Year Ended June 30, 2006

I. Summary of Auditor's Results

We have audited the financial statements of the Commonwealth of Massachusetts as of and for the year ended June 30, 2006 and have issued our reports thereon dated December 22, 2006. We conducted our audit 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 with the requirements of the *U.S. Office of Management and Budget (OMB) Circular A-133*. The results of our audit are as follows:

Type of report issued on the financial statements: Unqualified opinion

Reportable conditions in internal control disclosed by the audit of the financial statements: No

Material noncompliance disclosed by the audit of the financial statements: No

Reportable conditions in internal control over major programs: No

Type of report issued on compliance for major programs: Unqualified opinion

Audit findings required to be reported under Section .510(a) of OMB Circular A-133: Yes

Major Programs Funding Source	<u>Program</u>	<u>CFDA No.</u>
Agriculture	Food Stamps Program	10.551(a)
Agriculture	State Admin. Matching-Food Stamps	10.561(a)
Agriculture	School Breakfast Program	10.553(b)*
Agriculture	National School Lunch Program	10.555(b)
Agriculture	Special Milk Program for Children	10.556(b)*
Agriculture	Summer Food Service Program	10.559(b)
Agriculture	Special Supplemental Food Program for Women, Infants and Children	10.557
Homeland Security	State Domestic Preparedness Equipment Support	97.004(c)
Homeland Security	Homeland Security Grant Program	97.067(c)
Justice	Juvenile Accountability Incentive Block Grants	16.523
Justice	Byrne Formula Grant Program	16.579
Transportation	Highway Planning & Construction	20.205
Education	Title I Program	84.010
Education	Special Education-State Grants	84.027(d)
Education	Special Education-Preschool Grants	84.173(d)
Education	Improving Teacher Quality – State Grants	84.367
Education	Vocational Rehabilitation Program	84.126
Education	FSEOG Program	84.007(e)
Education	FFEL Program	84.032(e)
Education	Federal Work-Study Program	84.033(e)
Education	Federal Perkins Loan Program	84.038(e)
Education	Federal Pell Grant Program	84.063(e)
Education	Federal Direct Loan Program	84.268(e)

*Refer to Note 1 to the Schedule of Expenditures of Federal Awards.

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2006

I. Summary of Auditor's Results (continued)

<u>Major Programs Funding Source</u>	<u>Program</u>	<u>CFDA No.</u>
Health & Human Services	HEAL Program	93.108(e)
Health & Human Services	HPSL Program	93.342(e)
Health & Human Services	Nursing Student Loan Program	93.364(e)
Health & Human Services	EFNS Program	93.820(e)
Health & Human Services	Special Programs for the Aging, Title III, Part B	93.044(f)
Health & Human Services	Special Programs for the Aging, Title III, Part C	93.045(f)
Health & Human Services	Nutrition Services Incentive Program	93.053(f)
Health & Human Services	Child Support Enforcement Program	93.563
Health & Human Services	TANF Block Grant	93.558
Health & Human Services	Foster Care Program	93.658
Health & Human Services	HIV Care Formula Grant	93.917
Health & Human Services	State Children's Health Insurance Program	93.767
Health & Human Services	Medical Assistance Program	93.778(g)
Health & Human Services	State Medicaid Fraud Control Units	93.775(g)
Health & Human Services	State Survey and Certification of Health Care Providers and Suppliers	93.777(g)
Health & Human Services	Hurricane Katrina Relief	93.776(g)
Health & Human Services	SAPT Block Grant	93.959
Health & Human Services	Low Income Home Energy Assistance Program	93.568
Social Security Admin.	Disability Insurance Program	96.001(h)
Social Security Admin.	Supplemental Security Program	96.006(h)
Housing & Urban Dev.	Section 8 New Construction or Substantial Rehabilitation	14.182(i)
Housing & Urban Dev.	Section 8 Moderate Rehabilitation	14.856(i)
Housing & Urban Dev.	Community Development Block Grant	14.228
Housing & Urban Dev.	Home Investment Partnership Program	14.239
Housing & Urban Dev.	Section 8 Housing Choice Vouchers	14.871
(a) Cluster of Programs	(e) Cluster of Programs	
(b) Cluster of Programs	(f) Cluster of Programs	
(c) Cluster of Programs	(g) Cluster of Programs	
(d) Cluster of Programs	(h) Cluster of Programs	

Dollar threshold used to distinguish Type A and Type B programs: \$30,000,000

Qualification of auditee as a low-risk auditee: No

Introduction

The findings and recommendations detailed in Sections IV and V of this volume, and summarized in the schedule below, have been reviewed with representatives of the departments from which the observations arose and with representatives from the Office of the Comptroller. In order to assist the reader in understanding both the departmental compliance with laws and regulations and the adequacy of the

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2006

I. Summary of Auditor's Results (continued)

internal control structure, the findings have been grouped by department and categorized as to whether they concern the department's federal program compliance or the internal control structure used in administering federal award programs. (*Part III of this Schedule*)

In addition, the findings concerning compliance with Massachusetts General Laws and on the internal control structure based on the study and evaluation of the accounting system as part of the examination of the General Purpose Financial Statements contained in the Comprehensive Annual Financial Reports (CAFR), are summarized below in Part II and detailed in Section IV.

At the end of each finding involving federal programs, detailed in Section V, is a parenthetical disclosure indicating the federal agency or agencies providing the funding for the program(s) to which the finding is applicable and the applicable Catalog of Federal Domestic Assistance number(s).

Corrective action plans and/or departmental responses to the findings and recommendations have been provided by the department's representatives and reflect plans and responses as of December 22, 2006.

In the event a finding is repeated from the prior Single Audit report or a report prepared in prior years by other auditors performing audits of federal programs, the parenthetical disclosure at the end of the finding also indicates the year the finding first was reported, the finding number in the most recently issued prior report and, if applicable, the federal audit agency issuing the report so that the reader may cross-reference the current finding to the prior reports.

Under a cooperative agreement for the Commonwealth's Single Audit, the Office of the State Auditor, in order to provide the necessary audit coverage for the student financial assistance programs not audited by independent accounting firms and to assist in the audit of major programs, conducted the audit procedures at three Commonwealth institutions of higher education and four departments. While the findings resulting from these audits are incorporated in this report, the Office of the State Auditor will also issue its own separate reports with the results of these audits.

Questioned costs as a result of the fiscal year 2006 statewide single audit

The study and evaluation of the various departments' compliance with laws and regulations resulted in the identification of questioned costs totaling \$437,755. For those instances where costs were questioned, the specific costs have been identified in findings reported on the following pages.

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2006

II. Findings Related to the Financial Statements

<u>Noncompliance Findings</u>	<u>Questioned Costs</u>	<u>Program and CFDA #</u>
Failure to enter fixed assets in proper period. (Finding No. 1 – Executive Office of Environmental Affairs – Office of Law Enforcement)	-	-
Internal controls over Non-GAAP fixed assets needs improvement. (Finding No. 2 – Massachusetts Rehabilitation Commission)	-	-
Recording of adjustments and uncollectibles needs enhancement. (Finding No. 3 – Registry of Motor Vehicles)	-	-
Internal control plan in need of improvement. (Finding No. 4 – Bridgewater State College, No. 7 – Northern Essex Community College)	-	-
Investigation and audit of a reported possible theft of funds. (Finding No. 5 – Bridgewater State College)	-	-
Non-Appropriated fund activity and balances not reconciled in a timely manner. (Finding No. 6 – Massachusetts College of Liberal Arts)	-	-

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2006

III. Findings and Questioned Costs for Federal Awards

<u>Noncompliance Findings</u>	<u>Questioned Costs</u>	<u>Program and CFDA #</u>
Monitoring of subrecipients needs to continue to improve. (<i>Finding No. 8 – Department of Education</i>)	-	Title I Grants to Local Education Agencies 84.010; Special Education 84.027; Improving Teacher Quality State Grants 84.367; National School Lunch Program 10.555
System to distribute grant funds to LEA needs improvement. (<i>Finding No. 9 – Department of Education</i>)	-	Title I Grants to Local Education Agencies 84.010; Special Education 84.027; Improving Teacher Quality State Grants 84.367
Vocational education program maintenance of effort requirements not met. (<i>Finding No. 10 – Department of Education</i>)	-	Vocational Education 84.048
Unexpended grant funds not reported to federal funding agency. (<i>Finding No. 11 – Department of Public Health</i>)	-	Substance Abuse and Preventive Treatment Block Grant 93.959
Ineffective case tracking and management system. (<i>Finding No. 12 – DOR/ Division of Child Support Enforcement</i>)	-	Child Support Enforcement Program 93.563
Non-compliance with legal requirements for open fair appeal hearings. (<i>Finding No. 13 – Department of Social Services</i>)	-	Foster Care Program 93.658
Controls over FamilyNet and home licensing report data need improvement. (<i>Finding No. 14– Department of Social Services</i>)	-	Foster Care Program 93.658
Timeliness of CORI checks needs improvement. (<i>Finding No. 15 – Department of Social Services</i>)	-	Foster Care Program 93.658
The process for home licensing needs improvement. (<i>Finding No. 16 – Department of Social Services</i>)	-	Foster Care Program 93.658
Failure to perform federal tax information match. (<i>Finding No. 17 – Department of Transitional Assistance</i>)	-	Temporary Assistance for Needy Families 93.558

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2006

III. Findings and Questioned Costs for Federal Awards (continued)

<u>Noncompliance Findings</u>	<u>Questioned Costs</u>	<u>Program and CFDA #</u>
Supporting documentation for monitoring payments to area agencies needs to be improved (Finding No. 18 – Executive Office of Elder Affairs)	-	Special Programs for the Aging, Title III, Part B 93.044; Special Programs for the Aging, Title III, Part C 93.045; Nutrition Services Incentive Program 93.053
Lack of documentation to support the amounts reported on SF-269 (Finding No. 19 – Executive Office of Elder Affairs)	-	Special Programs for the Aging, Title III, Part B 93.044; Special Programs for the Aging, Title III, Part C 93.045; Nutrition Services Incentive Program 93.053
Provider applications not signed by the Office of Medicaid. (Finding No. 20 – Executive Office of Health and Human Services/Office of Medicaid)	-	Medical Assistance Program 93.778
Overpayment must be refunded in a more timely manner. (Finding No. 21 - Executive Office of Health and Human Services/ Office of Medicaid)	-	Medical Assistance Program 93.778; State Children's Insurance Program 93.767
A Department of Health and Human Services Report cites claiming of unallowable targeted case management costs. (Finding No. 22 - Executive Office of Health and Human Services/ Office of Medicaid)	-	Medical Assistance Program 93.778
Internal control improvements needed over the review of documentation submitted by subrecipients and reimbursements made to subrecipients. (Finding No. 23 – Executive Office of Public Safety and Homeland Security)	-	State Security Domestic Preparedness Equipment Support 97.004; Byrne Formula Grant Program 16.579
Improvements needed over the reconciliation of federal grant expenditures and reimbursements. (Finding No. 24 – Executive Office of Public Safety and Homeland Security)	-	Homeland Security Grant Program 97.067; Juvenile Accountability Incentive Block Grant 16.523
Excess costs included in the 2005 rates affecting both federal and state programs. (Finding No. 25 – Information Technology Division)	\$437,755	Unknown federal programs

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2006

III. Findings and Questioned Costs for Federal Awards (continued)

<u>Noncompliance Findings</u>	<u>Questioned Costs</u>	<u>Program and CFDA #</u>
Final rates for billed services should be prepared on a timely basis. <i>(Finding No. 26 – Information Technology Division)</i>	-	Unknown federal programs
Proceeds from the sale of federally funded property not deposited or transferred on a timely basis. <i>(Finding No. 27 – Massachusetts Highway Department)</i>	-	Highway Planning and Construction 20.205
Monitoring of Davis-Bacon Act needs to be improved. <i>(Finding No. 28 – Massachusetts Highway Department)</i>	-	Highway Planning and Construction Program 20.205
Payroll certifications not obtained for federally-funded programs. <i>(Finding No. 29 – Massachusetts Rehabilitation Commission)</i>	-	Vocational Rehabilitation Program 84.126; Disability Insurance Program 96.001
Excess indirect costs not adjusted in a timely manner. <i>(Finding No. 30 – Office of the Comptroller)</i>	-	Title I Program 84.010; Medical Assistance Program 93.778; Grants for State Assessments and Related Activities Program 84.369
Submission of federal work-study timesheets needs improvement. <i>(Finding No. 31 – Bridgewater State College)</i>	-	Federal Work-Study Program 84.033
Improvements needed in federal work-study payroll processing. <i>(Finding No. 32 – Holyoke Community College)</i>	-	Federal Work-Study Program 84.033
Inaccurate student refunds issued. <i>(Finding No. 33 – Northern Essex Community College)</i>	-	Federal Supplemental Education Opportunity Grants 84.007; Federal Pell Grant Program 84.063
Total Questioned Costs	\$437,755	



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SECTION III

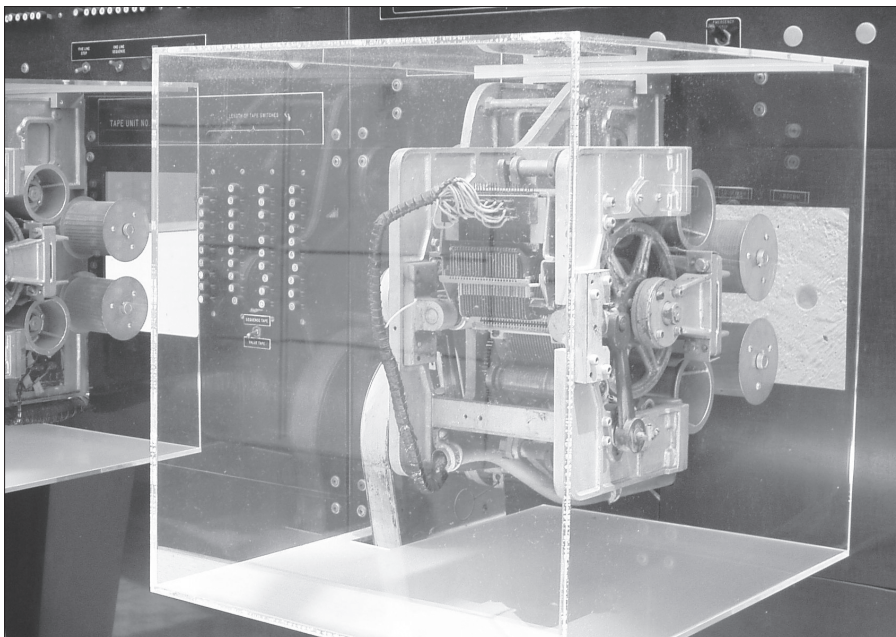
Summary of Schedule of Prior Year Audit Findings



The photograph above was taken in 1860 by James W. Black from the balloon, *Queen of the Air*, owned by Samuel Archer King. This image is the first successful aerial photograph taken from a balloon in the United States. This 1860 view is looking east from a tethered balloon on Boston Common. Washington Street is in the foreground, with the Old South Meeting House on the left. Most of the buildings in the center were destroyed by the Great Boston Fire of 1872.

Selected Technology and Patterns

<i>Radio Broadcast, Marshfield</i>	1906
<i>Colored Printing, Jacob Bigelow</i>	1817
<i>Reading Machine, Ray Kurzweil</i>	1976
<i>Aerial Photograph</i>	1860
<i>Telephone patented and demonstrated by</i>	
<i>Alexander Graham Bell, Boston</i>	1876
<i>Telegraph, Samuel Morse, based on his code</i>	1837
<i>Typewriter, Charles Thurber</i>	1843
<i>New International wireless message from Marconi</i>	
<i>Beach, Cape Cod</i>	1903
<i>Snow-making machine, Lexington</i>	1952
<i>Desktop Calculator; Word Processor; An Wang</i>	1965
<i>Liquid rocket fuel, Dr. Robert Goddard, Auburn</i>	1926
<i>PC based electronic spreadsheet, ViisiCal,</i>	
<i>Daniel Brickman</i>	1979
<i>Precursor to the Internet introduced, (ARPANET)</i>	1969
<i>E-mail, Ray Tomlinson of Beranek and Newman</i>	1971
<i>The message was "QWERTYUIOP" and was sent by two side</i>	
<i>by side computers connected via ARPANET</i>	
<i>Polaroid camera, a "one step photography system",</i>	
<i>Edward Land</i>	1947
<i>Digital computer, Howard Aiken at Harvard. It was 50' long, 8'</i>	
<i>tall and weighed 50 tons</i>	
<i>Microwave oven, Perry Spencer at Raytheon</i>	
<i>Lie detector, William Marston, Harvard</i>	
<i>1915</i>	

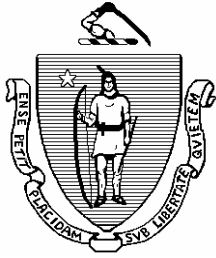


The IBM Automatic Sequence Controlled Calculator (ASCC) was devised by Howard H. Aiken and shipped to Harvard in 1944 where it was called the Mark I. It was the first large-scale automatic digital computer in the United States and was considered by some to be the first universal calculator.

Courtesy of IBM Archive: ASCC Reference Room



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Office of the Comptroller
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Summary Schedule of Prior Year Audit Findings

Report on Compliance and Internal Control in Accordance with Government Auditing Standards and the Requirements of OMB Circular A-133 and the Schedule of Expenditures of Federal Awards for the Fiscal Year Ended June 30, 2006.

The following schedule contains the finding number and title, segregated by Commonwealth department, for each of the findings included in the fiscal year 2005 (FY2005) Report. If the finding repeated as a result of the fiscal year 2006 (FY2006) audit, the current year finding is referenced after the FY2006 status of the FY2005 findings. The letters under the heading Corrective Action indicates the following:

F Full (the STATUS OF PRIOR YEAR FINDING was fully implemented)
P Partial (the STATUS OF PRIOR YEAR FINDING was partially implemented and the finding repeated)

Department

**Corrective
Action**

Department of Mental Retardation

Finding Number 1: Collection of Accounts Receivable Needs Improvement

F

Department of Social Services

Finding Number 2: Internal Controls over Fixed Assets Needs Improvement

F

Registry of Motor Vehicles

Finding Number 3: Recording of Adjustments and Uncollectibles Needs Enhancements

P-3

The RMV Director of Revenue Operations has developed a methodology for determining uncollectible citations. RMV does not have Comptroller approval of a final policy to recognize uncollectible citations on MMARS.

Office of State Treasurer /Office of the Comptroller

Finding Number 4: Office of the State Treasurer's Use and Reconciliation of Float Fund

F

Summary Schedule of Prior Year Audit Findings

Department

Corrective Action

Bridgewater State College

Finding Number 5: Internal Control Plan in Need of Improvements

P-4

The College recognizes that any Internal Control Plan is a dynamic document and will continue to revise and review all internal controls. In addition, the College's Board of Trustees has established a Board Audit Committee and an Internal Auditor position. The Internal Auditor will be responsible for the annual audit plan, which will include review policies and procedures for College departments handling cash and fiscal related tasks.

Finding Number 6: Non-Appropriated Fund Activity and Balances not Reconciled in a Timely Manner

F

Finding Number 7: Investigation and Audit of a Reported Possible Theft of Funds

P-5

The Fiscal Affairs suspected a potential discrepancy during the second week of June 2005. Preliminary investigations began immediately by College staff and the College self-reported the issue to the Office of the Attorney General and the Office of the State Auditor in July 2005, upon the reconciliation of the June 2005 bank statement and the confirmation that deposits were indeed unaccounted for in the month of June 2005. This investigation is still underway by the Office of the Attorney General.

The Bursar's Office immediately changed procedures relating to the verification of deposits and have updated the policies and procedures in the Bursar's Office to reflect this change. The Admissions Office has begun documenting all of their policies and procedures. In addition, the Admissions Office has stopped collecting cash. All cash payments for applications and tuition deposits are made at the Student Accounts Office.

Massachusetts College of Liberal Arts

Finding Number 8: Internal Control Plan Needs to be Updated

F

Finding Number 9: Non-Appropriated Fund Activity and Balances not Reconciled in a Timely Manner

P-6

The College has updated its procedures and reconciled non-appropriated activity on a regular basis since October 2005 instead of annually. Staff has received training in NewMMARS and reports are run from the College's General Ledger to generate the data for inclusion in the NewMMARS accounting system. Expenditures and revenue are reconciled and reported at least quarterly by revenue type and subsidiary. Final reconciliation will be completed at fiscal year end.

Middlesex Community College

Finding Number 10: Internal Control Plan Needs Improvement

F

Roxbury Community College

Finding Number 11: Non-Appropriated Fund Activity and Balances not Reconciled in a Timely Manner

F

Springfield Technical Community College

Finding Number 12: Improvement Needed in the Reconciliation of the College Records to the Commonwealth's Accounts Receivable System

F

Summary Schedule of Prior Year Audit Findings

Department

Corrective Action

Worcester State College

Finding Number 13: Noncompliance with Chapter 647 of the Acts of the 1989 Reporting Requirements

F

Office of the Comptroller

Finding Number 14: Excess Indirect Costs Charged not Adjusted in a Timely Manner

P-30

The reconciliation of the indirect cost chargeback program is currently accomplished through a labor intensive effort to query expenditures for hundreds of individual accounts in order to compare approved costs with actual charges. Although periodic reconciliations are made throughout the fiscal year, these efforts do not reduce the time to conduct the year-end reconciliation. This is due to the fact that most of the effort spent on reconciling charges is spent manually preparing schedules to calculate the basis for approved costs. The same amount of time is required whether the reconciliation is performed after six months or at year-end.

To facilitate these reconciliations, reports similar to the monthly chargeback reports will be developed for FY2007 that will identify cumulative eligible expenditures that are subject to indirect cost rates in effect and cumulative charges. These reports will allow the reconciliation effort to focus on why actual charges may vary from approved costs instead of developing the information to get to that point.

Finding Number 15: Errors noted in the Statewide Cost Allocation Plan

F

Finding Number 16: Documentation Supporting the Statewide Cost Allocation Agreement Needs Improvements

F

Department of Education

Finding Number 17: Payroll Adjustments Could not be Made

F

Finding Number 18: Vocational Education Program Maintenance of Effort Requirements not Met

P-10

This finding cites the Massachusetts Department of Education for failing to meet the maintenance of effort requirement for the administration of the Vocational Education Program.

We have worked with the US ED (OVAE) to develop a new methodology using the State's direct annual appropriation for the staff salaries and related costs. It is easily verifiable and allows the MDOE to directly control the allocation of State funds to meet or exceed the annual MOE and matching requirements. By using this approach, we meet the MOE requirement for the state fiscal years of 2002 through 2005 and the corresponding Single Audit fiscal years of 2003 through 2006.

We have had many discussions with US ED regarding these issues. We are awaiting their response. Our understanding is that all discussions are currently residing with the US ED legal office at this time.

Finding Number 19: Subrecipient Monitoring Could be Improved

P-8

As the title of the finding stated, "Subrecipient Monitoring Could be Improved", we feel

Summary Schedule of Prior Year Audit Findings

Department

Corrective Action

while we already met the rule and spirit of the law, there were places that we could attempt to tighten our collection and notification process. In this light, we have done the following:

- Updated our “Desk Review Process for Audits” manual. (This manual is updated every year.);
- Sent a notice to all subrecipients on December 2, 2005 listing their reporting requirements as mandated by the Single Audit Act. (This letter is sent every year at approximately this time period.);
- Sent the above notice (again) on March 2, 2006 to all School Districts and Charter Schools (these all have June 30 year end dates);
- Sent a reminder notice on March 17, 2006 to all outstanding School Districts and Charter Schools that we identified that would need to file a Single Audit Report, reminding them when the reports were due (for reports not yet received);
- In late April and early May, called each district outstanding listing dates of calls made;
- In mid May commenced second round of phone calls.

We have found a number of cities and towns that have asked for and/or received filing extensions from their federal cognizant agency. In discussions with the cities and towns the primary reason reported to us for the extension request is that the auditor has not completed (or in a few cases started) the fieldwork. We cannot suggest to them that they rethink their audit contract.

Unless we were completely confident that the reason a report is late was due to the management of our funded programs, we do not intend to avail ourselves of the option to withhold funds. We have withheld grant funds to a number of entities when it is documented that they are directly disregarding our programmatic or fiscal reporting requirements. However, as stated in our corrective action plan, “We have a theoretical problem regarding withholding education funds when there is no direct correlation to the lateness of the reports and the educational programs.”

Finding Number 20: Measurement of Local Education Agency Cash Advance Needs Improvement	P-9
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Partially implemented. After informal discussions with USED officials, the Department agrees that changes are needed to the system of grant fund disbursement. New procedures and new programming for the Grants Information system are in the process of being developed. Discussions of new procedures are now ongoing with grant recipients.

Finding Number 21: Failure to Take Action on Subrecipient Questioned Costs of \$1,827,972	F
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Finding Number 22: Inadequate Administrative Expenditures Procedures	F
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Executive Office of Elder Affairs

Finding Number 23: Supporting Documentation for Monitoring Payment to Area Agencies Needs to be Improved	P-18
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AAAs will continue to be required to submit supporting documentation to support monthly

Summary Schedule of Prior Year Audit Findings

Department

Corrective Action

invoice amounts. Elder Affairs will continue to review this documentation and address any issues with the AAAs. In addition to continuing this practice, Elder Affairs will complete a desk audit for each AAAs, by September 30, 2007. A desk audit tool will be developed to ensure standardization in the audit review process. The department is presently engaged in installing a comprehensive case management database to be used by all AAAs. In addition to the 23 desk audits to be conducted, the Department will review how to best leverage this new database to improve upon our monitoring and oversight duties in this regard.

Finding Number 24: Fiscal Year 2004 / 2005 Cost Allocation Plan not Finalized F

Finding Number 25: Monitoring of Audit Findings Relating to Area Agency on Aging Needs Improvement F

Finding Number 26: Lack of Documentation to Support Payroll Charges to Federal Awards F

Finding Number 27: Lack of Semi-Annual Certification for Employees' Whose Payroll is Charged to Federal Awards F

Department of Revenue / Child Support Enforcement

Finding Number 28: Ineffective Case Tracking and Management System P-12

CSE has started a project to design and implement automated workflow management, imaging, and document generation and management. The requirements definition and functional and technical design phases have been completed. However, the development phase will not be completed until sometime in FY07 (contingent on continued bond funding). The workflow management system will route work more efficiently to case workers, improve supervisory oversight, strengthen quality control, and provide management and staff with more real time information about case status and what actions are required on a case. This system, upon implementation, will streamline case processing activities, minimize manual data entry, allow CSE to address customer issues quickly by providing direct access to documents, and eliminate the search for paper. Workflow support will enable CSE to maximize the potential of newly redesigned business processes to increase staff efficiency and respond timely and proactively when action is necessary. Federal regulations mandate that child support cases be processed according to federal timeframes and that staff be notified automatically of the next appropriate action when manual intervention is required. By utilizing workflow management tools, CSE can ensure that all federal timeframes and regulations are met. By streamlining workflow and ensuring that appropriate steps are taken in a case, CSE will be in a strong position to improve on the five federal performance measures and maximize the amount of federal incentives returned to the state, while better serving the customer's needs.

Department of Social Services

Finding Number 29: Non-Compliance with Legal Requirements for Open Fair Appeal P-13

The Department is in partial compliance with its CAP in this area, primarily due to the challenges of finding individuals who have the appropriate mix of skills and experience for the fair hearing positions we seek to fill. Positions were advertised in December, 2005, inviting applicants to apply for 3 positions covering generally the Northeast, Boston and Southeast regions, respectively. (After analysis of the numbers of requests in the respective regions, we also decided to include Special Investigations fair hearing requests in the work

Summary Schedule of Prior Year Audit Findings

Department

Corrective Action

load of the Boston region.) We conducted interviews for the Boston region and selected a hearing officer. After a training period, she has a caseload that includes predominantly SIU and Boston cases.

We posted the Southeast position two times before identifying three candidates that we thought appropriate to interview. Two of the candidates withdrew prior to the hearing. We informed the third interview that we would interview her after posting the position for the 3rd time. (She subsequently withdrew.) The third posting yielded 3 possible candidates. We interviewed all 3 and are in the process of finalizing a hiring recommendation. We hope to have the final candidate cleared by HR and on board no later than the end of July.

We received applications for the Northeast positions, interviewed candidates, and offered a position to one of the applicants. The day after accepting the position, she called back to decline. We re-posted the position and did outreach to Salem State College, School of Social Work and B.U. School of Social Work. Unfortunately, we recently received only 3 qualified applications in response to that posting. After reviewing the applicants, it is likely that we will post the position again.

Finding Number 30: Controls Over FamilyNet and Home Licensing Report Data Need Improvement

P-14

During FY 2006, the Department finalized and released the Family Resource Policy. The Central Office Foster Care Support Services Unit has provided training regarding the implementation of the new Family Resource Policy statewide to Family Resource staff, managers, KidsNet Directors (Foster Parent support contract staff), as well as, Area-based training to all other agency staff. In addition, implementation of the alignment of FamilyNet functionality with policy and procedures continues on an on-going basis.

During FY 2005, the Department rebuilt the staffing capacity needed to appropriately oversee and manage the foster care program. In the rebuilding process, the Central Office Foster Care Support Services Unit is now staffed with a full-time Director, in addition to a full-time Foster Care Specialist, the latter having a focus on CQI for family resource practice, two Foster Care Managers, each assuming responsibility for routine monitoring of family resource compliance – CORI, licensing, etc. – for three regions. These managers also provide technical assistance and support to field staff on improvements to family resource practice. There are already routine monthly meetings between Central Office, Regional, and Area Family Resource Staff during which the compliance reports are reviewed and discussed and where the family resource experts can share best practices. Foster Care and Adoption staff from Central Office meets regularly with Regional and Area staff to review reports and the family resource reports are sorted and distributed to the family resource field staff and managers on a monthly basis. Central Family Resource Staff have trained regional and area staff in utilization of the reports and continue to meet regularly to review recommendations regarding enhancements to FamilyNet and the reports. Central, Regional and Area staffs are utilizing the family resource reports both to assure compliance with regulation is met and to plan workload for staff. These routine meetings continue.

Central Office Foster Care Support Staff and two on-going foster care advisory committees, the Family Resource Information Committee comprised of representatives from each Regional Office and the Family Resource Advisory Committee comprised of Family

Summary Schedule of Prior Year Audit Findings

Department

Corrective Action

Resource Supervisors representing their Area and Region, are attentive to identifying and prioritizing recommended improvements to the family resource functionality in FamilyNet. As the 'system of record', FamilyNet data and its reports will always be the source for testing compliance. The managers in the Central Office Foster Care Support Services Unit, along with IT FamilyNet staff, must continue to enhance the family resource functionality to ease navigation and minimize opportunities to create conflicting or erroneous data. Enhancements to FamilyNet continue to be developed, with the goal of improving and increasing family resource documentation in the system. During the prior year, significant enhancements to the family resource windows in FamilyNet were implemented. These enhancements directly facilitate or simplify the input of information into the system, improve data extraction from the system, or auto-generate annual functions (which previously required manual staff entry). The coordination of continued enhancement to both the FamilyNet system and the reports generated from FamilyNet continue between the IT department and the Adoption and Foster Care staff. During FY 2006, the focus of FamilyNet enhancements has been to align FamilyNet functionality with the Family Resource Policy which became final February 2, 2006. The Family Resource Policy requires new functionality to support the policy expectations. The process of enhancements to FamilyNet continues on an on-going basis.

Most important to improving our CORI checks and re-licensing in foster care, however, is the fact that the Governor and Legislature funded an aggressive foster family recruitment program. Six Recruitment Supervisors have been hired and have begun work with the field to recruit foster families to meet the targeted placement needs of the offices. Additional support regarding recruitment should be implemented shortly which will allow area staff greater time availability for completion of family resource task requirements. As foster family placements increase for the first time in three years, family resource staff will be able to give more attention to these important tasks, as the staff time required for immediate placement of children decreases.

In addition, we built an Area based support system that scaffolds the Area Office's ability to recruit, support and retain foster parents. By stipending current foster parents, we are creating a collaborative support system of staff and highly skilled foster parents to assist prospective foster parents through training and homestudy and retain current foster parents.

Also, the Department with KidsNet redefined and enhanced the role of Family Resource Liaisons, foster parents who are stipended and act as active supports to Department foster parents also assists with retention. This parallels the Area based support system regarding recruitment of foster parents.

With the implementation of Family Networks Intensive Foster Care services, effective July 1, 2006, the oversight of contracted foster care homes will shift to the Central Office Foster Care Support Services Unit. This reorganization will co-locate all family resource oversight – departmental foster care, contracted foster care and adoptive family resources – in one unit. The consolidation should allow for a consistent approach of monitoring the timeliness of CORIs, timeliness of licensing, etc. It will also allow for a consistent continued review and monitoring of data integrity in FamilyNet, which has not yet been available. With the planned inclusion of contracted foster care home studies in the FamilyNet database, all resources would eventually be included in the reports created and

Summary Schedule of Prior Year Audit Findings

Department

Corrective Action

issued by the FamilyNet system.

Finding Number 31: Timeliness of Criminal Offense Record Information (CORI) Checks Needs Improvement

P-15

The Department's Central Office family and adoptive resource staff and the CORI Unit continue to work with the staff at the Department's Regional and Area offices and members of the contracted foster and adoptive home agencies' staff to submit and process BRC Requests in a timely manner. The continued use of the monthly generated 195 (DSS managed foster homes) and the 196 (contractor managed foster homes) reports has resulted in a continued reduction in the numbers of homes that are overdue and the length of time such resources are overdue, for annual BRC checks or that have not been subjected to BRC checks at all.

With the implementation of Family Networks Intensive Foster Care services, effective July 1, 2006, the oversight of contracted foster care homes will shift to the Central Office Foster Care Support Services Unit. This reorganization will co-locate all family resource oversight – departmental foster care, contracted foster care and adoptive family resources – in one unit. The consolidation should allow for an integrated and consistent approach of monitoring the timeliness of CORIs, hopefully resulting in continuing improved results.

Further, staff in the Department's CORI Unit, working closely with staff at the Criminal History Systems Board, have dramatically reduced the number of and the length of time homes, noted in the 195 and 196 reports, show as pending the receipt of microfilm and sealed criminal records. The usual time that a provider resource is noted as pending the receipt of such records on the 195 and 196 reports has been reduced to 30 days or less and the numbers of providers pending these types of records, noted on the 195 and 196 reports has been reduced to approximately 10 or fewer each month.

Finding Number 32: The Process for Home Licensing Needs Improvement

P-16

During FY 2006, the Department finalized and released the Family Resource Policy. The Central Office Foster Care Support Services Unit has provided training regarding the implementation of the new Family Resource Policy statewide to Family Resource staff, managers, KidsNet Directors, as well as, Area-based training to all other agency staff. In addition, implementation of the alignment of FamilyNet functionality with policy and procedures continues on an on-going basis.

Department of Transitional Assistance

Finding Number 33: Food Stamps Status of Claims Against Household Report Filed with Inaccurate Data

F

Finding Number 34: The Department's Investigation and Recoveries of Food Stamp Fraud Needs to be Improved

F

Finding Number 35: Failure to Perform Federal Tax Information Match

P-17

<p>10/4/05</p> <p>1/10/06</p> <p>2/17/06</p>	<p>DTA updated the Computer Matching Agreement (CMA) and the Agreement to Purchase Services (Form 5181)</p> <p>CMA and Form 5181 sent to IRS</p> <p>Received signed copy of CMA and Form 5181 from the IRS (30 day</p>
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Summary Schedule of Prior Year Audit Findings

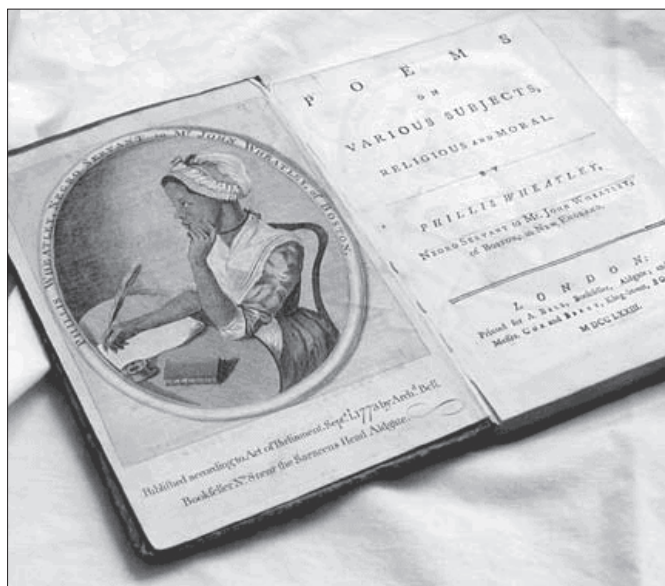
<u>Department</u>	<u>Corrective Action</u>
comment period in Federal Register commenced 2/15/06)	
2/24/06 Safeguard Procedures Report (SPR) analysis completed and returned to IRS	
5/6/06 Received final IRS review and approval of Safeguard Procedures Report (SPR) analysis based on Internal Revenue Code 6103(1)(7)	
5/11/06 BEACON Notices updated and approved to reflect safeguarding of match data and requirements	
6/9/06 DTA received official notification from the IRS that the Safeguard Procedures Report (SPR) was approved and that all official requirements were complete for MA DTA to resume matching with the IRS	
7/13/06 DTA sent active recipient file to IRS	
8/23/06 The IRS Federal Tax Information data file was received by DTA	
9/27/06 Safeguard Activity Report, due to the IRS by 9/30/06 was sent and received by the IRS in time to meet the 9/30/06 deadline.	
10/4/06 MIS is currently in the process of completing the data match	
Executive Office of Health and Human Services / Office of Medicaid	
Finding Number 36: Missing income Eligibility Documentation	F
Finding Number 37: Provider Application not signed by the Office of Medicaid	P-20
This finding on a long time provider was cited in previous audit some years ago. The Executive Office (formerly Medicaid) implemented a corrective action plan at that time to assure that future provider agreements would be countersigned. The Executive Office has since been in compliance with the new policy and procedure and continues to countersign provider agreements as part of the routine application process.	
Finding Number 38: Improper Claim of Costs Associated with the Virtual Gateway Implementation	F
Executive Office of Public Safety	
Finding Number 39: Internal Controls over Federal Draw Downs Need to be Improved	F
Finding Number 40: Improvements Needed over Reconciliations	F
Finding Number 41: Monitoring of Subrecipients Needs Improvements	F
Finding Number 42: Salaries Allocated to Federally-Funded Programs are not Supported by Proper Documentation	F
Massachusetts Highway Department	
Finding Number 43: Subrecipient Identification and Award Documents Need Improvement	F
Finding Number 44: Proceeds from the Sale of Federally-Funded Property not Deposited or Transferred on a Timely Basis	P-27
The Department has streamlined the processing of checks for the sale of real property by requiring the Right of Way Section to hand deliver the checks to a Fiscal person on the day of the land sale. Checks are deposited in one day. Every effort, in our control, has been made to ensure that funds are transferred to the Highway Trust fund within thirty	

Summary Schedule of Prior Year Audit Findings

<u>Department</u>	<u>Corrective Action</u>
days.	
Finding Number 45: Documentation of Debarment and Suspension Compliance Needs Improvement	F
Bridgewater State College	
Finding Number 46: Untimely Student Exit Counseling Sessions and Inadequate Coordination between College Departments for the Administration of the Federal Perkins Loan Program	F
Finding Number 47: Submission of Federal Work-Study Timesheets Needs Improvements The College has made improvements to the Federal College Work Study program and performed an internal audit of the program. To further aid the College with automating the Work Study program and improve compliance, the College has purchased and begun the implementation of the Web for Employee module of Banner. This module utilizes electronic timesheets and signatures. The Web of Employees modules contain parameters that will address many of the weaknesses identified in the Work Study program.	P-31
Finding Number 48: Cash Management over Perkins Loans Needs Improvement	F
Middlesex Community College	
Finding Number 49: Aggregate Loan Limit for Federal Perkins Loans Exceeded	F
Finding Number 50: Outstanding Checks Need to be Transferred to the Office of the State Treasurer's Unpaid Check Fund	F
Roxbury Community College	
Finding Number 51: Roxbury Community College Administration Improved	F

SECTION IV

Findings on Compliance and Reportable Conditions Pertaining to Internal Control Structure Based on the Audit of the Financial Statements



Courtesy of the Museum of African American History



Courtesy of the Perkins School for the Blind archives

Perkins School was founded over 175 years ago as the first school for the blind in the United States. Director Samuel Gridley Howe opened the doors of the School in 1832. Howe later established a printing department to produce embossed books, hoping to entice well-known authors to use the school to emboss their books. Charles Dickens used the School to print and distribute 250 copies of his book, *The Old Curiosity Shop*.

Dickens visited Perkins in 1842 and was amazed at the work Howe was doing with Laura Bridgman, a young deaf blind girl who came to the school in 1837. So impressed was Dickens that he wrote about his visit in his book, *American Notes*. Years later, Kate Adams Keller, mother of a young deaf blind girl named Helen, read the book. In 1887, Perkins Director Michael Anagnos sent graduate Anne Sullivan to teach Helen Keller in Alabama. That same year, the School established the first kindergarten for the blind in the United States.

As the number of blind students educated in public schools has grown, the number of students in residence at Perkins has declined. Always evolving, Perkins expanded its mission to serve sighted children with other disabilities, including deafness, mental retardation, and cerebral palsy. In the 1990s, Perkins began to offer services for visually impaired elders — the fastest-growing blind population. The Braille and Talking Book Library circulates 50,000 recorded titles and 16,000 Braille books.

In 2004, to commemorate its 175th anniversary, the school opened the Perkins Museum, "a multi-sensory journey through the history of blind and deaf blind education over the last 200 years."

Selected firsts in Education and Religion:

Religious meeting house, Plymouth	1620
Library, John Harvard donates several hundred books toward the founding of a college in Cambridge	1638
Kindergarten, Training School Elizabeth Palmer Peabody	1860
Woman in America to receive a PhD, Helen Magill White, Boston University	1877
Quakers	1656
Lending library, Franklin Public Library, through a donation of books from Benjamin Franklin	1778
University–Harvard –also oldest corporation, founded in Newtowne (now Cambridge)	1636
Public School–Mather School, Dorchester	1639
Public Secondary School, Boston Latin	1635
Library, Boston Public Library	1646
Professional training program for architects, Robert Ware, MIT	1865
Oldest standing church in the original 13 colonies	
Medical school, Harvard Medical School	1782
School for the blind, Perkins Institute	1829
Cooking school, Boston, Fanny Farmer	1896
Church built by free blacks – African meeting house	1806



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Executive Office of Environmental Affairs – Office of Law Enforcement Findings on Compliance with Rules and Regulations

Finding Number 1: Failure To Enter Fixed Asset in Proper Period

The Executive Office of Environmental Affairs – Office of Law Enforcement failed to follow the FY 2005 Closing Instructions and did not create and complete a fixed asset shell prior to the July 8, 2006 close date.

The invoice to pay for the assets purchased was not processed until after July 8, 2006. The payment form (PRC) could be entered as a period 13, fiscal year, budget year 2005 transaction. The FA was entered at the same time but the fixed asset system does not allow for a period 13. The Comptroller of the Commonwealth issues closing instructions to all department and holds an “Opening & Closing” training each year to highlight the steps that departments must take at or around June 30 of each year to ensure a proper cut off of the fiscal year at June 30. The Closing Instructions for June 30, 2005 clearly stated on page 18 that the fixed asset shells must be created before the close of period 12 of fiscal year 2005.

Recommendation

The Department should review all pending transactions as June 30 approaches and take the actions required to comply with the Comptroller of the Commonwealth’s accounting instructions.

Department Corrective Action Plan

The Executive Office of Environmental Affairs - Office of Environmental Law Enforcement will review all pending transactions as June 30 approaches and take the actions required to comply with the Comptroller of the Commonwealth’s accounting instructions.

Responsible person: Karen Carter, Deputy Director of Finance
Implementation date: November 27, 2006

Massachusetts Rehabilitation Commission Findings on Compliance with Rules and Regulations

Finding Number 2: Internal Controls over Non-GAAP Fixed Assets Need to be Improved

The Massachusetts Rehabilitation Commission (Commission) is not in compliance with the Office of the Comptroller's (OSC) requirements and their own internal policies and procedures for the accounting, reconciling, reporting and recording of fixed assets. The Commission maintains two inventory lists for Non-GAAP fixed assets consisting of furniture and equipment and EDP equipment. Specifically, our review noted that the inventory lists are not completely or accurately maintained, fixed assets are not properly tagged in all instances and an annual inventory of fixed assets was not performed. In addition, the Commission did not file any reports with the Office of the State Auditor (OSA) for any unaccounted for items, contrary to the requirements of Chapter 647 of the Acts of 1989.

Our review of the furniture and equipment inventory controls disclosed the following:

- The inventory listing had not been updated on a timely basis. For example, fiscal year 2006 purchases and disposals were not recorded until August 2006.
- The total value of the assets reported on its furniture and equipment listing of \$2,595,271 is not accurate since the total value was reduced by \$74,099, representing the value of assets that were disposed. However, the original purchase of those disposed assets was not initially included in the total value, resulting in an understatement of the total value of assets by \$74,099.

Our review of the EDP equipment inventory controls disclosed the following:

- The listing had not been updated for fiscal year 2006 purchases.
- The listing does not include a "roll forward" balance. A roll forward is a schedule that reports prior year ending balances, identifies additions and deletions, i.e. disposals, of such assets during the year and results in an ending balance that reports all non-GAAP fixed assets currently owned and used by the department.
- The total value of the assets reported on its EDP equipment inventory list of \$1,312,014 as of August 11, 2006 is not accurate since the total value was not reduced for disposed items totaling \$281,101, resulting in an overstatement of the total value of assets by \$281,101.
- The acquisition date and assigned Commission identification number was not recorded in all instances.
- There were 16 instances noted where the same Commission identification number was recorded multiple instances either for the same item or different items.

In addition, we selected 33 items for review at the Central Office to verify the existence of the asset, location, and proper recording, which disclosed the following:

- Three computer laptops could not be located. We were informed that one laptop had been stolen in February 2005; however, the theft of this property was not reported to the OSA as required by Chapter 647 of the Acts of 1989. The remaining two laptops were found to be no longer assigned to the designated employees. The Commission is currently performing a search for the remaining two laptops. The Commission could not provide a Fixed Asset Disposition form to document the disposition of either asset.
- Four items lacked identification tag numbers.

Massachusetts Rehabilitation Commission

Findings on Compliance with Rules and Regulations

Finding Number 2: Internal Controls over Non-GAAP Fixed Assets Need to be Improved (continued)

- The location of four items was not accurately recorded on the list.
- One item found was inaccurately recorded as disposed on the list.

The Massachusetts Management Accounting and Reporting System (MMARS) Fixed Asset Subsystem User Guide sets forth the following policies, which state in part:

Chapter 5, Accounting and Management, Policy Numbers 5-5 and 5-6:

Fixed Asset Inventory – There shall be an annual inventory taken of fixed assets owned by every Department. This inventory shall include at a minimum a verification of the existence and location of fixed assets owned by a Department. This inventory shall be done on or about June 30th of each year for GAAP and non-GAAP assets.

Reconciliation – There shall be a reconciliation of the fixed assets inventory against the books and records maintained by the Department, either on the Fixed Asset Subsystem or other documented methods. This reconciliation is to be done, at a minimum, on an annual basis.

Chapter 4, Recording Including Depreciation, Policy Number 4-5:

Tagging of Assets – Physical property other than land, buildings and infrastructure shall be marked with some type of permanent tag affixed to a readily available area of the asset. This tag must have a unique identification number that will be associated with that asset and become a part of the asset's permanent record.

Chapter 6, Reporting, Policy Number 6-3:

Non-GAAP Fixed Assets – Departments must maintain an inventory of these assets either on the Fixed Asset Subsystem in MMARS or on an in-house system.

Also, the OSC's Internal Control Guide for Departments, Volume II, Chapter 3, Section C, Fixed Assets, sets forth the following requirements:

Departments are required to properly account for all fixed asset transactions, including the proper recording and the reconciliation of a periodic inventory of all fixed assets.

The department has implemented adequate security of fixed assets, equipment or other inventory guidelines to ensure the safety of fixed assets from loss, theft, misuse or destruction, including restricted access to the public to office space.

Procedures in place to ensure that all fixed assets are properly recorded in either MMARS or the department's inventory system within 7 days of receipt.

Internal inventory systems must include the description of the item, the value of the item, the acquisition date and where the property can be located within the department.

The Commission's Administration Bulletin 99-17 regarding fixed asset inventory states in part:

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

Massachusetts Rehabilitation Commission Findings on Compliance with Rules and Regulations

Finding Number 2: Internal Controls over Non-GAAP Fixed Assets Need to be Improved (continued)

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

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

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

The Commission's Internal Control Plan states in part:

All equipment has an individual property control identification number and a complete property inventory of all property is tagged when received and entered into inventory records.

Inventory records are updated to reflect additions, deletions and internal transfers of equipment.

An annual inventory of all equipment is conducted with notations of all discrepancies since the last inventory has been taken.

Results of the inventory are reconciled to department's inventory records.

The Director of Administration reports loss to State Auditor's Office and equipment is deducted from the inventory.

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

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

The Commission indicated that because of the implementation of new MMARS staff was not available to maintain the inventory. During the audit the Commission began the process of updating/correcting its records to ensure they are complete and accurate. The Commission further advised us that a complete inventory would be conducted in the near future.

By not maintaining proper controls over fixed assets, there is no assurance that property and equipment is adequately safeguarded against loss, theft, or misuse.

Massachusetts Rehabilitation Commission Findings on Compliance with Rules and Regulations

Finding Number 2: Internal Controls over Non-GAAP Fixed Assets Need to be Improved (continued)

Recommendation

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

- Conduct an annual physical inventory of property and equipment.
- Reconcile, at a minimum on an annual basis, its fixed assets inventory against the books and records it maintains.
- Monitor the movement or transfer of equipment within the Commission.
- Maintain cumulative fixed asset listings accurately, completely and timely, that includes each item's description, property identification number, location, and acquisition date.
- Ensure that all fixed assets have a permanently affixed identification tag.
- Report any items that it cannot locate to the Office of the State Auditor as required under Chapter 647.

Department Corrective Action Plan

The Commission is in basic agreement with the audit finding. The only explanation we can offer is a lack of staffing during this time period due to the significant efforts that had to be put forth for the implementation of the Comptrollers New MMARS financial accounting system.

The Commission will comply with the requirement to complete an annual physical inventory of its assets. We are well underway with a physical inventory of our central office and will complete the physical inventory by 9/15/06. We will begin the reconciliation of the physical inventory to our current inventory listing and expect to complete that by 9/30/06. We expect to complete a physical inventory of our 25 area office and 3 district office locations by 9/30/06 and reconciliation to our inventory listing by 11/10/06.

We will improve the tracking of inventory that is transferred from one location to another and from one individual to another for appropriate items such as notebook computers.

We will continue to maintain our fixed asset listing, but will enter inventory changes (additions and reductions) in a timely manner. We make every effort to affix numbered inventory stickers to inventory items as received but do recognize that over time the stickers become unreadable or fall off. We will emphasize our procedure for replacement of missing or defective tags and will continue to tag all new inventory items.

The Commission has a history of reporting lost or stolen inventory items to the OSA. We are aware of the process and comply to the best of our ability. The current audit has brought out deficiencies on our inventory control which we expect will result in additional items that will be deemed missing or unaccounted for. We will make our best efforts to account for those items during our physical inventory and submit a report to the OSA upon completion of our reconciliation.

Responsible person: John Kepple, CFO
Implementation date: December 31, 2006

Registry of Motor Vehicles Findings on Compliance with Rules and Regulations

Finding Number 3: Recording of Adjustments and Uncollectibles Needs Enhancements

The Registry of Motor Vehicles (Registry) is responsible for the collection of the fines associated with all Civil Motor Vehicle Infractions (CMVI) for the Commonwealth. No provision is made for those that default on the fines. The Registry has the right to revoke the motor vehicle registration or the operator's license to drive for citations that are not paid, minimizing the default rate.

The Registry has an extensive citation accounting system in place to record the citations written each year by local and state police. The fiscal year 2004 and 2005 single audit reports noted that RMV needed to revise its methodology for determining valid receivables and uncollectibles. Payment is due within 21 days or the citation may be appealed to the courts, a court date is set within a year. As a result of the appeal, the fines associated with the citation may be waived, reduced or upheld. Cash receipts for payment of citations are received and recorded by the Registry. The court notifies the Registry of the results of each hearing and the information is entered into the citation accounting system.

The Registry maintains a clear trail of summary entries into the MMARS system to record the citations issued and the cash received each month. The balance reflected in the MMARS system agrees to the balance in the stand alone citation accounting system.

The collection cycle for those that fail to pay continues, with late fees, for the remaining life of the registration (renewed every two years) or the operator's license (renewed every five years). This cycle would suggest that strong consideration be given to writing off (for accounting purposes only) all balances that are more than five years old. The Registry has positive experience with collection of overdue citations at the time of license and registration renewal, they should look at the history of these collections and determine a method to establish a reserve for uncollectibles for all citations that remain outstanding after 21 days to acknowledge that some, but not all will be collected at the renewal.

The RMV's report, MMRRV110R7, showed that 69% of citations are guilty/paid, 24% are not guilty/not responsible, 5% defaulted, 2% are waiting for a hearing and 1% are waiting for payment. These statistics, and other historical data available, should be used by the Registry to assess the collectibility of the amount outstanding and an amount should be reserved as uncollectible based on the data. (*Fiscal Year 2004; 2005 Report Finding 3*)

Recommendation

The registry should continue to pursue the needed approval of the office of the state comptroller to establish a valid receivable and uncollectible methodology.

Department Corrective Action Plan

The Registry of Motor Vehicles is in the process of changing the calculation of Civil Motor Vehicles Infractions (CMVI) monthly receivables in response to the last finding and recommendation. On November 9, 2005 a request was submitted to the Registry IT group to create a new report providing the total dollar value of citations written, and the total dollar value of citations resulting in hearings to better determine CMVI receivables. This change was considerable and is not yet available, but we expect the new report to be available for the December 31, 2006 receivable balance calculation.

Registry of Motor Vehicles Findings on Compliance with Rules and Regulations

Finding Number 3: Recording of Adjustments and Uncollectibles Needs Enhancements (continued)

Department Corrective Action Plan (continued)

The Registry will continue to work with the State Comptroller's office to implement a process for writing off receivables that were issued over seven years ago. The process will write off the dollar value from only the MMARS database and not Alars as citations must remain on drivers' records for suspension and insurance purposes. We have sought and would welcome guidance from the Comptroller's office regarding uncollectibles. To date we have not been provided with instructions to write-off old citations on MMARS. You will note however that collections still occur even for the oldest citations in the Registry database as noted below. These payments were made in FY2006.

Years when issued	Citation prefix	# of citations paid	Revenue
1990/1991	A	31	\$ 4,630.00
1991/1992	B	208	\$ 29,894.00
1992/1993	C	557	\$ 77,600.00
1994/1995	D	632	\$ 89,960.00
1995/1996	E	734	\$ 103,800.00
1996/1997	G	697	\$ 94,832.00
1998/1999	H	2,182	\$ 317,510.00
*****		5,041	\$ 718,226.00

***** = Payments in FY2006 on citations about seven years old or older.

Responsible person: Paul Savoy
Implementation date: December 1, 2006

Institutions of Higher Education Bridgewater State College Findings on Compliance with Rules and Regulations

Finding Number 4: Internal Control Plan in Need of Improvement

The fiscal year 2005 single audit disclosed that Bridgewater State College (College) had not updated its Internal Control Plan (ICP) to include a high level summarization, on a department wide basis, of the College's risks. Our follow-up audit disclosed that although the College has made some significant improvements in its ICP, improvements are still needed to ensure that controls are in place to mitigate the College's identified risks. Specifically, many of the College's lower level detail, i.e. departmental policy and procedure manuals for the fiscal affairs, student financial aid and admissions departments were either outdated, or had not been established in accordance with the Office of the State Comptroller's (OSC) internal control guidelines, policy memos, and other Commonwealth policies, procedures, and regulations. Also, the College still needed to develop and implement improvements, modifications, and additions to its ICP to properly document the College's administrative and accounting internal control system to include (a) references to departmental policies and procedures, (b) details of the staff performing the functions, and (c) documentation of the full cycle of all transactions performed for all departmental operations. As a result, it is not in compliance with Chapter 647 of the Acts of 1989, an Act Relative to Improving the Internal Controls within State Agencies, and the Internal Control Guidelines issued by the OSC.

Chapter 647 of the Acts of 1989, states, in part:

Internal control systems for the various state agencies of the Commonwealth shall be developed in accordance with internal control guidelines established by the Office of the Comptroller.

Further, the OSC Memorandum FY 2001-28, dated June 29, 2001, states, in part:

A departmental control plan is a high level summarization on a department-wide basis, of the department's risks (as the result of a risk assessment) and of the controls used by the department to mitigate those risks. This high level summary must be supported by lower level detail, i.e. departmental policies and procedures. We would expect this summary to be from ten to fifty pages, depending on the size and complexity of the department . . . A departmental risk assessment is the identification and analysis of the risks that could prevent the department from reaching its goals and objectives. This identification and analysis forms the basis for determining how the risks should be managed. A precondition to risk assessment is the establishment of the organization's mission and goals.

The College has worked to improve internal controls by designating staff to review, update and improve all departmental policies and procedures as well as update the ICP including a review of the College's risks. However, the College needs to complete the process, by authorizing and implementing the policy and procedures manuals (currently in draft form), distributing them to staff, and properly cross-referencing the manuals to the ICP. Implementing the policy and procedures as drafted within the manuals and updating the plan is important for the College to ensure the effectiveness of its internal control structure. A review of the policies and procedures established for three major departments, Fiscal Affairs, Student Financial Aid, and Admissions, which are referenced in the ICP draft, disclosed the following:

- The Fiscal Affairs Department has prepared detailed, updated, written procedures and controls that document the full cycle of transactions performed for collecting, recording, monitoring and reconciling revenue from students, applications, miscellaneous departments, grants, and student financial aid.

**Institutions of Higher Education
Bridgewater State College
Findings on Compliance with Rules and Regulations**

Finding Number 4: Internal Control Plan in Need of Improvement (continued)

- The Student Financial Aid Department now has detail, written, policies, procedures and controls that document the full cycle of transactions performed for recording, monitoring, reporting to other departments and reconciling program records to fiscal records.
- The Fiscal Affairs Department has not fully completed an update of its written procedures and controls that document the full cycle of transactions performed by the department, for example the accounting functions, which include monthly reconciliations, and opening, maintaining, and closing of financial records, and policies to ensure that all existing department policies and procedures, including memorandums outlining specific operational procedures, are not cross referenced or identified within the ICP and there is no requirement that the policies be reviewed annually or as conditions warrant.
- The Admissions Department did not have written policies and procedures manuals including both fiscal and general operations germane to its overall function at the College.
- The College does not have an implementation plan as to when policies and procedure manuals are to become effective and, to ensure that all staff receives notice of new, revised, or updated policies and procedure manuals along with training.

Without a sufficient documented and supported ICP in place, there is inadequate assurance that the College will achieve its mission and objectives efficiently, effectively, and in compliance with applicable state laws and regulations and will properly safeguard its assets against loss, theft or misuse. (*Fiscal Year 2004; 2005 Report Finding 5*)

Recommendation

The College should continue its efforts to update its ICP by implementing detailed policies and procedure manuals for all departments throughout the College in order to achieve its mission and objectives efficiently, effectively, and in compliance with applicable state laws, rules and regulations. This will also provide support and guidance in the event of employee turnover, and safeguard its assets against loss, theft or misuse. Furthermore, the College should continue to ensure that its internal control system is reviewed, evaluated, and any necessary changes implemented, at least annually or when conditions warrant.

Department Corrective Action Plan

The College concurs with this finding. We recognize that any Internal Control Plan is a dynamic document and will continue to revise and review all internal controls.

In addition, the College's Board of Trustees has established Board Audit Committee and an Internal Auditor position. The Internal Auditor will be responsible for the annual audit plan, which will include review policies and procedures for College departments handling cash and fiscal related tasks.

Responsible person: Darlene Costa-Brown Associate Vice President, Fiscal Affairs/Controller and Internal Auditor

Implementation date: 06/30/2007

**Institutions of Higher Education
Bridgewater State College
Findings on Compliance with Rules and Regulations**

Finding Number 5: Investigation and Audit of a Reported Possible Theft of Funds

In fiscal year 2005, Bridgewater State College (College) filed a Chapter 647 report with the Office of the State Auditor (OSA) notifying the OSA that the College had missing and unaccounted for deposits in its General Administrative Operating Checking Account. The OSA's and the College's annual year-end financial closing and cash cut-off procedures along with the College's June 2005 reconciliation process disclosed that certain receipts recorded on the College's records were not deposited in the bank. The dollar value of unaccounted for deposits is approximately \$355,441 for fiscal year 2005. The College's initial internal investigation resulted in the dismissal of an employee from the College's business office and a referral to the Office of the Attorney General (OAG). The OSA, in conjunction with the OAG, is conducting an audit/investigation with regard to this matter. The exact amount of the loss of funds is unknown at this time.

We conducted follow-up review for fiscal year 2006 to determine if the College has strengthened its internal controls in response to the missing and unaccounted for deposits in its General Administrative Operating Checking Account. We reviewed processes and controls put in place by the College over deposits and transfers of funds to determine if the College (1) is ensuring the validity and accounting for all revenues and receipts, (2) has improved the segregation of duties in the collection and depositing process; and (3) is collecting and depositing funds in accordance with applicable laws, rules, and regulations. In response to the prior audit the College indicated that "As a result of this incident, the Bursar's Office immediately changed its procedures relating to the verification of deposits and the College has updated policies and procedures in the Bursar's Office to reflect this change".

The College has made progress in improving its internal controls in the area of revenue collection, however, the College's internal controls are still in need of improvement. During the audit the College acknowledged these weaknesses and took immediate corrective action including revisions to its revenue collection policy and procedures. The corrective actions were aimed at providing accountability over deposits and readily identifying and reviewing unaccounted for deposits in a timely manner. However, the College still needs to improve its internal controls in the area of transmitting revenue to the Bursar's Office as follows:

- The Admissions Department has no documented record keeping process for the collection of application fees, tuition deposits, or room security deposits.
- The Admissions Department has not developed written policies and procedures for the individual transactions processed by the Admissions Department, specifically the collection and safekeeping of revenues collected, such as, application fees, tuition deposits, or room security deposits.
- The Admissions Department does not issue cash receipt slips to students for cash received at the Admissions Office for application fees, tuition deposits, or room security deposits.
- The College has not yet developed a reconciliation process between the Fiscal Affairs Office (which enters and deposits the revenues from Admissions) and the Admissions Department (which receives the revenue) to ensure that all revenues collected by Admissions are properly identified, accounted for, and accurately remitted to the Fiscal Affairs Office and subsequently deposited into the College's bank account.

**Institutions of Higher Education
Bridgewater State College
Findings on Compliance with Rules and Regulations**

**Finding Number 5: Investigation and Audit of a Reported Possible Theft of Funds
(continued)**

In addition we noted that many of the policies and procedures developed during fiscal year 2006 as a result of the prior audit for the collection of revenues have not yet been implemented or communicated to the staff directly participating in the process. Internal control policy and procedure manuals are only effective if staff have been trained and have a copy of the manual.

Chapter 647 of the Acts of 1989, An Act Relative to Improving the Internal Controls within State Agencies requires the following:

(A) Documentation of the agency's internal control systems should include (1) internal control procedures, (2) internal control accountability systems and (3), identification of the operating cycles. Documentation of the agency's internal control systems should appear in management directives, administrative policy, and accounting policies, procedures and manuals.

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

(F) Periodic comparison shall be made between the resources and the recorded accountability of the resources to reduce the risk of unauthorized use or loss and protect against waste and wrongful acts. The vulnerability and value of the agency resources shall determine the frequency of this comparison (*Fiscal Year 2005 Report Finding 7*).

Recommendation

The College should continue to review and evaluate its revenue and receipts policies and procedures and internal controls in this cash collection area. At a minimum, the College should immediately:

- Address the need for improvement over procedures in the Admissions Department including the written identification and documentation of its collection process.
- Implement a cash receipts process in which Admissions personnel prepare and return a pre-numbered cash receipt slip to students making cash payments.
- Ensure that the College's Admissions Office in concert with the Fiscal Affairs Office develops an appropriate reconciliation process to ensure all revenue collected in the Admissions Office is properly identified, documented, accounted for, and accurately remitted by Admissions to Fiscal Affairs and deposited into the College's bank account.

**Institutions of Higher Education
Bridgewater State College
Findings on Compliance with Rules and Regulations**

**Finding Number 5: Investigation and Audit of a Reported Possible Theft of Funds
(continued)**

Recommendation (continued)

- Continue to promote and emphasize the importance of internal controls through more education and training and increased departmental awareness of control procedures. Managers need to be especially mindful if the internal controls in their departments are adequate for reducing the risk of asset loss, and help to ensure the reliability of financial information and compliance with applicable laws, rules, and regulations.

The College should also be prepared to update and enhance its controls to mitigate any further identified risks and make appropriate changes to its internal controls and policies and procedures based upon the results of the ongoing investigation of the incident cited upon its conclusion.

Department Corrective Action Plan

The Fiscal Affairs suspected a potential discrepancy during the second week of June 2005. Preliminary investigations began immediately by College staff and the College self-reported the issue to the Office of the Attorney General and the Office of the State Auditor in July 2005, upon the reconciliation of the June 2005 bank statement and the confirmation that deposits were indeed unaccounted for in the month of June 2005. This investigation is still underway by the Office of the Attorney General.

The Bursar's Office immediately changed procedures relating to the verification of deposits and has updated the policies and procedures in the Bursar's Office to reflect this change.

The Admissions Office has begun documenting all of their policies and procedures. In addition, the Admissions Office has stopped collecting cash. All cash payments for applications and tuition deposits are made at the Student Accounts Office.

Responsible person: Greg Meyer, Director of Admissions
Implementation date: 06/30/2006

Institutions of Higher Education Massachusetts College of Liberal Arts Findings on Compliance with Rules and Regulations

Finding Number 6: Non-Appropriated Funds Activity and Balances not Reconciled in a Timely Manner

During the 2005 fiscal year, the Massachusetts College of Liberal Arts (College) did not enter and reconcile its non-appropriated funds [Fund 901] activity monthly to the Massachusetts Management Accounting and Reporting System (MMARS) as required by Commonwealths laws and regulations.

Chapter 15A, Section 15C of the Massachusetts General Laws (MGL) requires that public institutions of higher education report monthly, by subsidiary, all expenditures and revenues from all appropriated and non-appropriated funds on MMARS. Chapter 138, Section 339 of the Acts of 1991 required public institutions of higher education to report all non-appropriated fund activity on MMARS by July 1, 1992. Directives from the Office of the State Comptroller (OSC) instructed the colleges to post monthly the cash inflows and outflows for non-appropriated funds and reconcile the information appearing in MMARS to the information in the college's records on a monthly basis.

During fiscal year 2006, the College improved and updated its procedures and reconciled the non-appropriated fund activity on a regular basis beginning in October 2005. In addition, College staff received MMARS training and reports are run from the College's general ledger to generate the data for inclusion in MMARS. Expenditures and revenue are reconciled and reported at least quarterly by revenue type and subsidiary. The final reconciliation will be completed at the end of fiscal year 2006.

In April 2006 the OSC, communicated the following to all of the Commonwealth's colleges to address reporting and reconciling issues regarding non-appropriated funds due to the implementation of NewMMARS:

In FY2006, MMARS detail by Institution for non-appropriated funds will again be included in the Commonwealth's Statutory Basis Financial Report (SBFR)...By September 1st all FY2006 Higher Education activity through June 30, 2006 should be posted to MMARS. By September 5th, the MMARS trial balance query/CIW [Commonwealths Information Warehouse] report (replacing classic MMARS RPT110H) will be made available to higher education schools. This will provide the basis for final reconciliation between MMARS non-appropriated information and each institution's internal system. The due date for final reconciliation is September 11, 2006.

The College's procedures in place prior to the implementation of NewMMARS were not replaced with procedures adequate for the new system to ensure compliance with Chapter 15A, Section 15C.

Although improvements were made in the College's procedures over non-appropriated funds activity; by not posting and reconciling non-appropriated fund transactions to MMARS on a monthly basis the College is not in compliance with Chapter 15A, Section 15C of the MGL's. (*Fiscal Year 2005 Report Finding 9*)

Recommendation

The College should continue to work with the OSC to address this issue in order to comply with the monthly reporting and reconciliation requirements.

**Institutions of Higher Education
Massachusetts College of Liberal Arts
Findings on Compliance with Rules and Regulations**

Finding Number 6: Non-Appropriated Funds Activity and Balances not Reconciled in a Timely Manner (continued)

Department Corrective Action Plan

MCLA will reconcile its non-appropriated funds on a monthly basis in compliance with Chapter 15A, Section 15C of the MGL's. We appreciate the recognition that we have improved our compliance in this area and will fully adopt the Auditor's recommendation. We will also continue to work with the Office of the State Comptroller.

Responsible person: Dr. James Stakenas, Vice President Administration and Finance
Implementation date: Immediately (September, 2006)

Institutions of Higher Education Northern Essex Community College Findings on Compliance with Rules and Regulations

Finding Number 7: Internal Control Plan Needs Improvement

Our review disclosed that Northern Essex Community College (College) has recently updated its Internal Control Plan (ICP), however, the ICP only meets minimal standards as detailed in Chapter 647 of the Acts of 1989 (an Act to Improve Internal Controls within State Agencies), and Office of the State Comptroller (OSC) guidelines. Chapter 647 requires that departments develop an ICP in accordance with OSC guidelines.

Although the College's ICP made some references to the elements of internal control, a review of the plan noted that (1) the development of the risk assessment needs improvement, (2) the presentation of control activities was incomplete, and (3) specific references to information and communication data and specific accountability either by responsibility or authority to monitoring policies and procedures need improvements.

The OSC's Internal Control Guide, Vol. 2, states, in part:

The Office of the Comptroller defines an internal control plan as, "a high level summarization, on a department-wide basis, of the department's risks (as the result of a risk assessment) and of the controls used by the department to mitigate those risks. This high level summary must be supported by lower level detail, i.e., departmental policies and procedures. . . ."

For the ICP to be considered a "high level summarization," the five interrelated components of internal control must be present: control environment, risk assessments, control activities, information and communication, and monitoring. Although the College does have various standard operating policies and procedures, the ICP did not effectively address key elements of risk assessment, information and communication, and monitoring components within its ICP. Without a complete ICP in place, there is inadequate assurance that the College will achieve its mission and objectives efficiently, effectively, and in compliance with applicable state laws and regulations; provide guidance in the event of employee turnover; and properly safeguard its assets against loss, theft, or misuse.

A risk assessment is an entity's identification and analysis of risks relevant to achievement of its goals and objectives and forms a basis for determining how the risks should be managed (see Committee of Sponsoring Organizations of the Treadway Commission's [COSO] Internal Control - Integrated Framework Executive Summary). Although the College had prepared a risk assessment identifying possible risks that may prohibit the College from accomplishing its mission, the risk assessment was not integrated into an effective ICP to identify how the risks would be mitigated. The OSC's Internal Control for Managers, Chapter 3B, defines risk assessment as "the process used to identify, analyze, and manage the potential risks that could hinder or prevent an organization from achieving its objectives." The College's ICP addressed only certain operational areas and did not include others, several of which were critical in nature. Specific risk items that were not identified and should be considered and analyzed as to how they would impede the College's achievement of goals and objectives include the following:

- Loss of state funding and its negative impact on programs and employees.
- Loss of eligibility for student financial aid and how it would prevent some students from attending.

**Institutions of Higher Education
Northern Essex Community College
Findings on Compliance with Rules and Regulations**

Finding Number 7: Internal Control Plan Needs Improvement (continued)

- Inadequate controls over the accounts receivable and revenue cycles, which could result in the untimely collection of revenues, or the under/over-statement of revenue.
- Improperly reported fiscal information, which results in the inability to review and monitor financial activities and operating performance.
- Inadequate accounting systems, which could result in fraud and embezzlement.
- Inability to hire and retain qualified staff, which could result in the inability to properly educate students and adequately protect the assets of the College.

Also, areas key to the College's operations that were not either referenced as risks or identified with a plan for mitigating the risks included the following:

- Cash on Hand and in Banks
- Bank Reconciliations
- Receipts and Revenues
- Billings and Receivables
- Accounts Payable
- Payroll
- Financial Aid
- Financial Reports
- Receiving

Once these risks have been identified, the College should determine how these risks would be managed and addressed in the ICP. The only reference to the management of risk in the ICP, although indirect, is in regard to a general discussion of segregation of duties in the College's accounting system, and the availability of training seminars, professional development, and performance evaluation in the retention of qualified staff.

Additional areas of concern pertaining to the College's ICP included information relating to the following:

- *Control Activities* are defined as: "the policies and procedures that occur throughout the organization and are implemented to help ensure that organizational objectives are met. They help minimize risks and enhance effectiveness. They can be either preventive (supervisory approval) or detective (reconciliation)" (OSC Internal Control Guide for Managers, Chapter 3). In general, although the College's ICP does include documentation of some control activities, in many cases the procedures are incomplete and could be better developed to include all pertinent procedural steps. In the Financial Reporting section, no procedures were included.
- *Information and Communication* consists of the identification, capture, and exchange of information in a form and time frame that enables people to carry out their responsibilities. Effective internal control requires that "pertinent information be stored, captured and communicated both within the organization and to external parties (such as state agencies, trustees, vendors, and others). Communication must be ongoing both within and between various levels and activities of the organization" (COSO's Internal Control - Integrated Framework Executive Summary). The College's ICP could be improved by incorporating more specific references to information and communication data, such as systems used (e.g., Banner, MMARS), reports generated (e.g., GAAP

**Institutions of Higher Education
Northern Essex Community College
Findings on Compliance with Rules and Regulations**

Finding Number 7: Internal Control Plan Needs Improvement (continued)

Report, BARS report, tuition remission, Semi-annual Spending Plan to Budget Bureau, Financial Statements), and parties involved (e.g., Commonwealth of Massachusetts, vendors, Board of Trustees, department heads).

- *Monitoring* is a process that assesses the quality of the internal control performances over time. The effectiveness of internal controls needs to be monitored periodically to ensure that controls continue to be adequate and function properly. This is accomplished through ongoing management and supervisory activities. (OSC's Internal Control Guide for Managers, Chapter 3). Although the College's ICP discussed some monitoring procedures and contained other vague references to monitoring, there was not enough specific accountability either by responsibility or authority (e.g., budget review and analysis, program reviews and surveys, ongoing management, reporting and correcting of deficiencies, state audits) in many sections of the ICP.

College officials informed us that a working subcommittee of staff College-wide had recently been convened for the specific purpose of developing an all-encompassing risk assessment that would better address all possible risks at the College and that this group would include in the College's revised ICP the elements for improvement detailed in this finding.

Recommendation

The College should update and revise its ICP to include a more comprehensive, College-wide risk assessment with specific policies and procedures designed to mitigate risk, with reference to and discussion of the five components of internal control as they pertain to the College's internal control framework. The identification and incorporation of specific control activities with more specific references to information and communication data is needed in order to reference the key internal operating systems within the ICP. The designation of specific accountability either by responsibility or authority to monitoring procedures should be readily identified in the ICP.

Department Corrective Action Plan

The College has reviewed this recommendation and will make appropriate changes as deemed necessary during fiscal year 2007.

Responsible person: Mark Casey

Implementation date: Ongoing, to be completed during FY 2007.

Various Departments

Findings not Repeated from Prior Years

1. Prior single audit reports disclosed that the Department of Mental Retardation (Department) needed to improve the collection of its accounts receivable. The 2005 report noted a past due balance of \$60,557 for room and board charges for a Department resident that dated back to 1995. During fiscal year 2006, the Department hired an approved vendor from the state's Master Service Agreement (MSA) to perform debt collection. The Department has since, met with representatives of the selected debt collection agency and outlined the Department's needs. The debt collection agency has been working on collecting outstanding accounts receivables. In January 2006, the above past due debt of \$60,557 was submitted to the debt collection agency. To date, no funds have been collected on the outstanding balance. *(Fiscal Year 2005 Report Finding 1)*
2. The Department of Social Services (Department) was not in compliance with Office of the State Comptroller (OSC) requirements for accounting, reconciling, reporting, and recording of fixed assets. The Department implemented a plan to process and record fixed assets to comply with the OSC requirements. The plan included applying bar coded assets tags (each assigned a unique identifying number) to all appropriate assets located at all Department offices. Additionally, all data related to those assets would be scanned into the asset management database. As of July 7, 2006, all Department offices have been inventoried with all appropriate assets tagged and scanned into the asset management database. *(Fiscal Year 2005 Report Finding 2)*
3. The Office of the State Treasurer (Office) and the Office of the State Comptroller need to examine the feasibility of removing delegated agency controlled accounts from the current Float Fund structure. In addition, the reconciliation process needed to be reexamined to facilitate timely reconciliation of float fund activity. The delegated agency control accounts have been removed from the Float Fund and stabilized as agency advance accounts. In addition, the reconciliation of Float Fund accounts has been completed. *(Fiscal Year 2005 Report Finding 4)*
4. During the 2005 fiscal year, Bridgewater State College (College) had not been entering and reconciling its Non-Appropriated Fund [Fund 901] activity monthly to the Massachusetts Management Accounting and Reporting System (MMARS) with its internal records as required by Commonwealth laws and regulations. The College has implemented procedures to ensure that monthly postings and reconciliations to MMARS are being made. *(Fiscal Year 2005 Report Finding 6)*
5. The Massachusetts College of Liberal Arts (College) did not have a complete and updated internal control plan (Plan) as required by Chapter 647 of the Acts of 1989 (an act to improve internal controls within state agencies) and the Office of the State Comptroller (OSC) internal control guidelines. The College completed and updated its Plan in November 2005 and is now in compliance with Chapter 647 of the Acts of 1989 and the OSC internal control guidelines. *(Fiscal Year 2005 Report Finding 8)*
6. The Middlesex Community College (College) did not have a complete and updated internal control plan (Plan) as required by Chapter 647 of the Acts of 1989 (an act to improve internal controls within state agencies) and the Office of the State Comptroller (OSC) guidelines. The College completed an update of its Plan to ensure compliance with Chapter 647 of the Acts of 1989 and guidelines of the OSC. *(Fiscal Year 2005 Report Finding 10)*

Various Departments

Findings not Repeated from Prior Years

7. Prior audit reports disclosed that Roxbury Community College (College) had not been posting and reconciling its Non-Appropriated Fund [Fund 901] activity between the College's records and the Office of the State Comptroller's (OSC) Massachusetts Management Accounting and Reporting System (MMARS) on a monthly basis as required by Commonwealth laws, rules and regulations. The College has implemented policies and procedures to ensure that monthly postings and reconciliations to MMARS are being made. *(Fiscal Year 2005 Report Finding 11)*
8. The fiscal year 2004 and 2005 single audits disclosed that the Springfield Technical Community College (College) needed to improve its accounts receivable monthly postings and reconciliations between the College's records and the Office of the State Comptroller's (OSC) Massachusetts Management Accounting and Reporting System (MMARS). The College is required to comply with MMARS, the statewide accounting and reporting system as well as BARS, a statewide, centralized subsystem of MMARS utilized for billing and collections. College administrators improved its oversight and monitoring of the recording and reporting of its accounts receivables onto MMARS to ensure compliance with the requirements of the OSC. Monthly summary postings to MMARS and reconciliations to College records were noted. *(Fiscal Year 2005 Report Finding 12)*
9. The fiscal year 2004 and 2005 single audits disclosed that Worcester State College (College) did not report to the Office of the State Auditor (OSA) in a timely manner all unaccounted for variances losses, shortages or thefts of funds or property as required by Chapter 647 of the Acts of 1989. The College has taken corrective action by developing and implementing adequate internal controls in the areas previously cited, and complying with the provisions of Chapter 647 by timely submitting Chapter 647 reports to the OSA during fiscal year 2006. *(Fiscal Year 2005 Report Finding 13)*



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SECTION V

Findings on Compliance and Reportable Conditions Pertaining to Internal Control Structure Used in Administering Federal Programs

The “L” Street Brownies have been a fixture at the Curley Community Center (formally and most commonly known as the “L” Street Bathhouse) in South Boston, Mass. Since 1903, the “brownies” have been swimming every day regardless of weather including their famous “dip” on New Years Day. The salt water swimming has proven to be an elixir to this group, many of whom live to their mid 80’s and 90’s.



L Street Brownies



*Cyclone Rollercoaster, Revere Beach,
Massachusetts Courtesy of RevereBeach.Com*

Sports and Recreation firsts:

<i>Self guided walking tour, Freedom Trial</i>	<i>1954</i>
<i>Black head coach in professional sports, Bill Russell, Boston Celtics</i>	<i>1966</i>
<i>Oldest operating wooden carousel, Flying Horses, Martha’s Vineyard</i>	<i>1884</i>
<i>Public Park, Boston Common</i>	<i>1634</i>
<i>Public beach, Revere Beach, designed by Landscape Architect Charles Eliot</i>	<i>1896</i>
<i>Volleyball (first called mitonette) William Morgan inventor, Holyoke</i>	<i>1895</i>
<i>Oldest Marathon, Boston Marathon, Ashland</i>	<i>1897</i>
<i>Held in Ashland until 1924, then moved to Hopkinton to equal the Olympic distance.</i>	
<i>Candlepin bowling, Worcester</i>	<i>1880</i>
<i>Basketball, Springfield</i>	<i>1891</i>
<i>World series victory, Boston Pilgrims</i>	<i>1903</i>
<i>Country club, Country Club of Brookline, dedicated to “outdoor pursuits”</i>	<i>1881</i>
<i>Free Public Bath, L Street Bath House</i>	<i>1866</i>
<i>Swimming Pool and School, Francis Leiber, Director, John Quincy Adams enrolled</i>	<i>1827</i>



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Department of Education Background

The Department of Education (Department) is the state agency responsible for administering the laws and regulations pertaining to elementary and secondary education, for distributing state and federal funds to local educational agencies, and for improving the quality of education for all public school students in the Commonwealth. The primary responsibility for the operation of schools rests with local and regional school committees. The Department carries out its mandate by providing assistance and funds to the schools, by setting standards, by administering regulations, and by collecting data on the condition of education.

During fiscal year 2006, the Department administered approximately \$3.7 billion of state funds, and approximately \$860 million of federal funds.

The federal funding to this Department is detailed in the accompanying Schedule of Expenditures of Federal Awards. The Department's major programs were:

<u>CFDA#</u>	<u>Federal Program Description</u>
84.010	Title I Grants to Local Education Agencies
84.027	Special Education – State Grants
84.173	Special Education – Preschool Grants
84.367	Improving Teacher Quality – State Grants
10.553	School Breakfast Program
10.555	National School Lunch Program
10.556	Special Milk Program for Children
10.559	Summer Food Service Programs for Children

Department of Education

Findings on Compliance with Rules and Regulations

Finding Number 8: Subrecipient Monitoring Could be Improved

The Department of Education ("Department") did not receive all of the Local Education Agencies (LEA) OMB Circular A-133 audit reports in the time required by federal regulations. In addition, the coordination between the Audit and Compliance Unit, the Unit responsible for the receipt and review of A-133 audit reports, and the Program Quality Assurance Unit, the Unit responsible for making site visits to the LEAs, needs to be improved.

Of the twenty-six LEAs selected for testing, sixteen did not submit to the Department the 2005 audits required under OMB Circular A -133 when due. One had also not submitted its 2004 audit report. Department officials explained that these reports had not been issued by the LEA and therefore were not available for submission to the Department. Under the requirements of OMB Circular A-133 Section .320 "audits shall be completed and the data collection form submitted within the earlier of 30 days after the receipt of the auditors report, or nine months after the end of the audit period, whichever is earlier." LEAs in the Commonwealth have fiscal year-ends of June 30th; therefore, the due date for the LEAs' fiscal year 2005 audit reports was no later than March 30, 2006.

All sixteen of the late reports had not been submitted to the Department by the end of July 2006, the date of audit fieldwork. Of the 10, which had submitted their 2005 audit reports, 8 submitted them prior to the March 30th deadline, while the other two submitted them in July 2006. The twenty-six selected for testing are the largest recipients of federal awards and account for 20-48% of each of the major program grant awards.

Department officials explained that they sent a notice to all subrecipients on December 2, 2005 listing their reporting requirements. They further explained that they sent a reminder notice on March 2, 2006 and then another reminder to those still delinquent on March 17, 2006. In April and May telephone calls were made to those subrecipients still delinquent. Finally, Department officials believe that it is the federal awarding agency's responsibility to ensure that audits are completed and reports received in a timely manner, especially in those circumstances where the LEA also received funding directly from the federal government.

OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations Section .200 requires that "non-federal entities that expend \$500,000 or more in a year in Federal awards shall have a single or program-specific audit conducted for that year in accordance with the provisions of this part." Section .400 (d) sets forth the Pass-through entity responsibilities as

- (1) "Identify Federal awards made by informing each subrecipient of CFDA title and number, award name and number, award year, if the award is R&D, and the name of the Federal agency. When some of this information is not available, the pass-through entity shall provide the best information available to describe the Federal award.
- (2) Advise subrecipients of requirements imposed on them by Federal laws, regulations, and the provisions of contracts or grant agreements as well as any supplemental requirements imposed by the pass-through entity.
- (3) Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.
- (4) Ensure that subrecipients expending \$500,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year.

Department of Education

Findings on Compliance with Rules and Regulations

Finding Number 8: Subrecipient Monitoring Could be Improved (continued)

- (5) Issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action.
- (6) Consider whether subrecipient audits necessitate adjustment of the pass-through entity's own records.
- (7) Require each subrecipient to permit the pass-through entity and auditors to have access to the records and financial statements as necessary for the pass-through entity to comply with this part."

Section .225 Sanctions states "No audit costs may be charged to Federal awards when audits required by this part have not been made or have been made but not in accordance with this part. In case of continued inability or unwillingness to have an audit conducted in accordance with this part, Federal agencies and pass-through entities shall take appropriate actions using sanctions such as: (a) Withholding a percentage of Federal awards until the audit is completed satisfactorily, (b) Withholding or disallowing overhead costs; (c) Suspending Federal awards until the audit is conducted; or (d) terminating the Federal award." Department officials believe that the use of sanctions is at their discretion and that they are reluctant to force compliance via sanctions primarily because, according to the subrecipients, the lateness of the reports is due to their auditors not completing the work.

Receipt and review of A-133 audit reports is not the only subrecipient monitoring mechanism used by the Department. Its Program Quality Assurance (PQA) Unit does perform site visits to all of the LEAs on a three or six year rotation cycle depending on the program being reviewed. PQA then performs a mid-cycle follow-up review if there were findings at the LEA during the regular visit. These reviews are generally programmatic in nature and the LEAs to be visited are selected on a strictly time rotation basis. A cursory on-line review of PQA reports indicates that it found problems at many of the LEAs visited. However, we found no evidence that the two Units (Audit and Compliance and PQA) coordinated their efforts to develop a risk assessment that considers late audit reports and findings in audit reports and PQA reports to determine LEAs that might require additional monitoring site visits.

The Department provided us information that indicates that its subrecipient monitoring also includes reviews of grantee applications, verbal and written communication with grantees, technical assistance when needed, on-site reviews when needed as well as other communication with grantees as needed. We found no evidence of these other monitoring tools used at the 26 subrecipients in question.

Timeliness is an important component of the audit requirement. OMB has reduced the time frame from 13 to nine months in recent years. Single Audits are meant to alert pass-through entities to conditions at the LEAs that put the federal grants at risk. Failure to act in a timely manner can increase the risk to federal funds. (*Department of Education - Title I Grants to Local Education Agencies 84.010; Special Education 84.027; and Improving Teacher Quality State Grants 84.367; Department of Agriculture - National School Lunch Program 10.555; Fiscal Year 2005 Single Audit Finding 19*)

Department of Education

Findings on Compliance with Rules and Regulations

Finding Number 8: Subrecipient Monitoring Could be Improved (continued)

Recommendation

We commend the Department for enhancing its efforts to get the LEAs to submit their audit reports within the timeframe set by federal regulation. The letters to the LEAs prior to the date the reports are due as a reminder to the LEAs of the deadline are important. However, the Department letters and emails to the LEAs should be more individualized to specifically address whatever issues each LEA is facing. While we realize that the Department is reluctant to use sanctions to bring about compliance, the percentage of audit reports tested that are submitted late (62% for 2005; 77% for 2004 as reported last year) is material. For those LEAs that are continually non-compliant, the Department should consider sanctions, such as withholding audit costs, as authorized by OMB Circular A-133.

Finally, we recommend that the Department contact the US Department of Education and/or the Office of Management and Budget to determine if it is their's or the federal awarding agency's responsibility to ensure that audits are completed and reports received in a timely manner when the LEA receives direct federal funding as well as funding from the Department as the pass-through entity.

We also recommend that the Audit and Compliance Unit and the PQA develop a risk assessment based on the information obtained through audit and PQA site visits to determine the LEAs that require additional monitoring. We also recommend that the Audit and Compliance Unit maintain a file for the LEAs that shows all of the monitoring tools used during the year for each of the LEAs.

Department Corrective Action Plan

When this finding was issued in the FY 2005 report the version that ended up in the report was the third revision on this subject that had been distributed to us. The auditor in charge originally issued a draft finding that simply stated that DOE was not in compliance because there were outstanding sub-recipient audit reports on the date they were due. We raised the issue that the pass through entity must ensure that the sub recipient's audit is issued by the due date is highly questionable. Our correspondence with the US ED audit review staff noted that the Federal agency is responsible for ensuring that audits are completed and timely (see Subpart D, --.400(c)) which states:

The Federal awarding agency shall perform the following for the Federal awards it makes: (3) Ensure that audits are completed and reports are received in a timely manner and in accordance with the requirements of this part....

As a distinction we note Subpart D, --.400 (d) Pass-through entity responsibilities. A pass-through entity shall perform the following for the Federal awards it makes: This section has seven requirements. Three of these [(1), (2) and (5)] are the same as the federal requirements. However, the circular did not list under "Pass-through entity responsibilities" the same item as in (c)(3) of the "Federal awarding agency responsibilities." This is logical as the only entities that can authorize a filing extension are federal agencies.

After this communication occurred, the auditor then replaced the draft finding with a slightly different one that stated that we were not in compliance because we didn't sanction the entities that were late with their reports as required under the regulations. We received written opinions from the US ED and HHS audit review staffs along with an oral opinion from the Rhode Island Auditor General that confirmed our

Department of Education

Findings on Compliance with Rules and Regulations

Finding Number 8: Subrecipient Monitoring Could be Improved (continued)

Department Corrective Action Plan (continued)

opinion that any sanctions in these instances are completely at the pass through entity's discretion. We did not inquire to the Massachusetts State Auditor's Office, as they are a partner in conducting our Single Audit and didn't want to invoke an independence question.

Again, after this explanation, a third version of the finding appeared stating that we weren't doing enough to collect the reports. At this point we surrendered, as it appeared that facts were not going to get in the way of a good theory.

As the title of the 2005 finding stated, "Subrecipient Monitoring Could be Improved", we felt while we already met the rule and spirit of the law there were places that we could attempt to tighten our collection and notification process. In this light we did the following additional items:

- Updated our "Desk Review Process for Audits" manual. (this manual is updated every year);
- Sent a notice to all subrecipients on December 2, 2005 listing their reporting requirements as mandated by the Single Audit Act. (This letter is sent every year at approximately this time period);
- Sent the above notice (again) on March 2, 2006 to all School Districts and Charter Schools (these all have June 30 year end dates);
- Sent a reminder notice on March 17, 2006 to all outstanding School Districts and Charter Schools that had we identified that would need to file a Single Audit Report, reminding them when the reports were due; (for reports not yet received);
- Sent a delinquent notice to cities and towns on June 15, 2006;
- We made hundreds of phone calls to outstanding districts (starting in April 2006) requesting the status of the outstanding report and / or requesting a date when we could expect issuance of the report;
- We have continued these calls on an "at least monthly basis";
- We have correspondence showing that any reports currently outstanding are ones that have not been issued to the entity by their auditor.

So this year the finding was originally written that we had not collected all reports. The reports that were missing were ones that had not been issued.

Unless we were completely confident that the reason a report was not issued was due to the management of our funded programs we do not intend to avail ourselves of the option to withhold funds or denying them the use of federal funds for audit purposes. We have withheld grant funds to a number of entities when it is documented that they are directly disregarding our programmatic or fiscal reporting requirements. However, we have a serious theoretical problem regarding withholding education funds when there is absolutely no direct correlation to the lateness of the reports and the educational programs.

Responsible person: David LeBlanc
Implementation date: April 1, 2007

Department of Education

Findings on Compliance with Rules Regulations

Finding Number 9: System to Distribute Grant Funds to Local Education Agencies Needs Improvement

The Department of Education (Department) needs to change its system of grant fund disbursement to Local Educational Agencies (LEAs) to ensure that LEAs do not have excess cash on hand.

For Title I, the balance of cash on hand at LEAs at the end of State Grant Year 2005, as reported by the LEAs at June 29, 2005, was \$17,728,566 or about 12% of the total annual federal award. While there is a provision for grant carryover of up to 15% from year to year the carryover provision is for the "period of availability" of the grant funds not a waiver of the cash management principles.

For all pass-through federal grants greater than \$25,000, the long time practice of the Department has been to provide the LEAs with cash in quarterly allotments, upon request by the LEA, supported by expenditures to date and an estimate of future expenditures. For grants that do not include carryover provisions unspent funds are to be returned with the Final Report of grant activity through August 31 each year. The report is due in October. For grants with carryover provisions there is no requirement to return unspent funds. The cash is maintained at the subrecipient level.

Treasury regulations 31 CFR Part 205 require that subrecipients "conform substantially to the same standards of timing and amount as apply to the pass-through entity" and the Commonwealth draws the U.S. Department of Education (US DOE) grants as reimbursements rather than advances. USDOE regulation 34 CFR Section 80.21 (b) requires that "procedures for payments shall minimize the time elapsing between the transfer of funds and disbursement by grantee or subgrantee, in accordance with Treasury regulations at 31 CFR part 205." The Department cites historical precedence as supporting evidence for the practice of LEA drawdowns in quarterly allotments for all Department grants greater than \$25,000. It is unclear how the Department's procedures meet the federal requirements. The LEAs have been provided with written procedures, Request for Funds Process, that state: "The initial payment is the only one that is sent to recipients automatically. To ensure that funds are distributed on an "as needed" basis in accordance with both state and federal management requirements, the balance of funds must be requested according to the above schedule." That schedule is "Payments distributed in quarterly allotments on request" for grant awards over \$25,000. The Department feels that if there were excess cash on hand at the LEA level the single audit reports would include cash management findings. This logic may not necessarily be true because the LEA auditors would be using the Department's written procedures to the LEA as criteria to judge noncompliance.

Cash on hand that exceeds the short-term needs of the program is subject to misuse. The Department's failure to comply with Treasury and U. S. Department of Education regulations could lead to sanctions or loss of funding. Last year we recommended that the Department contact the US Department of Education (USDOE) to document its approval of the Department's grant disbursement system. The Department did so and after informal discussions with the USDOE, the Department agrees that changes to the system are needed. (*Department of Education - Title I Grants to Local Educational Agencies 84.010; Special Education 84.027; Improving Teacher Quality State Grants 84.367; Fiscal Year 2004; 2005 Single Audit Finding 20*)

Recommendation

The Department should implement a system of cash management that complies with the federal regulations.

Department of Education

Findings on Compliance with Rules Regulations

Finding Number 9: System to Distribute Grant Funds to Local Education Agencies Needs Improvement (continued)

Department Corrective Action Plan

The Department has had discussions with the USED Title 1 office, which did not offer a definitive recommendation for changes to the current disbursement system. The main problem cited by the auditors appears to be the Title 1 grants and the past practice of allowing those recipients to extend the grants when they had a cash carryover of unexpended funds at the end of the grant period. That procedure has changed for the State FY 2006 grants, as the DOE Title1 office has instructed grantees that they must return any unexpended funds at the end of the grant period, which is August 31, 2006. The unexpended amount, after review to determine status of the 15% carryover, may then be reapplied for as a separate FY2007 carryover grant . This will eliminate any recipients having cash carryover balances. All other grant programs that have carryover provisions also follow this procedure.

In addition, the Department plans to move to an online payment system which requires more frequent requests from recipients at smaller allotments. DOE has begun to gather input from various sources, including other State DOEs, and the Mass. Association of School Business Officers (MASBO), for assistance in the design of such a system. This proposed change will require substantial computer programming, and testing with volunteer recipients.

The time frame for the proposed change is as follows:

- July and August 2006-review of sample systems
- September 2006 Announced proposed change to MASBO, solicit volunteers
- November 2006 begin discussion and development of computer system redesign
- March-April 2007 plan for testing new system
- July 2007 full implementation

Responsible person: Ronald Honesty

Implementation date: June 30, 2007

Department of Education

Findings on Compliance with Rules and Regulations

Finding Number 10: Vocational Education Program Maintenance of Effort Requirements not Met

The 2003, 2004 and 2005 single audit reports disclosed that the Department of Education (Department) did not meet the maintenance of effort requirements for the Vocational Education Program for fiscal years 2002, 2003 and 2004. According to federal regulation 20 USC 2391, a state must maintain its fiscal effort in the preceding year from State sources for vocational and technical education on either an aggregate or a per student basis when compared with such effort in the second preceding year.

For the fiscal year 2005 Vocational Education grant, the fiscal year 2004 fiscal effort is compared to the 2003 effort. The Department missed the aggregate effort by \$18,068,051 (\$235,348,379 versus \$217,280,328) and the per pupil effort by \$581 (\$6,558 versus \$5,977).

The Commonwealth of Massachusetts, like most states, is having financial problems and as such did not have the funds available as in prior years to provide for the Vocational Education Program. On March 29, 2004, the Department submitted a request for a waiver of the maintenance of effort requirement to the US Department of Education (US DOE). After having not received a response, in May 2006, the Department sent a request to US DOE to rescind their waiver request as a result of working with the US DOE to change the methodology used in the calculation. On November 14, 2006, Deloitte spoke with a representative of US DOE and was told that the new methodology was under review by General Counsel and had not been approved at this time. In addition, the methodology cited in the letter from the Department dated May 28, 2006 provided an example of the calculation for the matching requirement and not the maintenance of effort; although the letter did make reference to both requirements. Pending approval of US DOE, the maintenance of effort requirement would still be calculated using the criteria outlined federal regulation 20 USC 2391. (*Department of Education – Vocational Education, Basic Grants to States 84.048; Fiscal Year 2003; 2005 Single Audit Finding 18*)

Recommendation

The Department should continue to work with US DOE officials to seek approval of either a waiver or an acceptable methodology in order to meet federal requirements.

Department Corrective Action Plan

We have had many discussions with US ED regarding these issues. We are awaiting their response. Our understanding is that all discussions are currently residing with the US ED legal office at this time.

Responsible person: Anthony DeLorenzo

Implementation date: March 31, 2007

Department of Education

Findings not repeated from Prior Years

1. The Department of Education (Department) needed to work with the Office of the Comptroller to determine how to make the necessary payroll adjustments to federal programs. Adjustments for the first three quarters of fiscal year 2006 have been posted in MMARS and the Department is in the process of determining if adjustments are necessary for the fourth quarter. Adjustments are only made if the federal government is overcharged by 10%, as required by OMB Circular A-87. Department officials explain they do not make adjustments if the federal government is undercharged. (*Fiscal Year 2005 Single Audit Finding 17*)
2. The Department of Education (Department) needed to take action on material questioned costs disclosed in a subrecipient's A-133 audit report. The Department worked with the subrecipient in question and its auditor to resolve the questioned costs and the finding. (*Fiscal Year 2005 Single Audit Finding 21*)
3. The Department of Education (Department) did not have adequate procedures to prevent unallowable charges to federal grants. Notices were sent to department staff on the proper procedures to use in encumbering and paying federal funds. No such issues were noted in our 2006 audit testing. (*Fiscal Year 2005 Single Audit Finding 22*)

Department of Housing and Community Development Background

The Department of Housing and Community Development (Department) works with and through local governments and nonprofit organizations to house low-income people and promote sound municipal and neighborhood development. Through a combination of grants and technical assistance, the Department (1) houses low-income families, elderly and handicapped individuals in publicly – owned developments and in private housing supported by rent subsidies, (2) weatherizes the homes of low-income households and provides fuel assistance, and (3) invests state and federal funds in neighborhood housing and community development projects.

For fiscal year 2006, the Department administered approximately \$688 million dollars. Total federal funding was approximately \$437 million dollars. The Department's major programs were:

<u>CFDA #</u>	<u>Federal Program Description</u>
14.182	Section 8 – New Construction or Sub Rehab
14.856	Moderate Rehab
14.228	Community Development Block Grant (CDBG)
14.239	Home Investment Partnership program (HOME)
14.871	Section 8 – Housing Choice Vouchers
93.568	Low-Income Home Energy Assistance Program (LIHEAP)

No findings resulted from the audit of these programs.

Department of Public Health Background

The Department of Public Health (Department) protects public health through a wide variety of activities. The Department monitors the quality of the Commonwealth's health care facilities and regulates the environment, health and sanitation of food, drugs and other consumer products. Through its hospitals, it provides direct care services, inpatient hospital care and education, with special emphasis on populations not adequately treated by the voluntary and private sectors.

Through its providers and various outreach programs, the Department provides a broad range of preventative and health promotion services. Environmental health education informs the public about hazardous substances in the workplace. The maternal and child health program offers specialized health care for high-risk infants to help curb infant mortality and prevent later health complications. Substance abuse services include education, counseling and youth intervention programs. The Childhood Lead Poisoning Prevention Program provides in excess of 300,000 blood analyses annually to detect lead content. The AIDS Bureau provides AIDS testing, preventative education, and coordinates with the substance abuse services to raise public awareness of the relationship between AIDS and substance abuse. Other outreach operations provide blood pressure and cholesterol screening and nutritional information and training. They also immunize children and adults and monitor communicable diseases. Through the Special Supplemental Food Program for Women, Infants and Children, food supplements are made available to mothers and their children.

For fiscal year 2006, the Department administered approximately \$730 million combined state and federal funds. Of this amount, federal funds amounted to approximately \$240 million.

The federal funding to this department is detailed in the accompanying Schedule of Expenditures of Federal Awards. The Department's major programs were:

<u>CFDA #</u>	<u>Federal Program Description</u>
10.557	Special Supplemental Food Program for Women, Infants and Children
93.959	Block Grants for Prevention and Treatment of Substance Abuse
93.917	HIV Care Formula Grant

Department of Public Health Findings on Compliance with Rules and Regulations

Finding Number 11: Unexpended Grant Funds not Reported to Federal Funding Agency

The Department of Public Health (Department) did not report \$254,262 of unexpended federal funds to the Department of Health and Human Services (HHS) under the Substance Abuse, Prevention and Treatment Block Grant (SAPT) for the grant year 2004.

Federal law and regulation, 42 USC 300x-62 and 45 CFR 96.30(b), requires that the federal funds be obligated by the end of the fiscal year in which the funds were awarded and expend the funds by the end of the second year. In other words, the Department has two years in which to expend the federal funds. The Department must then report the amount of expended and unexpended funds on the final *Financial Status Report, SF269 (SF269)*.

The Department's grant year 2004 SAPT funds had to be obligated by September 30, 2004 and fully expended by September 30, 2005. When the Department filed its *SF269* for the 2004 grant year ending September 30, 2005, it failed to report unexpended funds of \$254, 262 as they reported these funds as fully expended. The Department's SAPT Unit is aware of this federal requirement and is unsure how the reporting of unexpended funds occurred, however they believe it is related to the change in accounting systems used by the Commonwealth during the grant period. (*Department of Health and Human Services – SAPT Block Grant 93.959*)

Recommendation

The Department and Executive Office for Health and Human Services (EOHHS) both have a role in administering the SAPT Block Grant, therefore we recommend that they develop procedures to coordinate and reconcile the information provided on all federal reports, and in particular, the *SF269* with MMARS. Additionally, the 2004 *SF269* should be amended with the federal government to properly reflect the actual expenditures under the 2004 SAPT grant.

Department Corrective Action Plan

For the *SF269* report for SAPT Block Grant 93.959, EOHHS and the Department reported to the Federal Government that the SAPT04 grant was fully expended. The PSC-272 currently is stating a balance available of \$253,253.58. This was mainly resulting from inadequate communication between EOHHS, the Department and the child departments and the difficulties in managing the new functionality for federal grant reporting in MMARS.

EOHHS contacted the Federal Government requesting permission to fully expend and draw the remaining funds of \$253,253.58 for SAPT04. The Department will resubmit a "Revised Final *SF269*" to correctly reflect the unexpended balance of \$253,253.58. EOHHS gave approval to the Department to expend and draw all remaining funds on SAPT'04. EOHHS prepared ISA to transfer remaining funds to the Department. Going forward, the Department will work closely with EOHHS and the Child Departments to ensure expenditures and draw activity are properly reconciled and inline with the ISA signed by the Child Department. Additionally, the Department is currently working with EOHHS and the Federal Government to transfer ownership of the SAPT Grant to the Department since we control the major portion of the funds.

Responsible person: George Trubiano
Implementation date: 10/23/06

Department of Revenue/Division of Child Support Enforcement Background

The Division of Child Support Enforcement (Division) is organizationally part of the Commonwealth's Department of Revenue and receives its mandate pursuant to Massachusetts General Laws Chapter 119A. The Division is the single state agency within the Commonwealth that is designated as the IV-D agency pursuant to Title IV, Part D of the Social Security Act. In accordance with the provisions of the law, the Division provides IV-D services to families, whether or not they are recipients of public assistance, to establish, modify, and enforce child support obligations. The services include location of obligees and obligors, the establishment of paternity, the establishment, modification, and enforcement of child support orders, including orders for health care coverage, and the collection and disbursement of support payments.

During fiscal year 2006, the Division's total expenditures were approximately \$71 million.

The federal funding to the Division is detailed in the accompanying Schedule of Expenditures of Federal Awards. The Division's major program was:

<u>CFDA #</u>	<u>Federal Program Description</u>
93.563	Child Support Enforcement

Department of Revenue/Division of Child Support Enforcement Findings on Compliance with Rules and Regulations

Finding Number 12: Ineffective Case Tracking and Management System

The Department of Revenue/Division of Child Support Enforcement (CSE or Division) needs to improve its system for tracking and managing child support cases. Of the 25 case files selected for testing, 14 cases were not administered in accordance with federal regulations.

A violation of 45 CFR 303.2 was noted in 14 of the 25 cases tested. In accordance with 45 CFR 303.2, upon complete referral or the submission of a complete application, the case must be assessed and additional necessary information obtained within 20 days. In all 14 cases, a review of the respective cases' Records of Support Action disclosed that necessary information was not obtained within twenty days after submission of the complete application. In all 14 cases, the assessment did not take place until respectively 50, 43, 70, 45, 69, 26, 29, 94, 76, 86, 65, 225, 79 and 34 days after receiving the respective applications, which exceeds the 20-day window for case assessment.

The Division's 2006 Self-Assessment Review Report, required by federal statute, 42 USC 654.15, found similar violations regarding (1) the Establishment of Paternity and Support Orders - 76 error cases of the 121 tested, (2) Review and Adjustments of Orders - 51 error cases of the 130 tested, (3) Interstate Services - 57 error cases of the 135 tested and (4) Case Closure - 20 error cases of the 121 tested. Overall, the Report found that the Division was compliant in four of the eight performance criteria and non-compliant in the four cited above.

The Division's ineffective case tracking and management system suggests a weakness in the *Commonwealth of Massachusetts Enforcement Tracking System (COMETS)*, its comprehensive case tracking and management system, and/or a failure in enforcing and monitoring compliance with policies and procedures and laws and regulations, and may render its case management database unreliable. (*Department of Health and Human Services – Child Support Enforcement 93.563; Fiscal Year 1989; 2005 Single Audit Finding 28*)

Recommendation

We recommend that the Division enforce its policies and procedures to comply with federal requirements governing case file review and administration including periodic training to its caseworkers. Supervisors should also review the work performed by caseworkers to ensure that all case files are complete and accurate, that the Division's policies and procedures are followed and that federal compliance requirements are met.

The Division's Internal Audit Unit should continue to review case files with all active files being reviewed at least once every three years. These reviews should be documented and any errors identified logged to include a description of the error, the follow-up procedures performed, and how these errors are ultimately resolved or corrected.

The Division should continue to provide effective training for caseworkers, which focuses on adhering to federal requirements surrounding case file review and management.

Department of Revenue/Division of Child Support Enforcement Findings on Compliance with Rules and Regulations

Finding Number 12: Ineffective Case Tracking and Management System (continued)

Department Corrective Action Plan

CSE has completed the first phase of a project to design and implement automated workflow management, imaging, and document generation and management. The requirements definition and functional and technical design phases have been completed and CSE expects to commence the development stage within FY07 (contingent on continued bond funding). The workflow management system will route work more efficiently to case workers, improve supervisory oversight, strengthen quality control, and provide management and staff with more real time information about case status and what actions are required on a case. An imaging/document management system that electronically captures, stores, retrieves, and distributes documents and the data on those documents will streamline case processing activities, minimize manual data entry, allow CSE to address customer issues quickly by providing direct access to documents, and eliminate the search for paper. Workflow support will enable CSE to maximize the potential of newly redesigned business processes to increase staff efficiency and respond timely and proactively when action is necessary.

Federal regulations mandate that child support cases be processed according to federal timeframes and that staff be notified automatically of the next appropriate action when manual intervention is required. By utilizing workflow management tools, CSE can ensure that all federal timeframes and regulations are met. By streamlining workflow and ensuring that appropriate steps are taken in a case, CSE will be in a strong position to improve on the five federal performance measures and maximize the amount of federal incentives returned to the state, while better serving the customer's needs.

Responsible person: Paul M. Cronin
Implementation date: Ongoing

Department of Social Services Background

The Department of Social Services (Department) established by Section 1 of Chapter 18B of the Massachusetts General Laws provides services to children and families who are at risk, or have been victims of, abuse or neglect. The Department administers a comprehensive social services program. These services are administered through 28 area-based offices, and include counseling, protective services, parent aid and other in-home supports to reduce risks to children and provide legal and adoptive services. To ensure the children's well being, when necessary, the Department intervenes through court orders or voluntary agreements to place the child with foster parents or in-group homes. During fiscal year 2006, approximately 10,000 children were living in foster care or some type of residential setting, either a group home or residential facility. When a child is removed from his or her home, the Department develops a plan to provide, as soon as possible, a long-term stable resolution. The Department also provides shelter and other services for battered women and their children.

For fiscal year 2006, the Department administered approximately \$859 million. Federal funds amounted to approximately \$247 million. The federal funding to this Department is detailed in the accompanying Schedule of Expenditures of Federal Awards. The Department's major federal program was:

<u>CFDA #</u>	<u>Federal Program Description</u>
93.658	Foster Care – Title IV-E

Department of Social Services Findings on Compliance with Rules and Regulations

Finding Number 13: Non-Compliance with Legal Requirements for Open Fair Appeal Hearings

The fiscal year 2005 single audit report disclosed that there were 3,910 unscheduled fair hearings and therefore the Department of Social Services (Department) was not in compliance with the requirements for open hearings regarding appeals of certain decisions. Our follow-up audit disclosed that the number of unscheduled fair hearings increased during fiscal year 2006 and the Department's non-compliance continues. A review of fair hearing requests received from 1998 to 2006 (as of June 9, 2006) disclosed 5,454 open hearing requests. Of these, 4,353 have not been scheduled for a fair hearing by the Legal Department within the 90 calendar days as required by Department regulations, 898 have been scheduled for a hearing, 9 have data errors, and 194 have not been scheduled but are within the 90 days scheduling requirement. The 4,353 represents an increase of 443 unscheduled fair hearings (within the 90 calendar days) from the 3,910 unscheduled fair hearings in fiscal year 2005.

Code of Massachusetts Regulations 110 section 10:10 states,

The hearing shall be scheduled to be held within 90 calendar days from receipt of a request for a Fair Hearing.

The fair hearing process allows clients including biological, foster, and adoptive parents and children receiving services, the opportunity to appeal certain matters and to present other matters to the Department through a grievance process. The fair hearing process allows clients dissatisfied with certain actions or inactions of the Department or a provider under contract with the Department, to present his or her position in an informal hearing and to receive a just and fair decision by an impartial hearing officer based on the facts and applicable regulations. The Code of Massachusetts Regulation (CMR) 110 requires the Department to employ and train impartial fair hearing officers whose sole duty shall be to conduct fair hearings statewide. An individual shall file a written request for a fair hearing with the Department's hearing office within 30 calendar days from a decision.

As required by 110 CMR 10:05, a fair hearing shall address (1) whether the Department's or provider's decision was not in conformity with its policies and/or regulations and resulted in substantial prejudice to the aggrieved party; (2) whether the Department's or provider's procedural actions were not in conformity with its policies, regulations or procedures and resulted in substantial prejudice to the aggrieved party, or (3) if there is no applicable policy, regulation or procedure, whether the Department or provider acted without a reasonable basis or in an unreasonable manner which resulted in substantial prejudice to the aggrieved party.

Department of Social Services Findings on Compliance with Rules and Regulations

Finding Number 13: Non-Compliance with Legal Requirements for Open Fair Appeal Hearings (continued)

The review of the FamilyNet open fair hearings report as of June 9, 2006 noted:

<u>Calendar Year</u>	<u>Total Requested Hearings</u>	<u>Open Hearing Requests</u>	<u>Hearings Not Scheduled</u>
2006 (As of 06/09/06)	1,090	391	172 ⁽¹⁾
2005	1,800	1,505	1,389
2004	1,939	1,453	1,355
2003	2,038	1,040	923
2002	1,957	512	389
2001	1,900	304	98
2000	1,949	169	19
1998-1999	<u>7,799</u>	<u>80</u>	<u>8</u>
Total	<u>20,472</u>	<u>5,454</u>	<u>4,353</u>

⁽¹⁾194 requests received after March 9, 2006 were not included in the hearings not scheduled total since requests were received within the 90 days allowed to schedule the hearing.

The Department is not meeting the legal requirements of conducting an appeals process for individuals involved with the Department services.

Due to historical budget constraints and the management time devoted to priority foster care related issues, the Department has been unable to hire hearing officers in recent years. As a result, Department personnel stated that the reduction of hearing officers in prior years has resulted in a backlog of unscheduled hearings and continues to impact the process. Department personnel had to prioritize cases based on the impact to individuals involved in a case.

During fiscal year 2006, the Department actively pursued the hiring of three additional hearing officers. The Department was able to hire one hearing officer for the Boston Region during May 2006. A second hearing officer, to cover the Southeastern Region, is scheduled to begin employment by the end of August 2006. The Department continues to pursue the hiring of a third hearing officer to cover the Northeastern Region. The Department believes that once all three hearing officers are in place, the backlog of hearings should be substantially minimized. (*Department of Health and Human Services-Title-IVE Foster Care Program 93.658; Fiscal Year 2004; 2005 Single Audit Finding 29*)

Recommendation

The Department needs to continue with the hiring process for the third hearing officer to help alleviate the backlog of cases thereby bringing it into compliance with 110 CMR 10:10.

Department of Social Services Findings on Compliance with Rules and Regulations

Finding Number 13: Non-Compliance with Legal Requirements for Open Fair Appeal Hearings (continued)

Department Corrective Action Plan

As indicated above, the hearing officer who will cover predominately the Southeast region started on August 28, 2006. The Department has reposted the position for the third hearing officer to cover predominately the Northeast (the third hearing officer). Unfortunately, the response to the posting by eligible candidates was minimal. Eligible/qualified candidate(s) will be interviewed this month. In the meantime, the Department is taking steps to contract with an individual to address primarily the caseload in the Northeast. The Department will post the position again or revise the job position/minimum entrance requirements should the interview(s) now scheduled be determined as not the right fit.

The Department also made a significant effort at a backlog of data entry over the 2006 summer months. After that was done, the Department looked at the data regarding open hearing requests and hearings not scheduled. The data now show that there are 4,830 open requests and not 5,454 as was noted from our data run on June 9, 2006. It also shows that there were 662 open requests as of September 8, 2006, an increase from the 391 noted on June 9, 2006. Taking into consideration hearings requested over the summer months, these data suggest that had data entry been completed in time for the June FamilyNet fair hearings report, the degree of non-compliance would have been reduced.

Responsible person: Virginia Peel

Implementation date: On-going

Department of Social Services Findings on Compliance with Rules and Regulations

Finding Number 14: Controls Over FamilyNet and Home Licensing Report Data Need Improvement

The fiscal year 2005 single audit report noted that the data in the Department of Social Services (Department) FamilyNet system needed improvements because of incomplete and inaccurate data representing a 20% error rate in the data including overdue licensing re-assessments for a number of homes where children had been placed. The review of the Department's monthly Foster Care Compliance Report for June 2006, compiled from FamilyNet data, issued to agency personnel to monitor foster care provider licensing noted a 21% error rate including overdue and not completed annual provider re-assessments and missing date information.

An analysis of the 3,654 files in the FamilyNet system, as of June 2, 2006, noted the following:

- 235 files with the "home study" and "annual re-assessment" dates blank, the home study represents the original approval for child placement;
- 308 files with the "recent re-assessment" dates blank and the initial home study date (child placed in the home) prior to June 2, 2005 (requiring a home re-assessment by June 2, 2006);
- 228 files that indicated that the annual re-assessments were overdue -- 206 overdue less than a year, 18 overdue more than 1 year and less than 2 years, 3 overdue over 2 years and less than 3 years, and 1 overdue more than 4 years and less than 5 years.

This results in a 21% error rate in the files. Although this represents a marginal increase from the 2005 error rate of 20%, the Department still needs to continue its review of FamilyNet data for compliance.

Department officials explained that much like the process for home licensing situations, outside factors, such as data from other states, appeals, subsidy unit assignment (cases that are not closed due to adoption or guardian subsidy payments necessary to continue payment for care and maintenance stipends, healthcare insurance, as administered by MassHealth, and a quarterly clothing grant which is income based), etc., result in the cases being reported as "in error", when in fact many actually are not in error.

However, system limitations do not allow for this data to be identified and classified. Only through manual review does this data get identified. The Department, in many cases, did not identify this data and therefore, the number of error cases is likely magnified over what actually exists.

In response to prior year findings, Department officials stated that although the reports indicate that the re-assessments for continued licensing are overdue, the regulations allow for licenses to remain in effect until the re-assessment is performed. While we concur that the regulations do stipulate this, we do not believe that the intent of the legislation was for homes to remain licensed for an indeterminate amount of time before being assessed by the Department, resulting in a delay in a management discussion regarding the relationship between the foster homes and the Department, which is an integral part of the licensing process.

The Code of Massachusetts Regulations, 110 CMR 7.113, requires the following:

The Department shall annually reassess foster care parents and homes whether unrestricted, kinship or child specific including interviews, case file reviews and criminal background checks and after completing the reassessment issue within ten working days a decision on the re-approval terms and conditions.

Department of Social Services

Findings on Compliance with Rules and Regulations

Finding Number 14: Controls Over FamilyNet and Home Licensing Report Data Need Improvement (continued)

Blank date information in FamilyNet and monthly reports results in children remaining in homes that lack timely initial licensing and annual re-assessments. It further results in noncompliance with state and federal laws, rules and regulations and Department policy because if homes are not licensed timely, federal regulations preclude reimbursements to the state for payment made to the foster home. (*Department of Health and Human Services - Title IV-E Foster Care Program 93.658; Fiscal Year 2003; 2005 Single Audit Finding 30*)

Recommendation

The Department should continue its Central Office oversight control process, including periodic reviews of monthly reports and case information entered into the FamilyNet system, to ensure that information related to foster care cases and licenses is properly recorded, current and accurate.

Department Corrective Action Plan

During FY 2005, the Department rebuilt the staffing capacity needed to appropriately oversee and manage the DSS foster care program. In the rebuilding process, the Central Office Foster Care Support Services Unit is now staffed with a full-time Director in addition to a full-time Foster Care Specialist, the latter having a focus on CQI for family resource practice, two Foster Care Managers, each assuming responsibility for routine monitoring of family resource compliance – CORI, licensing, etc. – for three regions. These managers also provide technical assistance and support to field staff on improvements to family resource practice. There are already routine monthly meetings between Central Office, Regional, and Area Family Resource Staff during which the compliance reports are reviewed and discussed and where the family resource experts can share best practices. Foster Care and Adoption staff from Central Office meet regularly with Regional and Area staff to review reports and the family resource reports are sorted and distributed to the family resource field staff and managers on a monthly basis. Central Family Resource Staff have trained regional and area staff in utilization of the reports and continue to meet regularly to review recommendations regarding enhancements to FamilyNet and the reports. Central, Regional and Area staff are utilizing the family resource reports both to assure compliance with regulation is met and to plan workload for staff. These routine meetings continue.

There are two recently formed groups to help in the identification and prioritization of recommended improvements to the family resource functionality in FamilyNet. The Family Resource Information Committee comprised of representatives from each Regional Office and the Family Resource Advisory Committee comprised of Family Resource Supervisors representing their Area and Region work with the Central Office Foster Care Support Staff on these efforts. As the ‘system of record’, FamilyNet data and its reports will always be the source for testing compliance. The managers in the Central Office Foster Care Support Services Unit, along with IT FamilyNet staff, must continue to enhance the family resource functionality to ease navigation and minimize opportunities to create conflicting or erroneous data. Enhancements to FamilyNet will continue to be developed, with the goal of improving and increasing family resource documentation in the system. During the past year, significant enhancements to the family resource windows in FamilyNet have been implemented. These enhancements directly facilitate or simplify the input of information into the system, improve data extraction from the system, or auto-generate annual functions (which previously required manual staff entry). The coordination of continued enhancement to both the FamilyNet system and the reports generated from FamilyNet continues between the IT department and the Adoption and Foster Care staff.

Department of Social Services Findings on Compliance with Rules and Regulations

Finding Number 14: Controls Over FamilyNet and Home Licensing Report Data Need Improvement (continued)

Department Corrective Action Plan (continued)

In addition, the Department has hired six Regional Clinical Directors, one in each regional office, whose role includes assisting the field with quality improvement and oversight of clinical practice. The Central Office Foster Care Support Services unit will continue to work with regional and area office staff to assure the completion of family resource tasks in a timely manner.

Most important to improving our licensing and re-licensing in foster care, however, is the release and implementation of the Family Resource Policy as of February 6, 2006. Training has been provided for the Departments' Family Resource staff, supervisors, and managers, as well as, additional field staff. The Family Resource Policy training reviews the standards and expectations regarding timeframes for task completion for foster homes. These timeframes include initial licensing and re-licensing expectations and roles not only for family resource workers, but also supervisors and managers. In addition, with the release of the new Family Resource Policy, a weighted workload was created for family resource social workers. This caseload will be reviewed monthly by managers and supervisors to assure timely completion of work and equitable assignment of responsibilities. The full impact of these more recent changes and improvements should be recognized during FY2007.

Responsible person: Mary Gambon
Implementation date: On-going

Department of Social Services Findings on Compliance with Rules and Regulations

Finding Number 15: Timeliness of Criminal Offense Record Information (CORI) Checks Needs Improvements

The fiscal year 2005 single audit report disclosed that the Department of Social Services (Department) was not performing CORI checks within the required annual timeframes. Our follow-up disclosed that although there was a significant improvement in the timeliness of provider CORI checks, the CORI checks continue to be performed late. Our review of twenty-five cases of persons providing foster care services under the Title IV-E Foster Care Program noted no exceptions for the timely completion of annual CORI checks. However, our review of the Department's Contracted Care monthly reports of all foster care providers disclosed 28 providers with overdue or blank CORI records.

The Department continues to use its Continuous Quality Improvement Process (CQI) to assist the Commissioner and management in assessing the quality of services. The Department also uses the monthly DSS RPT 196 to monitor contractor CORI compliance. The DSS RPT 196 "Foster Contracted Care Report" identifies contract foster care providers including CORI check date, CORI disposition results and the Number of children in the home. Department Contracted Care personnel are responsible to review the report for compliance.

The review of DSS RPT 196 "Contracted Foster Care" as of June 2, 2006 disclosed of the 1,243 CORI records for providers with children in placement, 2 were blank and 26 had overdue CORI checks including 25 less than 1 year overdue; and 1 overdue more than 4 years and less than 5. This represents a non-compliance decrease from fiscal year 2005 when 63 overdue CORI checks were reported for the Contracted Foster Care.

The Department is required to perform criminal background checks on all new hires and an annual reevaluation of individuals and families seeking or providing services as foster family resources. Federal regulation, 45 CFR 1356.30(a) and (b), requires that the foster family home provider must have satisfactorily met a criminal records check with respect to prospective foster and adoptive parents. Under Massachusetts regulation, CMR 110-7.113, the Department is required to "re-evaluate foster parents and foster homes annually and request criminal record and Central Registry (an in-house database that tracks child abuse and neglect cases) checks for adult household members". Additionally, the CORI process is required during various stages of an eligible foster care provider's term with the Department.

110 CMR 18.11 (9) states in part that:

In reviewing a request for an individual to serve as a kinship foster/pre-adoptive parent the Commissioner, Deputy Commissioner of Field Operations and General Counsel must find (a) that the prospective foster/pre-adoptive parent or any household member does not present a risk of harm to the child based on the existence of a criminal conviction; and (b) that the conviction did not involve a crime against or involving a child.

The lack of a CORI evaluation could result in children being placed in an unsafe environment, and does not comply with Department policy.

During our current audit field work, the Department continued to review and monitor the CORI issue (June 2, 2006 DSS RPT 196) and noted the following concerning the 26 homes showing an overdue CORI:

Department of Social Services Findings on Compliance with Rules and Regulations

Finding Number 15: Timeliness of Criminal Offense Record Information (CORI) Checks Needs Improvements (continued)

- 3 (12%) of the homes actually had a CORI but due to special circumstances they were not shown accurately in FamilyNet. (1 – DSS employee; 1 – CORI was run under the spouse and that information was not connected on FamilyNet; 1 – A duplicate family resource entry.)
- 15 (57%) of the homes had a CORI run within 21 days of the June 2nd report.
- 1 (4%) of the homes had the CORI run within 34 days of the report.
- 2 (8%) of the homes were closed as a result of the report.
- 5 (19%) of the homes still need a CORI as of July 19, 2006. The new Foster Care Unit will follow-up.

Additionally, with the implementation of Family Network Intensive Foster Care services, effective July 1, 2006, the oversight of contracted foster care homes will shift to the Central Office Foster Care Support Services Unit. This reorganization will co-locate all family resource oversight – departmental foster care, contracted foster care and adoptive family resources – in one unit. The consolidation should allow for an integrated and consistent approach of monitoring the timeliness of CORIs, hopefully resulting in continuing improved results. (*Department of Health and Human Services-Title-E foster Care Program 93.658; Fiscal year 2002; 2005 Single Audit Finding 31*)

Recommendation

The DSS must ensure that those homes still needing a CORI are followed-up on by the new Foster Care Support Services Unit. Additionally, DSS must continue to ensure compliance with the CORI requirement and review the process of placing children in homes with CORI records not received to ensure the safety of the children.

Department Corrective Action Plan

The Department's Central office BRC/CORI unit staff will continue their work with Departmental Central Office family resource staff, including the Intensive Foster Care Support Team, Department Regional and Area office family resource staff and staff at contracted adoption and therapeutic foster care agencies to further advance the progress being made in ensuring timely completion of initial and annual CORI checks. The generation, sharing and monitoring of monthly reports of foster and adoptive resources needing to be CORI checked, based on the monthly DSS RPT 195 and 196 reports will continue with the goal of having no providers having overdue BRC Checks or not having been subjected to a Background Records Check.

The CORI Unit will continue to work closely with staff at the Criminal History Systems Board and the Commissioner of Probation's office to expedite the processing of requests for and the Department's receipt of CORI records that are sealed or on microfilm. Work / training with Department and contracted agency staff will continue with the goal of seeking to ensure that no child, in Department's care and custody, is placed in a home that has not be subjected to and BRC/CORI cleared, or that includes an individual, as a household member, that has a Massachusetts CORI record of unknown content (a microfilm or sealed record).

Department of Social Services Findings on Compliance with Rules and Regulations

Finding Number 15: Timeliness of Criminal Offense Record Information (CORI) Checks Needs Improvements (continued)

Department Corrective Action Plan (continued)

As of July 1, 2006, responsibility for oversight of the Intensive Foster Care agencies compliance with Departmental policy and standards transitioned to the Central Office Foster Care Support Unit. In establishing the unit practice regarding the monitoring of compliance, the Intensive Foster Care Team has chosen to utilize a structure which parallels the Foster Care Support Unit's structure for monitoring Departmental foster care compliance. The Intensive Foster Care Support Team has instituted the practice of providing each agency with a copy of the DSSRP 196 sorted to capture only the homes assigned to the specific agency. This new practice assists the agencies with the review of the agency's compliance in terms of requesting annual BRC checks for the homes the agency is monitoring. In addition, the DSSRP 196 allows the agency to verify compliance in terms of homes assigned to the agency and Number s of children placed in those homes.

The Intensive Foster Care Team is staffed with two Intensive Foster Care Coordinators whose workload consists of responsibility for support, oversight and monitoring of specific assigned agencies and three regions. In addition, the unit is staffed with a full-time BRC Coordinator for Intensive Foster Care who is receiving all hard copies of BRC checks and reviewing those results with agencies, as well as, reviewing and making recommendations regarding waiver approval of Intensive Foster Homes to the Director of Foster Care Support Services. The streamlining of all BRC results, review of BRC results, and review of approval requests within the Intensive Foster Care Team provides the basis for more direct oversight of Contracted Agency compliance with Department BRC standards and policy. The Intensive Foster Care Team is currently completing an analysis of each contracted agency to create remedies and develop quality assurance plans with the agencies.

The Intensive Foster Care Team will be convening a state-wide quarterly meeting of Contract Agency Providers to continue the discussion regarding expectations for the agencies, CQI and to provide information and training regarding Departmental standards and policy. Two state-wide trainings have been scheduled for the Contracted Agencies regarding Department Family Resource Policy and FamilyNet. The Intensive Foster Care Team is working in conjunction with the Department's IT division to develop and implement enhancements to FamilyNet in regards to the Contracted Resource tab and contracted agency reports.

Responsible person: Susan Getman and Mary Gambon
Implementation date: On-going

Department of Social Services Findings on Compliance with Rules and Regulations

Finding Number 16: The Process for Home Licensing Needs Improvement

The fiscal year 2005 single audit report noted that the Department of Social Services (Department) placed children in homes prior to the Department completing proper licensing requirements. Our follow-up review noted that although substantially minimized, late home licensing still occurs within the department.

A review of the Unapproved Homes with Active Service Referrals (Unapproved Homes with Active Placements Report), disclosed that as of May 20, 2006, 324 children were placed in foster homes prior to the home being licensed. Of those, 262 children were placed in 195 homes within the 40 days allowed by the regulations, 62 children were placed in 44 unlicensed homes for more than 40 days and less than one year.

Upon analyzing and discussing the data appearing on the Unapproved Homes with Active Referrals with Department personnel, the Department was able to clarify and explain that the late licensing of homes was the result of certain factors beyond the Department's control. More specifically, the Department was waiting for Interstate Compact on the Placement of Children (ICPC) reports from 4 states, a CORI report on another home, and references (medical, foster parent, school, personal, background, etc.) on others. Also, scheduling difficulties with guardians added to the licensing delays. Additionally, factors that the Department could more easily control were the result of clerical problems such as caseworkers inputting incorrect data into the system. The Interstate Compact on the Placement of Children outlines the process that states use to ensure consistent protection and services to children who are placed across state lines. The Compact is a uniform law that has been enacted by all 50 states, the District of Columbia, and the U.S. Virgin Islands. The Compact establishes orderly procedures for the interstate placement of children and defines the responsibilities of both the state that is placing the child and the state in which the child is residing. For Interstate Compact purposes a placement is "the arrangement for the care of a child with a foster family, a relative/kinship resource, an adoptive family, a parent, or a residential treatment provider whose legal residence is in another state." If a foster/pre-adoptive family in Massachusetts chooses to move to another state and the child in care will remain in that home, there must be prior approval through the responsible Area Office and a request made through the Interstate Compact Unit for the new state of residence to do an updated home study. As a result, certain of these factors placed the Department in non-compliance with the 40-day requirements included in the Department's Family Resources Policy.

During fiscal year 2005, the Department filled two positions, including the Director of Foster Care Services and a Foster Care Specialist whose responsibilities include working with Area Office personnel on Foster Care compliance, including timely home licensing and training on the utilization of monthly departmental reports. Central Office personnel forward monthly departmental reports by Area Office to the applicable Area Office for compliance review. Area Office managerial staff is responsible for performing license reviews to ensure licensing approvals are completed in compliance with Department policy. Federal regulations, 42 USC 671(a)(1) and 672(c), requires that a provider, whether a foster family home or a child-care institution, must be fully licensed by the appropriate State Foster Care licensing authority for departmental foster family homes.

Finally, during the course of our audit fieldwork, and subsequent to the May 20, 2006 report, the Department, after obtaining required documentation, (medical references or other references) approved the license for 26 of the 44 unlicensed homes. The remaining 18 homes were either closed, had its license

Department of Social Services

Findings on Compliance with Rules and Regulations

Finding Number 16: The Process for Home Licensing Needs Improvement (continued)

study denied, or was in process due to improper information being entered into the system by departmental personnel or they were still awaiting other information, (ICPC reports or other references).

The Department does have policies and procedures in place to follow-up on instances whereby information is required from an outside source. For example, the Department has an Interstate Compact Unit which deals with ICPC cases. However, even with these policies and procedures, until the required information is received from the outside source, the Department will remain in non-compliance. (*Department of Health and Human Services-Title IV-E Foster Care Program 93.658; Fiscal year 2002; 2005 Single Audit Finding 32*)

Recommendation

The Department should continue to review those cases in excess of the 40 day requirement and maintain due diligence in assuring that the proper information is received to meet the licensing agreement.

Department Corrective Action Plan

During FY 2005, the Department rebuilt the staffing capacity needed to appropriately oversee and manage the foster care program. The Central Office Foster Care Support Services Unit is now staffed with a full-time Director in addition to a full-time Foster Care Specialist, the latter having a focus on CQI for family resource practice, two Foster Care Managers, each assuming responsibility for routine monitoring of family resource compliance – CORI, licensing, etc. – for three regions. These managers also provide technical assistance and support to field staff on improvements to family resource practice. There are routine monthly meetings between Central Office, Regional, and Area Family Resource Staff during which the compliance reports are reviewed and discussed and where the family resource experts can share best practices. Foster Care and Adoption staff from Central Office meet regularly with Regional and Area staff to review reports and the family resource reports are sorted and distributed to the family resource field staff and managers on a monthly basis. Central Office Family Resource Staff have trained regional and area staff in utilization of the reports and continue to meet regularly to review recommendations regarding enhancements to FamilyNet and the reports. Central, Regional and Area staff are utilizing the family resource reports both to assure compliance with regulations is met and to plan workload for staff.

Central Office Foster Care Support Staff and two on-going foster care advisory committees, the Family Resource Information Committee comprised of representatives from each Regional Office and the Family Resource Advisory Committee comprised of Family Resource Supervisors representing their Area and Region, are attentive to identifying and prioritizing recommended improvements to the family resource functionality in FamilyNet. As the ‘system of record’, FamilyNet data and its reports will always be the source for testing compliance. The managers in the Central Office Foster Care Support Services Unit, along with IT FamilyNet staff, must continue to enhance the family resource functionality to ease navigation and minimize opportunities to create conflicting or erroneous data. Enhancements to FamilyNet will continue to be developed, with the goal of improving and increasing family resource documentation in the system.

Department of Social Services
Findings on Compliance with Rules and Regulations

Finding Number 16: The Process for Home Licensing Needs Improvement (continued)

Department Corrective Action Plan (continued)

The Central Office Foster Care Support staff will continue to sort and distribute the compliance reports to the Regional and Area staff monthly, as well as, continue on-going monitoring of the status of the homes on the report which exceed the 40 days allowed by regulation and assure due diligence continues in meeting the licensing requirements.

Responsible person: Mary Gambon

Implementation date: On-going

Department of Transitional Assistance Background

The Department of Transitional Assistance's (Department) goal is to provide accurate and timely benefits with respect and courtesy to those in need of the Department's services. In pursuing this aim, the Department provides assistance to over 500,000 people in the Commonwealth each month through such programs as Transitional Aid to Families with Dependent Children (TAFDC), Supplemental Security Income and Food Stamps. The Department also operates the Employment Services Program that provides basic education, skills training, job referral, career counseling, and transportation services to certain TAFDC and Food Stamp clients.

During fiscal year 2006, the Department administered about \$840.7 million in carrying out its transitional assistance programs and \$446.8 million of Federal Food Stamp benefits for a total of \$1.29 billion in state and federal funds.

The federal funding to this Department is detailed in the accompanying Schedule of Expenditures of Federal Awards. The Department's major programs were:

<u>CFDA #</u>	<u>Federal Program Description</u>
93.558	Transitional Assistance to Needy Families
10.551	Food Stamps Program
10.561	State Administrative Matching for Food Stamp Program

Department of Transitional Assistance Findings on Compliance with Rules and Regulations

Finding Number 17: Failure to Perform Federal Tax Information Match

During fiscal year 2006, the Department of Transitional Assistance (Department) did not perform the Federal Tax Information (FTI) data match with the Internal Revenue Service (IRS).

As required by 42 USC 1320b-7 and 45 CFR section 205.55, each state shall participate in the Income Eligibility and Verification System (IEVS) required by section 1137 of the Social Security Act as amended. Under the State Plan the state is required to coordinate data exchanges with other federally-assisted benefit programs, request and use income and benefit information when making eligibility determinations, and adhere to standardized formats and procedures in exchanging information with other programs and agencies. Specifically, the state is required to request and obtain unearned income from the IRS, though the Federal Tax Information match and utilize the information to the extent such information is useful.

The Department actually stopped performing the IRS data matches in April 2002 based on a deficiency noted in an IRS interim Safeguard Review Report dated June 2001, that the Department was disclosing tax information to the Office of the State Auditor's Bureau of Special Investigations (BSI). Under 26 USC 6103, disclosure of FTI from IEVS is restricted to officers and employees of the receiving agency. Outside (non-agency) personnel (including auditors) are not authorized to access this information either directly or by disclosure from receiving agency personnel. The BSI conducts the Department's criminal fraud referrals and has done so for Massachusetts since the inception of IEVS in 1988. BSI has never been organizationally part of the Department, and therefore the FTI should not have been disclosed to them.

The Department has pursued with the IRS the reestablishment of a data exchange. The IRS issued its final Safeguard Review Report in October 2004 and accepted in full the Department's corrective action plan. As of June 2006, the Department received official notification from the IRS that all official requirements were complete for the Department to resume matching with the IRS. The Department is in the process of completing the match. (*Department of Health and Human Services – Temporary Assistance for Needy Families 93.558; Fiscal Year 2005 Single Audit Finding 35*)

Recommendation

We recommend that the Department expedite the process of completing the data match to be in full compliance with federal regulations.

Department Corrective Action Plan

The Department has substantially completed the corrective action on this finding. All of the necessary steps to conduct the match have been completed, including executing the necessary legal arrangements, designing a revised match process to comply with federal security requirements, development of a new automated system consistent with the new design, and transmitting the appropriate information to the IRS. The only barrier to completion at this point is receipt of a match file from the IRS in a format consistent with the Department's procedures. The IRS has committed to providing the data in this format, and DTA will complete the match in a timely manner once it is received. The following chronology outlines the steps taken to date to complete the match.

A Safeguard Procedures Report was submitted to the IRS on June 1, 2005. This report must be approved by the IRS before it will initiate the matching process. The report redesigned methods by which the

Department of Transitional Assistance Findings on Compliance with Rules and Regulations

Finding Number 17: Failure to Perform Federal Tax Information Match (continued)

Department Corrective Action Plan (continued)

Department would administer Federal Tax Data and incorporated Federal Tax Information Safeguard Guidelines. On September 16, 2005 the IRS responded that the Safeguard Procedures Report submitted in June, 2005 was not approved pending the receipt of additional computer security information.

The Department continued to address all issues related to IRS guidelines and requests for information. In order to be able to perform the match the Department had to revise its Safeguard Procedures report to respond to questions and additional information requests received from the IRS. The Department also had to submit a new Computer Matching Agreement and Agreement to Cover Reimbursable Costs to complete all requirements necessary to receive the data for the match from the IRS.

Following is a chronology of actions taken in accordance with the Department Corrective Action Plan:

10/4/05	DTA updated the Computer Matching Agreement (CMA) and the Agreement to Purchase Services (Form 5181)
1/10/06	CMA and Form 5181 sent to IRS
2/17/06	Received signed copy of CMA and Form 5181 from the IRS (30 day comment period in Federal Register commenced 2/15/06)
2/24/06	Safeguard Procedures Report (SPR) analysis completed and returned to IRS
4/28/06	Email received from IRS indicating that IRS had identified a solution to providing data in a format readable by DTA (CD format) that would be available within the next 2 months
5/6/06	Received final IRS review and approval of Safeguard Procedures Report (SPR) analysis based on Internal Revenue Code 6103(1)(7)
5/11/06	Department Notices updated and approved to reflect safeguarding of match data and requirements
6/9/06	DTA received official notification from the IRS that the Safeguard Procedures Report (SPR) was approved and that all official requirements were complete for MA DTA to resume matching with the IRS
7/7/06	Telephone call from IRS indicating that providing data in CD format to DTA would not occur until August or September
7/13/06	DTA sent active recipient file to IRS
8/23/06	The IRS Federal Tax Information data file was received by DTA, however, it was not transmitted using the requested media, and was therefore unreadable by DTA
9/27/06	Safeguard Activity Report, due to the IRS by 9/30/06 was sent and received by the IRS in time to meet the 9/30/06 deadline.
10/4/06	MIS completed programming to process the match with IRS data
10/6/06	DTA notified IRS by email that media on which data was provided to DTA (tape cartridge) could not be read with DTA equipment. IRS again indicated willingness to attempt to provide data in November in readable CD format.

Data match will be processed and completed upon receipt of data in readable CD format.

Responsible persons: Cescia Derderian, Assistant Commissioner for Field Operations,
Maryalyce Cleveland, Director of Centralized Eligibility Operations
Implementation date: October 5, 2005 began implementation (see above)

Department of Transitional Assistance Findings not repeated from Prior Years

1. The Department of Transitional Assistance (Department) needed to implement United States Department of Agriculture, Food and Nutrition Service (USDA/FNS) recommendations to bring the Food Stamps Status of Claims Against Household Report into full compliance with regulatory provisions. On April 12, 2006, the USDA/FNS issued a letter stating that the Department had adequately addressed and corrected all deficiencies noted in its report. (*Fiscal Year 2005 Single Audit Finding 33*)
2. The Department of Transitional Assistance (Department) needed to implement USDA/FNS recommendations to improve its investigation and recoveries of food stamp fraud. On April 3, 2006, the USDA/FNS stated that all required corrective actions have been completed and no further action is required. (*Fiscal Year 2005 Single Audit Finding 34*)

Executive Office of Elder Affairs Background

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

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

The Office's responsibilities include the administration and monitoring of protective, supportive and nutritional programs and services for 1.1 million elders including case management and in-home services through the Home Care Program, nutrition, ombudsman services for residents of long term care facilities and assisted living residences and for recipients of services in the community, protective services and a variety of supportive and informational services including transportation, legal services, health benefits counseling, information and referral and senior center programs. The nutrition program provides education and over eight million meals to elders through home delivered (Meals on Wheels) or congregate meal sites. In addition, the Office is responsible for certifying over 160 Assisted Living Residences and administering Prescription Advantage, the nation's first state sponsored prescription drug insurance plan for seniors age 65 and older and low-income disabled adults. Elder Affairs' programs and services operate through a statewide network providing services to elders through both regional and local agencies which includes 27 regional Aging Services Access Points, 23 Area Agencies on Aging that operates programs authorized under the Older Americans Act, 348 municipal Councils on Aging and 290 senior and drop-in centers.

In fiscal year 2006, the Office administered \$2.2 billion, with federal grant funds totaling approximately \$34 million.

The Office's major program is the Cluster of:

<u>CFDA #</u>	<u>Federal Program Description</u>
93.044	Special Programs For The Aging-Title III, Part B-Grants for Supportive Services and Senior Centers
93.045	Special Programs for The Aging-Title III, Part C-Nutrition Services
93.053	Nutrition Services Incentive Program

Executive Office of Elder Affairs

Findings on Compliance with Rules and Regulations

Finding Number 18: Supporting Documentation for Monitoring Payments to Area Agencies Needs to be Improved

The fiscal year 2002 single audit noted that the Executive Office of Elder Affairs (Office) was paying Area Agencies on Aging (AAA) for program expenditures without sufficient supporting documentation. In response to this finding the Office implemented a requirement that each of twenty-three (23) AAA's submit a spreadsheet detailing the support for the payment on a monthly basis. The Title III Program Administration Unit is responsible for performing desk reviews of these standard-invoicing requirements (including a detailed review of one month invoice for each AAA). During fiscal year 2005 the Office reorganized and the detailed review was only performed for one of the 23 AAAs and again in fiscal year 2006 the Office did not perform any desk reviews of the 23 AAAs. The lack of desk reviews is not in accordance with the Office's monitoring procedures to ensure that expenditures of federal funds are properly supported.

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

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

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

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

(Department of Health and Human Services - Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers 93.044 and Special Programs for the Aging – Title III, Part C - Nutrition Services 93.045; Nutrition Services Incentive Program 93.053; Fiscal Year 2005 Single Audit Finding 23)

Recommendation

The Office should ensure that its current monitoring requirements are fully implemented, including the invoice reviews for all AAA to evaluate and assess the AAAs' performance and record keeping for program quality and effectiveness.

Department Corrective Action Plan

AAAs are required to submit supporting documentation to support monthly invoice amounts. Elder Affairs will continue to review this documentation and address any issues with the AAA.

In addition to continuing this practice, Elder Affairs will complete one desk audit for each AAAs, by September 30, 2007. A desk audit tool will be developed to ensure standardization in the audit review process.

Executive Office of Elder Affairs
Findings on Compliance with Rules and Regulations

Finding Number 18: Supporting Documentation for Monitoring Payments to Area Agencies Needs to be Improved (continued)

Department Corrective Action Plan (continued)

The department is presently engaged in installing a comprehensive case management database to be used by all AAAs. In addition to the 23 desk audits to be conducted, the Department will review how best to leverage this new database to improve upon our monitoring and oversight duties in this regard.

Responsible person: Peter Tiernan

Implementation date: By September 30, 2007 a desk audit will be completed for each AAA.

Executive Office of Elder Affairs Findings on Compliance with Rules and Regulations

Finding Number 19: Lack of Documentation to Support the Amounts Reported on SF-269

The Executive Office of Elder Affairs (Office) did not provide supporting documentation to ensure that the amounts reported on *OMB Standard Form -269* (SF-269) for the year ending September 30, 2005 were in agreement with the Office's books and records. The Office provided documentation from MMARS or other Office's records which did not agree to the amounts reported on the SF 269 as of September 30, 2005. Office management explained that the lack of reconciling supporting documentation was due to a transition of personnel preparing the report during the fiscal year.

The SF-269 is a cumulative report and supporting documentation is needed from MMARS for the Office's costs and the AAAs for their costs and the cumulative balances are then reported on the SF-269. Specifically, there was missing information in the Office's *Service Match Analysis* spreadsheet. This spreadsheet is a summary of all the AAAs' annual income and expense reports. There were several corrections made to this spreadsheet due to incorrect input from the *Annual Income and Expense* reports from the AAAs. Additionally, the *Non-Federal Share of State Plan Administration* worksheet, which provides a listing of employees by units to support the *Total Salaries and Fringe* report line items did not agree to MMARS. There were several corrections made to this document as well as to support the MMARS number.

OMB Circular A-133 requires grantees with regard to Financial Reporting:

To provide reasonable assurance that reports of federal awards submitted to the Federal awarding agency or pass-through entity include all activity of the reporting period, are supported by underlying accounting or performance records, and are fairly presented in accordance with program requirements.....

(Department of Health and Human Services- Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers 93.044 and Special Programs for the Aging – Title III, Part C - Nutrition Services 93.045; Nutrition Services Incentive Program 93.053)

Recommendation

The Office should develop and implement written policies and procedures for the preparation of the SF-269. These procedures should include personnel responsible, due dates, MMARS reports and additional supporting documents from the AAAs. Additionally, the procedures should include a supervisory review of the report prior to submission to the federal government to ensure proper reporting.

In addition, the Office should review its policies and procedures for the preparation of all federally required reports to ensure that the information included is supported by MMARS and/or other supporting information.

Department Corrective Action Plan

As indicated above, the completion of the SF-269 report was transferred to new staff. The completion of the SF-269 report was transferred to new staff for the period of April 2005 through September 2005. Beginning with the reporting period of April 2005, expenditure data was obtained from MMARS, through use of the Commonwealth of Massachusetts Information Warehouse. The Information Warehouse is a centralized, integrated database that gathers information from the Commonwealth's data systems, including accounting data from MMARS and payroll data from the Commonwealth's Personnel system.

Executive Office of Elder Affairs
Findings on Compliance with Rules and Regulations

**Finding Number 19: Lack of Documentation to Support the Amounts Reported on SF-269
(continued)**

Department Corrective Action Plan (continued)

To ensure the transfer of the knowledge needed to complete the SF-269 report, Elder Affairs will complete written procedures documenting the steps to complete the report. In addition, the spreadsheet maintained to track indirect, in-kind, client contributions and etc. will be reviewed and revised to reflect needed changes.

Responsible person: Peggy Conneely
Implementation date: January 1, 2007

Executive Office of Elder Affairs

Findings not repeated from Prior Years

1. The Executive Office of Elder Affairs (Office) needed to complete the 2004 and/or 2005 indirect cost allocation plan because it was evaluating a change in its cost allocation methodology. During 2006 the Commonwealth of Massachusetts Office of the State Comptroller approved the fiscal 2004/2005 cost allocation plan. Additionally, during 2006 the Office received an approval from the Comptroller's Office for the 2006 indirect cost allocation plan- (*Fiscal Year 2005 Single Audit Finding 24*)
2. The Executive Office of Elder Affairs (Office) needed to ensure that policies and procedures relating to AAA audit findings were being fully implemented through proper review and supervision of the personnel responsible, including the timely review of management decision and the AAA's corrective action, until the centralized process was implemented. The fiscal year 2006 audit disclosed that policies and procedures were implemented and a review of the centralized financial qualification process was performed. (*Fiscal Year 2005 Single Audit Finding 25*)
3. During the prior audit, the Executive Office of Elder Affairs (Office) could not find the personnel file for one of three payroll selections tested and as a result could not provide appropriate documentation to support these payroll charges to the federal awards. In accordance with OMB Circular A-133, no further action is required since two years have passed since the finding was submitted to the federal government. The Federal agency is not currently following up on the finding, and a federal management decision has not been issued. (*Fiscal Year 2005 Single Audit Finding 26*)
4. The Executive Office of Elder Affairs (Office) needed to ensure that it implemented procedures to monitor the completion of semi-annual certifications in accordance with federal requirements. As part of the 2006 audit, a listing of employees who charged expenses to the federal grants were identified and kept on a master listing and signed by the Director of Budget and Human Resources. (*Fiscal Year 2005 Single Audit Finding 27*)

Executive Office of Health and Human Services/Office of Medicaid Background

The Executive Office of Health and Human Services (Executive Office) is the designated single state agency responsible for administering the program of medical assistance. The Executive Office assumed the single state agency responsibilities in fiscal year 2004 pursuant to a legislative reorganization and designation of the Executive Office as the single state agency. Prior to that date, and beginning in fiscal year 1994, the Division of Medical Assistance (Division) was the designated single state agency. As the current single state agency, the Executive Office administers the medical assistance program primarily through its Office of Medicaid (Office).

During fiscal year 2006, the Office administered approximately \$8.9 billion in carrying out its program. Federal funds amounted to approximately \$4.8 billion.

The federal funding to the Office is detailed in the accompanying Schedule of Expenditures of Federal Awards. The Office's major programs were:

<u>CFDA#</u>	<u>Federal Program Description</u>
93.776	Hurricane Katrina Relief
93.778	Medical Assistance Program
93.775	State Medicaid Fraud Control Units
93.777	State Survey and Certification of Health Care Providers and Suppliers
93.767	State Children's Health Insurance Plan

**Executive Office of Health and Human Services/Office of Medicaid
/Department of Mental Retardation
Findings on Compliance with Rules and Regulations**

Finding Number 20: Provider Applications not Signed by Provider or the Office of Medicaid

Three out of 27 selections tested for provider eligibility under the Medicaid program administered by the Executive Office of Health and Human Services (Executive Office) via the Office of Medicaid did not have a signed Provider Agreement/ Billing Intermediary Authorization Agreement on file as of the end of the fiscal year (June 30). The three agreements were present in the file, however one was not signed by the Provider or the Office of Medicaid, and two were not signed by the Office of Medicaid.

Federal regulation, 42 CFR sections 431.107, requires the provider and the Commonwealth to enter into a valid agreement before the provider begins performing services under the Medicaid program. Under the Uniform Commercial Code, one element of a valid contract is that it is signed by both parties.

The risk that the Office incurs by not signing these documents is that the Office is not in compliance with federal regulations. (*Department of Health and Human Services – Medical Assistance Program 93.778; Fiscal Year 2005 Single Audit Finding 37*)

Recommendation

The Office of Medicaid needs to continue to improve its administrative controls to ensure that all necessary and required documentation is complete and current including a control measure to identify, in advance, those cases whose documentation is incomplete.

Department Corrective Action Plan

During the 1980s-early 90s, there may have been occasions when Medicaid may have had provider agreements on file that were not signed by both the provider and Medicaid. This practice was cited as a finding during a prior single state audit and Medicaid (now the Executive Office) implemented a corrective action plan to assure that provider agreements were countersigned. The Executive Office has since been in compliance with this new policy and procedure. The provider agreements selected were old provider agreements, consequently, it was not signed after the corrective action plan was implemented. As long as the single audit selections are providers with a lengthy provider history, it is likely that the same problem could arise. However, if selections were made after the CAP was implemented, it is likely that the Executive Office would be found in compliance.

The Executive Office will continue to implement its prior corrective action plan which assures that documentation for new providers and providers under-going re-credentialing is complete and current. The FY07 plan is to implement a re-credentialing initiative in which the Executive Office will verify credentials of existing providers, however, as advised by the Legal department, existing providers will not be re-contracted nor will old provider agreements be retroactively countersigned.

Responsible person: Janice Wadsworth
Implementation date: On-going in FY07

Executive Office of Health and Human Services/Office of Medicaid Findings on Compliance with Rules and Regulations

Finding Number 21: Overpayment Must be Refunded in a More Timely Manner

The Executive Office of Health and Human Services (Executive Office) Office of Medicaid (Office) needs to refund to the federal government the recoupments of overpayments in a timelier manner. In one out of the 24 cases tested for recoupments of overpayments, the Executive Office did not refund the federal portion in the time allowed.

Federal regulation, 42 CFR 433.312 (a) (1), states that “the Medicaid agency has 60 days from the date of discovery of an overpayment to a provider to recover or seek to recover the overpayment before the federal share must be refunded to HCFA.” 42 CFR 433.312 (a) (2) states that “The agency must refund the Federal share of overpayments at the end of the 60-day period following discovery in accordance with requirements of this subpart, whether or not the State has recovered the overpayment from the provider.”

As part of the Overpayment and Recovery process, both Office personnel and independent subcontractors perform audits. Once an audit is finalized, all claims that are not properly supported are communicated to the provider as a potential overpayment. At this point, the cases will ordinarily stay with the identifying unit for an indefinite period of time, during which a letter, entitled “Preliminary Overpayment Letter” is sent to the provider communicating that an overpayment exists as well as the reason for and the amount of the overpayment. If the provider does not respond within 30 days, a courtesy letter is sent informing the provider that an overpayment was made and a recoupment account established. In these cases, the Division must refund the overpayment within the 60 days required. If the provider responds within 30 days to the “Preliminary Overpayment Letter” and wishes to contest the overpayment, the Office will usually grant additional time. Once an agreement or an impasse is reached, a “Final Notice of Overpayment” is sent, and a recoupment is set up and will be offset against any future payments to the provider.

As indicated above, of the 24 recoupments selected for testing totaling \$319,097, one totaling \$33,843 was not refunded to the federal government within the 60 days required. The refund was made 18 days late. (*Department of Health and Human Services – Medical Assistance Program 93.778 and State Children’s Insurance Program 93.767*)

Recommendation

The Office needs to reemphasize the importance of refunding recoupments recovered to the federal government within the time frame required by regulations. Centralizing the processing and tracking for both the amount of the recoupment and the program to which the recoupment recovered belongs might make the process more efficient and effective.

Department Corrective Action Plan

The Executive Office understands the importance of recovering recoupments within the time frames required by regulations. The Financial Compliance Unit will set up recoupment accounts on or after 30 days has expired from the date of the final notice. The Unit will make every effort to establish MMIS recoupment accounts in a timely manner. Subsequently, the Federal Revenue Unit at MassHealth will be notified systematically about recoupment collections due the federal government and can then take the necessary steps to return the monies within the appropriate timeframe.

**Executive Office of Health and Human Services/Office of Medicaid
Findings on Compliance with Rules and Regulations**

**Finding Number 21: Overpayment Must be Refunded in a More Timely Manner
(continued)**

Department Corrective Action Plan (continued)

Recoupments will continue to be reported to CMS as collected.

Responsible person: Richard L. Keith

Implementation date: November 29, 2006

**Executive Office of Health and Human Services/Office of Medicaid/
Department of Social Services
Findings on Compliance with Rules and Regulations**

Finding Number 22: A Department of Health and Human Services Report Cites Claiming of Unallowable Targeted Case Management Costs

The U.S. Department of Health and Human Services Office of Inspector General (OIG) determined that \$86,645,347 of Federal Financial Participation related to targeted case management (TCM) for the Department of Social Services (DSS) was unallowable.

Section 1905(a)(19) of the Social Security Act (the Act) authorizes State Medicaid agencies to provide case management services to Medicaid beneficiaries. Section 1915(g)(2) of the Act defines case management services as “services that will assist individuals eligible under the [State] plan in gaining access to needed medical, social, educational, and other services.” A 2001 Centers for Medicare & Medicaid Services (CMS) letter to State Medicaid directors refers to case management services as targeted case management (TCM) when the services are furnished to specific populations in a State. The letter provides that allowable TCM services for Medicaid-eligible beneficiaries include assessment of the beneficiary to determine service needs, development of a specific care plan, referral to needed services, and monitoring and follow-up of needed services. The letter specifies that allowable Medicaid case management services do not include direct medical, educational, or social services to which the Medicaid-eligible individual has been referred.

In Massachusetts, DSS provides foster care, adoption, and other child protection services. These services include TCM services for Medicaid-eligible children who have been referred to DSS as potentially abused or neglected or who are receiving services from DSS after having been determined to be abused or neglected or at risk of being abused or neglected.

For Federal fiscal years (FYs) 2002 and 2003, DSS claimed Medicaid TCM reimbursement amounting to \$197,718,235 (\$100,106,336 Federal share) through the Office of Medicaid.

The OIG report states that contrary to Federal requirements, the DSS TCM monthly rates charged to Medicaid included social workers’ salary costs related to direct social services, such as child protection and welfare services. Eliminating these unallowable costs from the calculation of the monthly rates, the OIG determined that the costs of TCM services claimed through the State agency were overstated by \$171,147,058 (\$86,645,347 Federal share). The OIG attributes the overstatement to the Office of Medicaid’s lack of procedures for ensuring compliance with Medicaid requirements. (*Department of Health and Human Services – Medical Assistance Program 93.778*)

Recommendation

The OIG recommended that the Office of Medicaid:

- refund to the Federal Government \$86,645,347 in unallowable costs;
- work with CMS to determine the allowability of the \$26,571,177 (\$13,460,989 Federal share) on which the OIG was unable to express an opinion;
- refund to the Federal Government any TCM costs that represent direct medical, educational, or social services claimed and reimbursed subsequent to the OIG’s audit period; and

**Executive Office of Health and Human Services/Office of Medicaid/
Department of Social Services
Findings on Compliance with Rules and Regulations**

Finding Number 22: A Department of Health and Human Services Report Cites Claiming of Unallowable Targeted Case Management Costs (continued)

Recommendation (continued)

- establish procedures to ensure that TCM rates used to claim Medicaid reimbursement do not include payment for direct medical, educational, or social services to which the Medicaid-eligible individual has been referred.

Department Corrective Action Plan

The Executive Office disagrees with this finding. In its comments on the OIG's draft report, the Executive Office disagreed with the OIG's findings and recommendations. The Executive Office presented several rationales to support its position that all of the services that it claimed as TCM were allowable.

Responsible person: Beth Waldman
Implementation date: Ongoing

Executive Office of Health and Human Services/Office of Medicaid
Findings not repeated from Prior Years

1. The Executive Office of Health and Human Services (Office) had one out of 25 selections under the state Child Health Insurance Program (SCHIP) which did not contain the two recent pay stubs as required by federal regulation. No such instances were noted during the 2006 Single Audit. *(Fiscal Year 2005 Single Audit Finding 36)*
2. The Executive Office of Health and Human Services (Office) did not adequately claim costs associated with the implementation of the Virtual Gateway system. Adjustments were made to the federal reports for Virtual Gateway system costs. *(Fiscal Year 2005 Single Audit Finding 38)*

Executive Office of Public Safety and Homeland Security Background

The Executive Office of Public Safety and Homeland Security (Office) oversees 17 agencies, boards, and commissions. The Office Program Division is the state-planning agency responsible for applying for and administering federal and state criminal justice grants.

The Department of Homeland Security, Office of Domestic Preparedness makes State Homeland Security Grants Funds available to states, which then make sub-awards to state and local units of governments. Through these programs, the Department of Homeland Security provides planning, equipment, training, exercise, and management funding to emergency prevention, preparedness, and response personnel in all 50 states. The Office works in partnership with federal, regional, local and private sector entities to enhance statewide capabilities to detect, prevent, respond to and manage the consequences of acts of terrorism and other critical incidents.

A key federal grant program administered by the Office is the Edward Byrne Memorial State and Local Law Enforcement Assistance Program (the Byrne Program). The Byrne Program, created by the Anti-Drug Abuse Act of 1988 (Public Law 100-690), places emphasis on drug-related crime, violent crime, and serious offenders, as well as multi-jurisdictional and multi-state efforts to support national drug control priorities. The Bureau of Justice Assistance makes Byrne Program Formula Funds available to states, which then make sub-awards to state and local units of governments.

The Byrne Formula Grant Program is a partnership among federal, state, and local governments to create safer communities and improved criminal justice systems, with emphasis on violent crime and serious offenders, and to enforce state and local laws that establish offenses similar to those in the federal Controlled Substances Act. Grants may be used to provide personnel, equipment, training, technical assistance, and information systems for more widespread apprehension, prosecution, adjudication, detention, and rehabilitation of offenders who violate such state and local laws.

The Office of Juvenile Justice and Delinquency Prevention administers the Juvenile Accountability Block Grant (JABG) program. Through the JABG program, funds are provided as block grants to states that have implemented, or are considering implementation of, legislation or programs promoting greater accountability in the juvenile justice system.

In fiscal year 2006, the Office administered approximately \$360 million, of which \$60.4 million was in federal funds. The federal funding to the Office is detailed in the accompanying Schedule of Expenditures of Federal Awards.

The Office's major programs were:

<u>CFDA #</u>	<u>Federal Program Description</u>
97.004	State Domestic Preparedness Equipment Support
97.067	Homeland Security Grant Program
16.579	Edward Byrne Memorial Formula Grant Program
16.523	Juvenile Accountability Incentive Block Grant

Executive Office of Public Safety and Homeland Security Findings on Compliance with Rules and Regulations

Finding Number 23: Internal Control Improvements Needed over the Review of Documentation Submitted by Subrecipients and Reimbursements Made to Subrecipients

The Executive Office of Public Safety and Homeland Security (Office) needs to strengthen its internal controls over the review of documentation submitted by subrecipients and subsequent reimbursements to the subrecipient. The Office needs to improve its financial monitoring procedures over subrecipients to ensure federal funds are spent in accordance with contract requirements and that subrecipients have adequate systems of accounting and internal controls.

Our audit disclosed that the Office conducted financial monitoring activities by reviewing required quarterly financial reports submitted by subrecipients. Additionally, the Office conducts on-site programmatic and financial reviews and communicates, as needed, with subrecipients by telephone and email. Lastly, the Office conducts educational seminars for subrecipients outlining reporting and documentation requirements, as well as, providing overall guidelines to assist subrecipients. Our audit disclosed the following overpayments and matching fund issues:

- An overpayment of \$12,000 was disbursed from the State Homeland Security Grant Program. The subrecipient was contacted and the overpayment was recovered as a reduction on their next reimbursement from the same program.
- An overpayment of \$100 was disbursed from the Byrne Formula Grant Program. The subrecipient included in their reimbursement request indirect costs for ‘*Consultants/Contract Services*,’ which was an unallowable expense per the Office approved budget for this subrecipient. The Office is now currently researching this issue with the subrecipient.
- An overpayment of \$3,404 was disbursed for an unallowable expense within the State Homeland Security Grant Program. The Office subsequently received the funds back and processed an expenditure refund [ER].
- A deficit of the match requirement of \$2,894 on the Byrne Formula Grant Program was detected after the final reimbursement payment was made. According to State and Federal grant conditions, a 25% match is required for the first year of a Byrne program grant. The Office granted the subrecipient a waiver on the match requirement, which needed to be requested in advance. The process for reviewing and complying with final match fund requirements should be improved to insure that potential deficits are detected in a timely fashion.

The Office continues to make improvements in the area of monitoring federal grants and their internal controls, however, the Office needs to strengthen these internal controls further to protect against potential misuse of federal funds. Overpayments and reimbursed unallowable expenses do not provide reasonable assurance that internal controls are adequate and funds are spent properly.

OMB Circular A-133 §300(b) states the auditee shall “maintain internal control over Federal programs that provide reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations and the provisions of contracts or grant agreements and that performance goals are achieved.”

Additionally, OMB Circular A-133 §400(d) lists one of the responsibilities of pass-through entities is to “monitor the activities of subrecipients as necessary to ensure that federal awards are used for authorized purposes in compliance with laws, regulations and provisions of contract or grant agreements and that performance goals are achieved.” (*Department of Homeland Security-State Domestic Preparedness Equipment Support 97.004; Department of Justice-Byrne Formula Grant Program 16.579*)

Executive Office of Public Safety and Homeland Security Findings on Compliance with Rules and Regulations

Finding Number 23: Internal Control Improvements Needed over the Review of Documentation Submitted by Subrecipients and Reimbursements Made to Subrecipients (continued)

Recommendation

The Office needs to further strengthen its internal controls regarding the monitoring of federal grant funds. The Office must document additional steps to insure that proper and thorough reviews are conducted prior to any disbursements being made. Further documentation of internal control with the appropriate management review will assure that federal grant funds are spent efficiently, effectively and in compliance with all laws, regulations and provisions of contract or grant requirements.

Department Corrective Action Plan

The Executive Office of Public Safety and Homeland Security finds the process for the review of sub-recipient requests for reimbursements to be sufficient. Grant managers first review the documentation provided by the sub-recipients for reimbursement. Next a Deputy Director performs a review of the request and forwards the reimbursement request to the Fiscal staff. Fiscal staff reviews the request for sufficient funding and that the payment amount matches the request for reimbursement. The Grant Management Manual, soon to be distributed, will emphasize the continued need for careful review of requests for reimbursement from sub-recipients.

Responsible person: John Farley, Lynn Wright
Implementation date: October 2006

**Executive Office of Public Safety and Homeland Security/
Office of the State Comptroller
Findings on Compliance with Rules and Regulations**

Finding Number 24: Improvements Needed over the Reconciliation of Federal Grant Expenditures and Reimbursements

The Executive Office of Public Safety and Homeland Security (Office) uses the Office of the Comptroller (OSC) state wide Massachusetts Management Accounting and Reporting System (MMARS) to account for federal grant activity as well as other financial activity. The MMARS federal grant process is designed to systemically report and record all federal grant expenditure and reimbursement activity. MMARS provides the Office with a system to track, account for, report and record federal grant expenditures and reimbursements. Additionally, the process provides the OSC with the assurance that all federal grant funds were reimbursed for actual authorized expenditures.

The reconciliation of federal grant funds by the Office had not been efficiently and effectively accomplished since the implementation of the new MMARS on July 1, 2004. The federal grant process in MMARS involved a large learning curve and some enhancements needed to be made to the new system. One of the complicating factors was the use of “parent” and “child” accounts. “Parent” accounts are the conduit for federal grant funds that are distributed to subrecipients or other state departments, or “child” accounts. The Office serves as the “parent” account for the federal grant funds we audited. Various state departments have “child” accounts for their federal funds. If working effectively, all federal grant accounts must have an unexpended balance of zero at the close of each fiscal year.

The Office indicated that it has been struggling with the performance of reconciliation because certain reports were not readily available from MMARS in order to reconcile specific grants. Also, the Office stated that in December 2006 the OSC made available data from July 1, 2004 to December 2006 that showed all draw downs by sub-account and indicated if the drawdown was successful or rejected.

Other factors that contributed to the reconciliation issues were the Office turnover and availability of employees responsible for the reconciliation and technical problem with the United States Department of Justice LOCES federal grant draw down system for most of the fiscal year. During the 52 weekly grant cycle for the fiscal year, LOCES was not functional for 36 of the cycles requiring the Office and the OSC to use a telephone based draw down system, or facsimile to request the draw down thus hampering the reconciliation.

During our review of the applicable “parent” and “child” accounts, inconsistent balances were evident. Specifically, various “parent” and “child” accounts had either a zero balance, a negative balance (reflecting a receivable due at the close of the fiscal year) or depicted grant receipts greater than expenditures. Additionally, MMARS did not provide the Office with the ability to monitor expenditure and reimbursement details posted within “child” accounts. The Office due to staff turnover did not maintain proper security information to ensure “child” account departments conducted a complete and timely reconciliation of accounts. However, the Office and the OSC were meeting on a regular basis in order to reconcile the accounts. Some variances reviewed within the Office’s federal grant accounts date back to the implementation of new MMARS. As a result, some federal grant funds have not been reconciled for over 29 months.

**Executive Office of Public Safety and Homeland Security/
Office of the State Comptroller
Findings on Compliance with Rules and Regulations**

Finding Number 24: Improvements Needed over the Reconciliation of Federal Grant Expenditures and Reimbursements (continued)

Subsequent to the year ended June 30, 2006, the Office and OSC took aggressive steps to address reconciliation issues. The first step was for the Office to work with OSC to analyze a selected number of federal grant accounts from our audit. The analysis was to determine if federal grant accounts were reconciled. If they were not reconciled, the next step was to ensure that the known variances within those accounts were not material. The review determined that the accounts were not reconciled and that two material variances were identified, as follows:

1. A federal grant drawdown in excess of \$300,000 was never posted to the Office' federal grant Juvenile Accountability Block Grant (JBEG) account. OSC reviewed their records and determined that the drawdown of federal funds was posted to another state agency appropriation account.
2. A "child" account within the Homeland Security Grant Program had federal grant receipts of over \$1.3 million greater than expenditures.

Based on the issues described above, the Office and OSC management are conducting a review and assessment of all activity that flows through the existing federal grant accounts dating back to July 1, 2004. Currently, the Office and the OSC are jointly working on this analysis as of December 1, 2006. The Office plans to make necessary adjustments to MMARS and Federal Reports to properly account for the federal grant activity to ensure that the federal grant activity is complete and accurate. This should be accomplished when the reconciliation process is completed.

Chapter 647 of the Acts of 1989, an act to improve internal controls within state departments, requires the reconciliation of revenue to accounting records as follows:

"Periodic comparison shall be made between the resources and the recorded accountability of the resources to reduce the risk of unauthorized use or loss and protect against waste and wrongful acts. The vulnerability and value of the agency resources shall determine the frequency of this comparison."

The complexity of the reconciliation analysis and lack of knowledge of federal grant cash receipts activity posted to the system made it extremely difficult to accomplish the objective of reconciliation of federal grant fund accounts. (*Department of Justice – Juvenile Accountability Incentive Block Grant 16.523, Edward Byrne Memorial Formula Grant Program 16.579; Department of Homeland Security- Homeland Security Grant Program 97.067*)

Recommendation

The Office and the OSC should continue to take the appropriate actions to reconcile federal funds. Additionally, a determination should be made as to whether or not the activity flowing through the Office's federal grant accounts from non-Office sources reflects applicable account activity. Any non-compliant grant activity within the Office's accounts should be adjusted to the correct accounts.

**Executive Office of Public Safety and Homeland Security/
Office of the State Comptroller
Findings on Compliance with Rules and Regulations**

Finding Number 24: Improvements Needed over the Reconciliation of Federal Grant Expenditures and Reimbursements (continued)

Recommendation (continued)

The Office should also revise and update their written internal control procedures to ensure that its financial management system adequately provides current, accurate and complete federal grant financial reporting. The Office should incorporate procedures to ensure federal grant funds requested for reimbursement are reduced to immediate cash needs and should be revised to improve supervisory review, monitoring, and timely reconciliation procedures of federal grants. If there are excess federal grant funds, the Office should credit the applicable federal grant or refund excess federal grant funds to the federal government.

Additionally, the OSC should continue its efforts to train and give guidance to state departments regarding the reconciliation of federal grants within MMARS.

Department Corrective Action Plan

The OSC has conducted a review and assessment for all Departments including the Office of all activity that flows through the existing federal grant accounts dating back to July 1, 2004. The analysis was completed as of December 1, 2006. The Office plans to identify the necessary adjustments to MMARS to properly account for the federal grant activity to ensure that the federal grant activity is complete and accurate. This should be accomplished when the reconciliation process is completed.

The Office needs to reconcile by grant, that is our primary fiduciary responsibility, MMARS is our tool to accomplish this. Even though OSC and TRE are ultimately responsible for the accuracy of the data in the MMARS as “owners”, the Office, as a user recognizes that with additional analysis tools...it needs to reconcile the grant data in MMARS.

Responsible person: John Proctor, Director of Administration and Finance, EOPS
Eric Berman, Deputy Comptroller, Office of the State Comptroller
Implementation date: By June 30, 2007

Executive Office of Public Safety and Homeland Security

Findings not repeated from Prior Years

1. The Executive Office of Public Safety and Homeland Security (Office) lacked proper monitoring and receipt of approved Federal Grant Adjustment Notices (GAN) which removes any special conditions attached to a federal grant with the Department of Homeland Security Office of Domestic Preparedness (ODP). During fiscal year 2005, the Office developed a benchmarking report to monitor drawdowns of Homeland Security funds and was also developing a database to track all grants. Included in the database would be a section noting special conditions and whether the conditions have been cleared and by whom. As of June 30, 2006, the electronic database had been established and was in use. Moreover, Program Managers are aware of the need to provide business continuity with staff turnover and are fully aware of the time sensitive nature of obtaining a GAN. Finally, Fiscal Managers have created a line of communication and procedures with federal grant staff in the Office of the State Comptroller (CTR) and meet as needed to review federal grant issues. A review of the established benchmarking reports, database and procedures with CTR staff did not disclose any similar issues from previous fiscal years. (*Fiscal Year 2005 Single Audit Finding 39*)
2. The Executive Office of Public Safety and Homeland Security (Office) needed to improve the reconciliation process between its own records, the Massachusetts Management Accounting and Reporting System (MMARS), and subrecipient records and the U.S. Department of Justice's LOCES system (the federal cash management system). In January 2006, the Office's internal control plan was updated documenting the controls for deposits and reconciliations. Moreover, the presentation given to subrecipients each year has been updated to note the requirement to return any excess funds due the Commonwealth found through reviews of subrecipient records. A review of the Office's internal control plan regarding deposits and reconciliations, fiscal year 2006 bank statement reconciliations and presentation given to subrecipients did not disclose any similar issues. (*Fiscal Year 2005 Single Audit Finding 40*)
3. The Executive Office of Public Safety and Homeland Security (Office) needed to improve its financial monitoring procedures over subrecipients to ensure federal funds are spent in accordance with contract requirements and to ensure that subrecipients have adequate systems of accounting and internal controls. In fiscal year 2006, the Office developed an A-133 'self-identifying sheet' for subrecipients to submit with all future contract packages. Additionally, the Office will email subrecipients the results of their site visits and whether there are any required follow-up actions. A copy of the email will be placed in the program file. A review of the Office's self-identifying sheet, email confirmation from DOJ/OJP that the self-identifying sheet is sufficient, samples of written management decisions to subrecipients and copies of standard forms utilized at the completion of fiscal site visits disclosed that similar issues as noted in previous audits still exists. (*Fiscal Year 2005 Single Audit Finding 41*)

Executive Office of Public Safety and Homeland Security

Findings not repeated from Prior Years

4. The Executive Office of Public Safety and Homeland Security (Office) was not in compliance with OMB Circular A-87 requirements because it did not maintain personnel activity reports and did not have a cost allocation system to compare actual employees' hours worked to hours charged to the program. In fiscal year 2006, the Office required weekly personnel activity reports, initialed by both the employee and supervisor detailing time charged to the programs. Additionally, the Director of Fiscal Affairs compares MMARS Labor Cost Management (LCM) profiles assigned by the Office to each employee with weekly personnel activity reports to determine any differences and corrects the LCM, as needed. These automated profiles translate HRCMS earnings by employee by pay period into MMARS' chart of account detailed costs distributed to program codes, which relate to Federal grants. These automated systems insure that the Office can consistently and accurately charge actual salaries to appropriate federal grants. A review of salary allocations for federally-funded programs was conducted with the Director of Fiscal Affairs. The review consisted of both payroll expenditures by percent and dollar amount in comparison to budgeted allocations at the beginning of the fiscal year. Our review disclosed no similar issues as noted in previous audits. (*Fiscal Year 2005 Single Audit Finding 42*)

Information Technology Division Findings on Compliance with Rules and Regulations

Finding Number 25: \$437,755 in Excess Costs Included in the 2005 Rates Affecting Both Federal and State Programs

The Information Technology Division (Division) had \$437,755 in excess costs in computing its final 2005 rates, which were prepared beginning in fiscal year 2006. These costs affected the rates that were charged to both federal and state programs.

Costs as shown in MMARS and allocable to the Information Technology Division (Division) in accordance with OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, (Circular A-87) were used as a basis for preparing final rates for 2005 telecommunications, mail and computer services. During the audit of those rates the following was noted:

- Due to an oversight, depreciation was computed on certain assets that were previously expensed. Also, a full year of depreciation was taken for some assets with only a half-year of depreciation remaining. This resulted in \$422,426 of excess costs being included in the rates.
- Indirect costs assessed by another Commonwealth central service agency to the Division were included in the cost pool used to develop rates. An indirect charge by one central service agency to another is not an allowable cost under OMB Circular A-87, Attachment A, section G, Interagency Services. This resulted in an overstatement of \$10,461.
- An error in computing bargaining unit costs resulted in an over recovery of \$4,708; and
- Rounding errors occurred in computing fringe benefits resulting in an overstatement of \$160.

The cost of telecommunications, mail, and computer services, which comprised 1%, 4%, and 95%, respectively of total Division costs, all had net cost under recoveries of \$51,761, \$194,851, and \$14,495,593 respectively. The exact impact on federal programs could not be readily determined. (*Unknown Federal Programs*)

Recommendation

The Information Technology Division should adjust future billing rates for the overcharges and ensure a thorough review is performed by someone other than the preparer prior to finalizing.

Department Correction Action Plan

Due to an oversight, depreciation was computed on certain assets that were previously expensed. Also, a full year of depreciation was taken for some assets with only a half-year of depreciation remaining. This resulted in \$422,426 of excess costs being included in the rates. ITD, in an effort to more efficiently process and calculate the year end federal chargeback reconciliation based on the Federal accounting rules incorrectly calculated two items. Per the Federal accounting rules, ITD uses the straight line method of depreciation based on a 5 year estimated useful asset life. The first year and last year of depreciation uses the half year convention with a zero salvage value. Because of a programming error, the final year of depreciation was calculated as a full year instead of a half year of cost. Additionally, we converted the historical depreciation schedule from a summarized balance forward schedule to a detailed general ledger transaction based schedule. In the process of accomplishing this, we left off one general ledger transaction, an adjusting journal entry (a MMARS "EX" document), for a negative \$205, 000.

Information Technology Division Findings on Compliance with Rules and Regulations

Finding Number 25: \$437,755 in Excess Costs Included in the 2005 Rates Affecting Both Federal and State Programs (continued)

Department Correction Action Plan (continued)

These two errors combine to equal the auditor's finding of \$422,426. These two errors will be corrected in the following year's federal reconciliation per the Federal rules as defined in ASMB C-10 and OMB Circular A-87. The overages will be netted.

Indirect costs assessed by another Commonwealth central service agency to the Division were included in the cost pool used to develop rates. An indirect charge by one central service agency to another is not an allowable cost under OMB Circular A-87, Attachment A, section G, Interagency Services. This resulted in an overstatement of \$10,461. This item will be adjusted in the following year's federal reconciliation per the federal rules of ASMB C-10 and OMB Circular A-87.

An error in computing bargaining unit costs resulted in an over recovery of \$4,708. ITD, in an effort to more efficiently process and calculate the year end federal chargeback reconciliation based on the Federal accounting rules incorrectly calculated this item. A programming error that will be corrected in the following year's calculation and the amount, \$4,708 will be decreased from the relevant cost pools per the federal rules of ASMB C-10 and OMB Circular A-87.

Rounding errors occurred in computing fringe benefits resulting in an overstatement of \$160. ITD, in an effort to more efficiently process and calculate the year end federal chargeback reconciliation based on the Federal accounting rules correctly calculated this item. The federal rules require a fringe benefit calculation for each employee for each pay period during the fiscal year. There were, on average, of 250 employees and 26 pay-periods per employee or 6,500 rows of calculations. Hence, by rounding off the fringe benefit rate to the nearest penny for each pay period calculation for each employee, produced a rounding error of \$160. ITD will not adjust this calculation. However, to reduce confusion in the future, ITD will review the calculation to minimize the rounding problem.

Responsible person: Edward Shapiro, CPA
Implementation date: October 16, 2006

Information Technology Division Findings on Compliance with Rules and Regulations

Finding Number 26: Final Rates for Billed Services Should be Prepared on a Timely Basis

The Information Technology Division (Division) is required to make a comparison of revenue to actual expenses for billed services on an annual basis. The final 2005 rates for telecommunications, mail, and computer services were not computed until August 2006 and the corresponding adjustments have not been made to both federal and state programs.

OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, (Circular A-87) Attachment C Section G 4, requires that, "A comparison of the revenue generated by each billed service (including total revenues whether or not billed or collected) to the actual allowable costs of the service will be made at least annually, and an adjustment will be made for the difference between the revenue and the allowable costs." Final rates can be prepared for a fiscal year once the underlying information relating to the certified financial statements becomes available. Traditionally, this is no later than the January following the June 30 close of the previous fiscal year. Computation of the 2005 rates began in June 2006 and was not completed until August 2006. The resulting adjustments have not been made.

The total allowable cost of the Division's telecommunications, mail, and computer services was approximately \$62 million and it collected approximately \$47 million. While all services had net cost under recoveries of \$51,761, \$194,851, and \$14,495,593 respectively, the exact impact on federal programs could not be readily determined. (*Unknown Federal Programs*)

Recommendation

The Information Technology Division should complete the computation of the previous year's actual rates and notify federally-funded agencies to make any necessary adjustments by the end of the next fiscal year.

Department Corrective Action Plan

Traditionally, this is no later than the January following the June 30 close of the previous fiscal year. Computation of the 2005 rates began in June 2006 and was not completed until August 2006. The resulting adjustments have not been made. The year-end reconciliation memo invoices are traditionally mailed with the June statewide chargeback invoices missed the mailing date of July 15th. The Division, in an effort to more efficiently process and calculate the year-end federal chargeback reconciliation based on the federal accounting rules, missed this date. The Division overestimated the amount of time needed to complete the automation effort. The adjustments were emailed to the federal financial participating agencies, state colleges and some fee assessment agencies. The complete list of adjustments was also sent to relevant personnel in the Comptrollers Office so any remaining costs could be included in the SWCAP calculation.

It is the Division's intent to mail these invoices out sooner, preferably by the end of February. That will be two months after the official closing of the MMARS accounting system on December 31st. However, the official deadline is the end of June and the memo invoices will be mailed with the final statewide invoice on July 15th.

Responsible person: Edward Shapiro, CPA

Implementation date: October 16, 2006

Massachusetts Highway Department Background

The Massachusetts Highway Department (Department), within the Executive Office of Transportation and Construction, plans, constructs and maintains the state highway system, which consists of approximately 9,505 lane miles of highway and 2,900 bridges. To accomplish this, the Department operates approximately 122 maintenance facilities located throughout the state, including administrative offices, garages, and repair and storage buildings. Most of the facilities are small and serve maintenance needs.

During fiscal year 2006, the Department administered appropriated funds of approximately \$103.6 million. In addition, the federal government on a reimbursement basis provided about \$450 Million.

The federal funding to the Department is detailed in the accompanying Schedule of Expenditures of Federal Awards. The Department's major program was:

<u>CFDA #</u>	<u>Federal Program Description</u>
20.205	Highway Planning and Construction

Massachusetts Highway Department Findings on Compliance with Rules and Regulations

Finding Number 27: Proceeds from the Sale of Federally-Funded Property not Deposited or Transferred on a Timely Basis

The Massachusetts Highway Department (Department) did not deposit the proceeds from the sale of property acquired with federal awards on a timely basis. In addition, there was a delay in transferring \$160,500 to the Massachusetts Highway Trust Fund.

The Common Rule as stated at Title 49 of the *Code of Federal Regulations* for the U.S. Department of Transportation Section 18.31 “Real Property” permits the Department to sell property previously purchased with federal funds. Under 23 USC 156, the federal share of the proceeds from property purchased with awards from the Highway Trust Fund can be used to fund other eligible highway projects. The Department makes those funds available to other eligible highway projects by transferring the federal share of the proceeds to Fund 290, the Massachusetts Highway Trust Fund. When the Right-of-Way Bureau receives checks from the sale of real estate it forwards them to Fiscal Management for deposit. A Department policy requires that transfers to the Highway Trust Fund must occur within 30 days of being received by Fiscal Management. It is also the Commonwealth’s policy to deposit all checks within one day of receipt.

During testing for fiscal year 2006, it was noted that 3 of the 5 checks selected from real estate sales were not deposited within 1 business day. Those checks were held from 3 to 6 business days before being deposited. (*Department of Transportation – Highway Planning and Construction 20.205; Fiscal Year 2005 Single Audit Finding 44*)

Recommendation

The Massachusetts Highway Department should streamline the time between the receipt of a check for the sale of real property and its deposit into the Commonwealth’s accounts. All checks should be deposited within one day of regardless of whether complete information is available concerning the federal-aid project number. In addition, every effort must be made to transfer the funds to the Highway Trust Fund within 30 calendar days.

Department Corrective Action Plan

The Massachusetts Highway Department is a large agency that receives and processes a large number of checks every day. The Department has made great improvements in assuring checks received by the Department are deposited within one day as required by the policy of the Office of the Comptroller. The Right of Way section currently hand delivers their checks for the sales of land to a responsible Fiscal person. Also, if there are issues with the checks received, we are making copies of the checks and getting them deposited while we work on resolving the issues. The Fiscal Section will continue to streamline the processing of checks. We are also working with our IT section to update our check login system.

Responsible person: Glenn Behmer, Director of Revenue Executive Office of Transportation and Construction
Implementation date: Ongoing

Massachusetts Highway Department Findings on Compliance with Rules and Regulations

Finding Number 28: Monitoring of Davis Bacon Needs Improvement

The Massachusetts Highway Department (Department) paid construction contractors before receiving certified payrolls.

Title 29 Part 3 of the *Code of Federal Regulations* establishes the requirements for implementing the Davis-Bacon Act. Part 3.3(b), “Weekly Statement with Respect to Payment of Wages”, (Weekly Statement) indicates that each contractor or subcontractor engaged in the construction of a public work “shall furnish each week a statement [of compliance] with respect to the wages paid each of its employees engaged on work covered...during the preceding weekly payroll period.” Part 3.4 (a), “Submission of Weekly Statements and the Preservation and Inspection of Weekly Payroll Records” requires that the Statement of Compliance be either delivered or mailed to the Department by the contractor or subcontractor, within seven days after the regular payment of the payroll period. Finally, the Department has a policy not to process and approve payment for work until the certified payrolls are submitted and approved.

One of the five invoices tested had not submitted both the Weekly Statement and the Statement of Compliance to the Department by the time the vendor was paid for that period. This one exception was submitted by the contractor through the Champs System. The Champs System is a software application specifically designed to monitor compliance with state and federal equal employment opportunity and Disadvantaged Business Enterprise (DBE) laws and regulations.

We also noted that even when the contractors and subcontractors submitted the Weekly Statement and Statement of Compliance in a timely manner, there was no evidence that the Resident Engineers were reviewing the data to ensure that prevailing wages for the locality, as established by the US Department of Labor, were being paid. (*Department of Transportation – Highway Planning and Construction 20.205*)

Recommendation

The Department should instruct the Resident Engineers, those responsible for overseeing compliance with the Davis-Bacon Act, to ensure that all contractors and subcontractors certify payrolls and compliances on a weekly basis. The Department should also establish a mechanism, based on its experience with contractors and subcontractors, to identify those contractors and subcontractors most at risk of not paying prevailing wage rates and/or those most often late in submitting applicable compliance documentation. In addition, Resident Engineers or their delegates must provide written evidence that the Weekly Statements and Statements of Compliance have been reviewed and approved before payment is made.

Department Corrective Action Plan

The Department will place this item on the agenda of the next staff meetings for District Highway Directors and District Construction Engineers to reiterate the importance of tracking compliance with Davis-Bacon. In addition the Construction Division will review SOP #CSD-28-03-1-000 and other SOPs related to Labor Compliance to establish clear, specific direction regarding frequency, procedure and record keeping for compliance interviews and actions to be taken related to compliance monitoring.

Responsible person: Carol Hebb, Construction Engineer, MHD
Implementation date: 12/31/2006

Massachusetts Highway Department Findings not Repeated from Prior Years

1. The Massachusetts Highway Department entered into new agreements with other component units of the state government and in several instances it was noted that that these entities were treated as vendors even though the funds awarded under these agreements had the characteristics of a pass-through-subreipient relationship. In addition, some older agreements extended during the prior year were also treated as vendors, even though they also had characteristics of a pass-through-subreipient relationship. During the year, the Department correctly identified the subreipient relationship. (*Fiscal Year 2005 Single Audit Finding 43*)
2. The Massachusetts Highway Department could not provide 5 of 17 debarment and suspension certificates for construction contractors. During the year, the Department received the debarment and suspension certificates for their construction contracts. (*Fiscal Year 2005 Single Audit Finding 45*)

Massachusetts Rehabilitation Commission Background

The Massachusetts Rehabilitation Commission (Commission) is authorized by Chapter 6, Section 74 of the Massachusetts General Laws. The primary mission of the Commission is to help people who are permanently disabled to live as independently as possible. The Vocational Rehabilitation Division provides educational opportunities, job placement, and training for those individuals who are capable of becoming gainfully employed. Disability Determination Services, organizationally part of Commission, works with the Social Security Administration in determining the eligibility of individuals for disability insurance. The disability insurance's objective is to replace part of the earnings lost because of a physical or mental impairment severe enough to prevent a person from working.

The Commission contracts for, and monitors, vocational rehabilitation programs throughout the Commonwealth. It also determines client eligibility for its programs at 25 area offices. Disability determinations are made through a network of physician consultants.

In fiscal year 2006, the Commission administered \$136 million. Federal funds amounted to approximately \$88 million. The federal funding to the Commission is detailed in the accompanying Schedule of Expenditure of Federal Awards.

The Commission's major programs were:

<u>CFDA #</u>	<u>Federal Program Description</u>
84.126	Rehabilitation Services – Vocational Rehabilitation Grants to States
96.001	Social Security – Disability Insurance
96.006	Supplemental Security Income

Massachusetts Rehabilitation Commission Findings on Compliance with Rules and Regulations

Finding Number 29: Payroll Certifications not Obtained for Federally-Funded Programs

The Massachusetts Rehabilitation Commission (Commission) did not obtain periodic payroll certifications for employees that charge 100% of their time, to the Rehabilitation Services Vocational Rehabilitation Grants to States and Social Security - Disability Insurance Grant as required by OMB Circular A-87. Our review of 27 employee payroll transactions totaling \$42,440 disclosed that the Commission did not obtain periodic payroll certifications for individuals charging 100% of their time to a federal program.

OMB Circular A-87, Attachment B, Section 8h(3), requires periodic certifications as follows:

Where employees are expected to work solely on a single Federal Award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.

For fiscal year 2006, 462 employees charged 100% of their time to the Vocational Rehabilitation Grant totaling \$24,099,814 in salaries and 224 employees charged 100% of their time to the Social Security - Disability Insurance Grant totaling \$13,065,293 in salaries. By not obtaining the periodic payroll certifications for salaries charged to federal awards, there is no assurance that the costs charged to the federal awards are appropriate.

Commission management was not aware of this federal requirement. (*Department of Education – Vocational Rehabilitation Program 84.126; Social Security Administration – Disability Insurance Program 96.001*)

Recommendation

The Commission should establish policies and procedures that require periodic certifications for those employees who charge 100% of their time to a federal program to comply with OMB Circular A-87.

Department Corrective Action Plan

The Commission will comply with the requirement. We may have been unaware of the requirement since it has never been raised as an issue in all the years we have received a single audit. We do not see this as a problematic issue since all employees are hired to work within certain programs and are paid from that program's funding source.

We have brought this issue to the attention of the Executive Office of Human Services (Human Services) human resources department since this issue may impact other agencies, within Human Services, and they may wish to initiate a standard procedure for this certification.

Our initial certification will include periodic certifications by an appropriate manager of our routine payroll submissions and is expected be completed by 9/30/06.

Responsible person: John Kepple CFO

Implementation date: 9/30/06

Office of the State Comptroller Findings on Compliance with Rules and Regulations

Finding Number 30: Excess Indirect Costs Charged not Adjusted in a Timely Manner

The Office of the State Comptroller did not credit an estimated \$1,654,086 in fiscal year 2006 overcharges to federal programs on a timely basis. In addition, the bases and adjustments identified for two federally funded accounts could not be verified.

The Office of the State Comptroller (Office) is responsible for providing information to program MMARS to assess all applicable appropriation accounts for fringe and indirect costs using the approved rates and bases developed and negotiated in accordance with OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*. The Office is also responsible for performing a reconciliation to ensure fringe and indirect charges in the schedule of expenditures of federal awards are allowable. If any overcharges are noted, the Office is accountable for posting adjustments to eliminate those overcharges. While there were no over recoveries for fringe benefits that needed adjustment for fiscal year 2006, there were over recoveries for indirect costs. Those over recoveries were not adjusted on a timely basis. Management believes the federal overcharges will be deducted in fiscal year 2007.

During testing, 30 items were selected to determine whether the bases, indirect cost charges, and proposed adjustments were appropriately computed. In two (2) of those instances, the bases and the adjustments identified, could not be agreed to the detail supporting the calculations. While Office staff indicated that there was a timing difference between the bases provided and the amounts computed for adjustment, reconciliations between them could not be provided. Additionally, the 2 programs affected were also identified by the Office as having the following over recoveries:

- Contract payments in excess of \$250,000 for the Department of Mental Retardation are required to be removed from the direct cost base in computing indirect charges. That calculation identified an over recovery of \$1,486,025 for the Medical Assistance Program CFDA# 93.778., which was not made on a timely basis.
- The state Department of Education has three approved indirect cost rates which vary depending on the federal award. Contract payments in excess of \$25,000 are required to be removed from the direct cost base in computing indirect charges. That calculation identified an over recovery of \$52,036 for the Title I Grants to Local Educational Agencies Program CFDA# 84.010 and \$116,025 for the Grants for State Assessments and Related Activities Program CFDA# 84.369. which were not made on a timely basis.

Since supporting documentation reconciling the bases and the amounts proposed for adjustment was not provided, it could not readily be determined whether the over recoveries of \$1,486,025 and \$116,025, totaling \$1,602,050 were accurate.

The Office implemented a new accounting system during fiscal year 2005. Due to the level of detail required under the new system and the lack of a report which summarizes expenses by object code, each appropriation account must be queried to determine whether the approved indirect cost rate was applied to the appropriate base. As a result, reconciliations did not occur on a timely basis after year-end. Additionally, the delay in performing reconciliations, affects the information available in MMARS. Payments recorded during the accounts receivable period then can be used to propose adjustments. This created a timing difference between the cutoff date for computing the bases and that for proposing adjustments.

Office of the State Comptroller

Findings on Compliance with Rules and Regulations

Finding Number 30: Excess Indirect Costs Charged not Adjusted in a Timely Manner (continued)

It was also noted that some general fund and trust accounts, such as those for the Departments of Mental Health, Mental Retardation, Revenue, Massachusetts Highway, and the Executive Office of Human Services are used as a basis to bill federal agencies. Often the amounts reimbursed are only a portion of the actual expenditures made. The reimbursements received are recorded in revenue accounts which are identified on the Schedule of Expenditures of Federal Awards (SEFA). To avoid duplication, the appropriations from which the expenditures were made are not identified on the SEFA. As a result, it was difficult to specifically identify which appropriation accounts charged with indirect costs were federally reimbursed. Accordingly, an estimated total of \$1,654,086 (\$1,486,025, \$52,036, and \$116,025) in over recovered indirect costs for fiscal year 2006 was identified for these programs. (*Department of Education- Title I Grants to Local Educational Agencies Program 84.010, Grants for State Assessments and Related Activities 84.369; Department of Health and Human Services - Medical Assistance Program 93.778; Fiscal Year 2004; 2005 Single Audit Finding 14*)

Recommendation

A new report should be created which will expedite the review of approved rates and bases programmed in MMARS. In addition, the Office of the Comptroller should consider redirecting resources to performing the year-end reconciliation and post any adjustments on a timely basis to ensure amounts in the schedule of expenditures of federal awards and revenue in the financial statements are properly stated. Finally, the computation of the bases and the proposed adjustments should be made at a single point in time.

The Office of the Comptroller should also establish a mechanism to identify which appropriation accounts are ultimately reimbursed by a specific federal program. A link should be created between the revenue account on the SEFA and the accounts which were used as a basis for billing that revenue.

Department Corrective Action Plan

The Department of Mental Health's Medical Assistance Program has been removed from the FY2007 indirect cost chargeback. The indirect costs credited to this program in FY2006 account for 90% of the finding. The indirect chargeback program cannot limit assessments to an expenditure threshold for contracts. Since assessable expenditures under this account are made from only a few major subcontracts, indirect costs will be separately determined and assessed before the close of the fiscal year rather than assessing all contract expenditures and crediting the indirect on ineligible contract expenditures at year-end.

To facilitate the reconciliation of the indirect cost chargeback, a series of reports will be designed that will accumulate assessable expenditures and indirect charges by account and compare those charges to approved costs. The reports will reduce much of the reconciliation effort by accumulating monthly expenditures for those object codes that are eligible for indirect assessment and calculating the difference between indirect costs based on the federally approved rate and actual indirect charges. The reports will allow periodic and year-end reconciliations to focus on (1) monitoring contract expenditures that are not subject to indirect, and (2) investigating the reasons for any difference between actual charges and approved costs. The later being primarily under-charges created as a result of implementing higher approved rates after the start of the fiscal year.

**Office of the State Comptroller
Findings on Compliance with Rules and Regulations**

**Finding Number 30: Excess Indirect Costs Charged not Adjusted in a Timely Manner
(continued)**

Department Corrective Action Plan (continued)

Upon the reports being in production, monthly reconciliations will ensue immediately and credits will be applied.

Responsible person: Marybeth Shaughnessy-Newell, Director of Accounting
Fred DeMinico, Unit Manager of Accounting
Implementation date: June 30, 2007

Office of the State Comptroller
Findings not repeated from Prior Years

1. The Office of the State Comptroller (Office) included additional costs and excluded other costs in computing the 2005 Statewide Cost Allocation Plan (SWCAP). These costs affected indirect cost rates and departmental cost allocation plans. Adjustments were made to the 2006 and 2007 SWCAPs to correct costing errors and starting with the 2007 the SWCAP will be carefully reviewed by the Deputy Comptroller and Supervising Manager. *(Fiscal Year 2005 Single Audit Finding 15)*
2. The Office needed to continue to improve the documentation it prepares to support those sections of the SWCAP for which it has responsibility. The Office implemented changes in its written procedures effective with the 2006 SWCAP and will update these procedures as necessary for subsequent SWCAP submissions. The US Department of Health and Human Services considers this finding resolved. *(Fiscal Year 2005 Single Audit Finding 16)*

Commonwealth of Massachusetts
Higher Education
Student Financial Assistance Programs at Other Institutions
Background

As part of the Single Audit of the Commonwealth, the Office of the Comptroller, the Office of the State Auditor of the Commonwealth and Deloitte & Touche LLP entered into a cooperative agreement to provide the necessary audit coverage for the student financial assistance programs funded by the U.S. Department of Education and administered by the Commonwealth's colleges and universities. The institutions selected for audit were determined using a risk-based approach. The institutions covered by this arrangement are as follows:

State Colleges

Bridgewater State College
Fitchburg State College
Framingham State College
Massachusetts Maritime Academy
Massachusetts College of Art
Massachusetts College of Liberal Arts
Salem State College
Westfield State College
Worcester State College

Community Colleges

Berkshire Community College
Bristol Community College
Bunker Hill Community College
Cape Cod Community College
Greenfield Community College
Holyoke Community College
Massasoit Community College
Massachusetts Bay Community College
Middlesex Community College
Mount Wachusett Community College
North Shore Community College
Northern Essex Community College
Quinsigamond Community College
Roxbury Community College
Springfield Technical Community College

During fiscal year 2006, the Office of the State Auditor performed the audit of the student financial assistance programs at three institutions selected using the risk-based approach. These institutions were: Holyoke Community College, Northern Essex Community College, and Bridgewater State College. As a result of these audits, findings are presented for Holyoke Community College, Northern Essex Community College, and Bridgewater State College.

The University of Massachusetts contracted for an audit in accordance with OMB Circular A-133 for fiscal year 2006 with an independent public accounting firm. Separate reports on compliance, internal controls as well as the Schedule of Expenditures of Federal Awards and Data Collection Form are issued as a result of this audit. The findings resulting from the audit of the University of Massachusetts are excluded from this report.

**Institution of Higher Education
Bridgewater State College
Findings on Compliance with Rules and Regulations**

Finding Number 31: Submission of Federal Work-Study Timesheets Needs Improvement

The fiscal year 2005 single audit report disclosed that Bridgewater State College (College) had updated its policies and procedures for the Federal Work Study (FWS) Program. However, the 2006 audit disclosed that the College was not adhering to the updated policies and procedures. Furthermore, the College did not have a system in place to ensure that students are only paid for hours worked and students do not work more than 20 hours per week.

In its corrective action plan, the College stated “We recognize that any Internal Control Plan is a dynamic document and we will continue to revise and review all internal controls relating to the Work Study program. To ensure compliance within the Program, the College will periodically perform internal audits of the Work Study Program”.

Our follow-up audit disclosed the College has performed internal audits during fiscal year 2006. The first semester internal audits disclosed the same deficiencies noted in the prior single audit and the second semester internal audits noted improvements. In addition, the College did not perform tests or provide any further updates to the FWS policies and procedures to ensure that students do not work over 20 hours per week and are only paid for hours worked.

The College is required by 34 CFR 675.19 (2)(i) to establish fiscal procedures to certify a student’s FWS program work prior to making a payment to the student. The regulation requirement is as follows:

Include a certification by the student's supervisor, an official of the institution or off-campus agency that each student has worked and earned the amount being paid. The certification must include or be supported by, for students paid on an hourly basis, a time record showing the hours each student worked in clock time sequence, or the total hours worked per day...

The College’s Student Employment Manual also states in part that:

The supervisor is responsible for submitting timesheets to the Payroll Office by noon on the due date in order to produce a paycheck by the next Friday. The due date is five days after the end of the pay period. This allows the student ample time to have the timesheet completed and submitted with the authorized signature(s). It is the student's responsibility to get the timesheet to his or her supervisor to be signed. Once signed it is the supervisor's responsibility to submit all timesheets. Student employees will not be paid without a signed timesheet.

.... All students and supervisors must use pen to complete and sign timesheets. If a mistake is made, please cross it out and initial the change. Pencil and correction fluid (i.e. “white out”) are not permissible on the time sheets.

.... All hours worked must be documented on the appropriate Pre-Printed timesheet. Under certain circumstances, the Student Employment Office will provide the supervisor with handwritten timesheets. This typically applies only in the case of new student employees.

**Institution of Higher Education
Bridgewater State College
Findings on Compliance with Rules and Regulations**

**Finding Number 31: Submission of Federal Work-Study Timesheets Needs Improvement
(continued)**

To determine if the internal controls were functioning, we tested 2 of the 18 fiscal year 2006 pay periods. Our tests disclosed that College staff were not following the policies and procedures, however, improvements were made in the second semester (Spring semester 2006). Our testing of 670 timesheets disclosed the following:

- 3 timesheets had been partially written in pencil and had been signed by a supervisor. The College could not determine who brought the timesheet to the FWS office.
- 12 timesheets were altered with no indication of who had altered them (hours were changed by using white out and the change was not initialed). There was no evidence that the altered timesheet had been approved before or after they were submitted to the supervisor.
- 4 timesheets were for over 20 hours, which is contrary to the FWS policy that prohibits a student from working over 20 hours per week.
- 98 timesheets were not submitted on the College's required pre-printed timesheets. The students were not new students who are not required to use the pre-printed timesheets for their initial pay period. The College accepted these timesheets without the payroll systems pre-printed feature, which includes the pay period, pay rate, employee identification number, return date, accounts to be charged and the student's classification title. Students were allowed to fill in the control information and submit the timesheets, thus circumventing the College's internal controls. The College's FWS Policy Manual does not permit handwritten timesheets.
- 7 timesheets submitted by students working over 6 hours in a day did not have a half hour deducted for lunch as required by Massachusetts State Laws and the Student Employment Manual.
- 3 students were paid a total of 7.25 hours not worked.
- 3 timesheets were signed before the pay period was over.
- 1 timesheet was signed after the paycheck was issued.
- 1 timesheet was not signed by the student, however the supervisor signed the timesheet.
- 2 student timesheets were originally signed in pencil and then traced over in pen.

The College's Controller stated that the College will continue to re-educate staff regarding the internal controls necessary to enforce policies and procedures in the FWS Manual and to more closely monitor student timesheets and their submission. (*Department of Education - Federal Work-Study Program 84.033; Fiscal Year 2004; 2005 Single Audit Finding 47*)

Recommendation

The College needs to take action to ensure that all the departments participating in the program adhere to the internal controls established over the FWS program. College staff should again be advised of their responsibilities with regard to payroll procedures and student employee practices.

**Institution of Higher Education
Bridgewater State College
Findings on Compliance with Rules and Regulations**

**Finding Number 31: Submission of Federal Work-Study Timesheets Needs Improvement
(continued)**

The College also needs to expand its internal controls to include periodic monitoring by its internal audit staff to ensure adherence to these procedures and provide ongoing oversight to prevent conditions cited from recurring. In addition the College should consider expanding to an electronic timesheet system to address weaknesses identified in the processing of timesheets. Effective implementation and better utilization of available technology to enhance the electronic system would provide more assurance that existing policies and procedures are followed.

Department Corrective Action Plan

As noted above, the College has made improvements to the Federal College Work-Study program and performed an internal audit of the program.

To further aid the College with automating the Work-Study program and improve compliance, the College has purchased and begun the implementation of the Web for Employees module of Banner. This module utilizes electronic timesheets and signatures. The Web for Employees modules contains parameters that will address many of the weaknesses identified in the Work-Study program.

Responsible person: Nancy Ferguson Interim AVP/Human Resources and Tom Groh, Associate Vice President for College Information Systems

Implementation date: 06/30/2007

**Institutions of Higher Education
Holyoke Community College
Findings on Compliance with Rules and Regulations**

Finding Number 32: Improvements Needed in Federal Work-Study Payroll Processing

Holyoke Community College (College) received \$180,556 in Federal Work-Study (FWS) Funds for the period July 1, 2005 through June 30, 2006. Approximately 468 students participated in the FWS program for this period.

Our review of the FWS program included gathering information on the procedures for determining the needs of the College for FWS jobs, communicating availability of these positions to interested qualified students, awarding FWS funds, describing and verifying work performed, testing of the payments made to a sample of students participating in the program, analyzing the paychecks issued, and reviewing the College's payment procedure.

Our review of 59 student canceled checks and endorsements totaling \$8,782.00, for the February 18, 2006 FWS payroll, disclosed that a student endorsed his paycheck to his supervisor who subsequently cashed it. Our expanded testing for that student for the period July 1, 2005 to June 30, 2006, disclosed that 15 (60%) of the 25 checks issued were also endorsed to his supervisor. This practice is contrary to sound internal control procedures of segregation of duties. Employees who participate in the authorization and payroll approval process should not distribute or have custody of payroll checks. The cashing of FWS checks by departments, unless specifically authorized, should be strictly prohibited under any circumstances in compliance with sound internal control principles of segregation of duties. By approving the student's work time and signing his timesheets, the supervisor substantially participated in the authorization and approval process. Subsequently, by accepting custody of the student checks within the payroll process, the supervisor and the College did not appropriately segregate the duties to ensure adequate internal control procedures are in place.

The supervisor in obtaining the student's checks became a holder in due course, which upon receiving the student's endorsed checks allows him to legally endorse and cash the checks. This practice, to obtain custody of a student's check during the payroll process, is allowed by an existing College's financial aid departmental memorandum. This memorandum, which is issued annually, allows the practice of having FWS supervisors distribute checks to students directly. Under this memorandum entitled *Supervisors Responsibilities-Federal Work - Study Program*, the section on Paychecks indicates that the supervisor is "responsible for distributing paychecks to your work-study student(s)". However, this practice is contrary to internal procedures and applications established by both College policy and federal regulation. Specifically, the College's Financial Aid Office Internal Control Policy Section 2 states:

There shall be a separation of duties between the office awarding the financial aid funds and the office disbursing the financial aid funds.

The College is also required by DOE Bluebook Chapter 12 Financial Management Systems – Internal Control- A System of Checks and Balances which states in part:

Control Activities important to managing FSA funds. To participate in federally funded student financial aid programs, a school must demonstrate that adequate checks and balances are in place – separating the functions of authorizing and awarding FSA aid and disbursing of FSA...

**Institutions of Higher Education
Holyoke Community College
Findings on Compliance with Rules and Regulations**

**Finding Number 32: Improvements Needed in Federal Work-Study Payroll Processing
(continued)**

The College must have administrative capabilities that address 34 CFR Sec. 668.16 (c) (1) & (2) which states:

(1) Administers Title IV, HEA programs with adequate checks and balances in its system of internal controls; and

(2) Divides the functions of authorizing payments and disbursing or delivering funds so that no office has responsibility for both functions with respect to any particular student aided under the programs. For example, the functions of authorizing payments and disbursing or delivering funds must be divided so that for any particular student aided under the programs, the two functions are carried out by at least two organizationally independent individuals who are not members of the same family, as defined in Sec. 668.15, or who do not together exercise substantial control,

Our audit disclosed that the College utilizes the Commonwealth's Human Resources Compensation Management System (HR-CMS) to account for FWS payroll activities including the processing of payroll checks. The Office of State Treasurer (OST) and respective banking entity uses a process of "truncation". "Truncation" is the retention of cancelled checks by the bank. The American Institute of Certified Public Accountants (AICPA) Audit and Accounting Guide for Audits of State and Local Government Units Section 7.04 states in part that:

Because the Uniform Commercial Code (UCC-406 (I)) provides that a bank is under no obligation to return cancelled checks to a customer if it makes such checks available to customers in "a reasonable manner," many banks have developed the practice of not returning cancelled checks, called check truncation. The management of a governmental unit is responsible for maintaining sufficient internal control to compensate for the absence of returned cancelled checks.

In this regard, our audit tests disclosed that the College does not have copies of cancelled checks and has not developed an internal control procedure that address "truncation". Alternative or sufficient internal controls, which ensures, in the absence of receiving the checks, that cancelled checks and check endorsements are reviewed by the College as an integral part of internal control procedures, were not in place. The College should have established internal control procedures to review checks for comparison to appropriate signatures on file at the College. College management should make this review independent of the College's payroll department.

During our audit we interviewed both the FWS student and the College Supervisor separately. They disclosed that the primary reason for the supervisor endorsing the student's checks was because the student did not have a local bank depository account and could not readily cash his checks. The supervisor as a matter of convenience endorsed and cashed each check and according to both remitted the cash to the student. The student has subsequently opened a local bank account into which his FWS checks are now directly deposited. The College does not have a mechanism in place for students to cash payroll checks on campus.

**Institutions of Higher Education
Holyoke Community College
Findings on Compliance with Rules and Regulations**

**Finding Number 32: Improvements Needed in Federal Work-Study Payroll Processing
(continued)**

In conjunction of our review of these instances, we further noted conditions that warrant the attention of the College. The timesheets processed by the College for this student contained a number of work-study times that conflicted with the student's class schedule. We found 26 instances of work hours recorded on the student's timesheets where the registrar's records indicated he was scheduled for classes. An example of these conflicts is noted below:

<u>Date</u>	<u>Scheduled Class Time</u>	<u>Recorded Timesheet Time</u>
09/27/05	8:00 am to 10:30 am	9:00 am to 11:00 am
11/22/05	8:00 am to 10:30 am	8:30 am to 10:30 am
12/01/05	9:00 am to 9:50 am and 10:00 am to 10:50 am	8:00 am to 2:00 pm

In this regard, the College's Director of Financial Aid had annually prepared a memorandum distributed to all FWS program students entitled *Student Employee Responsibilities- Federal Work Study* that prohibits students from working during scheduled class time. This memorandum states in part as follows:

Working During Class Schedule - *You are not allowed to work during time periods when you are scheduled to be in class except in the event of a special circumstance (i.e., class cancellation.).*

Changes in Work Schedules - *If you need time off from work, give your supervisor sufficient notice. Requests for such adjustment of hours should be made only when there is a serious reason. Frequent adjustments in working hours are not usually appropriate.*

Contrary to these requirements the student's timesheets indicated 26 instances where he was working during scheduled class time. No notations were found on timesheets to indicate released time or class cancellations. Our audit tests found no other instances of non-compliance with this directive, or other instances of questionable endorsements on all other student checks and timesheets reviewed.

By not establishing proper internal controls, regarding the disbursement of FWS funds to students, supervisors may receive funds they are not entitled to. The absence of adequate internal controls over the FWS payroll process makes the College vulnerable for potential theft or abuse of FWS funds. (*Department of Education - Federal Work-Study Program 84.033*)

Recommendation

The College needs to review and update its existing internal controls and the applications of these controls in the FWS payroll areas cited. Upon completion of the review, all updates and changes to internal controls must be extended throughout all College departments participating in the FWS program and procedures must be put into place to ensure that internal controls are functioning as intended. The update should include assurances that segregation of duties occurs that does not allow any employee to participate in all phases of the FWS payroll process. The College should include in its internal control manual language discouraging FWS student employees from endorsing their checks to their supervisors. The College should also consider providing a mechanism for FWS students either to cash their paychecks

**Institutions of Higher Education
Holyoke Community College
Findings on Compliance with Rules and Regulations**

**Finding Number 32: Improvements Needed in Federal Work-Study Payroll Processing
(continued)**

Recommendation (continued)

at the College or by making arrangements at local banking institutions. The College should ensure that College staff independent of the payroll process review truncated cancelled checks periodically. The College should resolve conflicts between written controls and departmental memoranda ensuring that all memoranda are in compliance with the College's stated controls. The College should also review timesheet procedures and provide ongoing oversight to prevent conditions cited from recurring. All College staff should be advised annually of their responsibilities with regard to payroll procedures and student employee practices.

Department Corrective Action Plan

Standard practice dictates that it is impractical, albeit impossible, to implement every internal control suggested by the AICPA. Holyoke Community College believes that there were sufficient internal control procedures in place to mitigate the necessity to ban supervisors from cashing checks for their work-study students. The financial aid office awarded the funds, individual departments recorded and approved hours worked, the payroll office processed the payroll. Supervisors then distributed checks but the financial aid office then reconciled all pay distributed to the award recipient after the payroll was complete which would have brought to light any irregularity. The college will review the one piece of this process that the auditor is questioning and will implement alternative procedures keeping in mind the cost benefit of each control. The college's policy of prohibiting students from work during their scheduled classroom hours will be followed up with additional procedures to verify that the policy is being enforced. In addition, the college has drafted an updated payroll distribution and check cashing policy to become effective on October 20, 2006.

Responsible person: Ted Leth-Steensen, Acting Vice President for Administration
Implementation date: October 20, 2006

**Institution of Higher Education
Northern Essex Community College
Findings on Compliance with Rules and Regulations**

Finding Number 33: Inaccurate Student Refunds Issued

Due to default parameters not being set in the College's computer information system, the late awarding of financial aid for certain students, and students being allowed to pre-register for courses assigned a Capital Fee, the College issued inaccurate refund checks.

During the course of our review of student credit balances and refunds, we noted an instance in which a student was issued a refund check in the amount of \$280 on June 29, 2006, although the student's transaction summary balance indicated that a credit balance of \$300 was owed. As a result, it appeared that the student did not receive the entitled full refund. Because we were concerned that this situation might be the result of system software or programming error, we selected an additional 10 students and performed a second test of credit balances and refunds to determine whether any additional errors would be found. Our second test yielded another instance in which a credit balance and corresponding refund of \$260 was made when the actual credit balance according to the student's transaction summary totaled \$300.

We discussed this issue with the College's Bursar, who suspected (because of the \$20 increments) that the error might have been due to certain classes being assigned a Capital Fee (similar to a lab/technology fee) of \$20 per class. The Bursar then confirmed that the two instances we noted occurred because a charge (Capital Fee) for a subsequent term had already been entered into the system for students who pre-registered.

Based on this explanation, we requested that the College provide us with a report showing the number of students who received refunds, with a transaction date of June 29, 2006, and who were pre-registered and charged Capital Fees for the Fall 2006 term. The College provided us with a detailed report that disclosed 45 additional students who did not receive correct refund checks totaling \$1,526.06 due to the application of the Capital Fee for the fall term. The College further surmised that this problem resulted because software default parameter settings within the College's computer information system (Banner), at this particular time, were not configured to segregate a student's future term (semester) financial activity. This issue was also affected by the lateness in awarding financial aid for this specific group of students. Certain parts of these students' financial aid packages were awarded on June 29, 2006. As a result, students were not issued their full refund amount within 14 days of the establishment of a credit balance in their account as required by federal regulation.

In addition, the application of future charges to current refunds constitutes commingling of financial activity between terms, which is contrary to federal rules for the disbursement of student financial aid (SFA) funds.

In accordance with 34 Code of Federal Regulations (CFR) 668.164(e), the DOE Blue Book states:

A Title IV credit balance occurs whenever a school credits Title IV program funds to a student's account and those funds exceed the student's allowable charges. A school must pay the excess Title IV program funds (the credit balance) directly to the student as soon as possible, but no later than 14 days after:

- *The date the balance occurred on the student's account, if the balance occurred after the first day of class of a payment period, or*

**Institution of Higher Education
Northern Essex Community College
Findings on Compliance with Rules and Regulations**

Finding Number 33: Inaccurate Student Refunds Issued (continued)

- *The first day of classes of the payment period if the credit balance occurred on or before the first day of class of that payment period.*

Also:

Schools are responsible for ensuring compliance with the regulations applicable to Title IV credit balances. Those regulations include the requirement to disburse Title IV credit balances to students within 14 days.

Furthermore, the application of payment to a charge allocated to a future term, from funds left over from a current term, has the effect of making a disbursement on behalf of the student covering two separate payment periods. 34 CFR Sec.668.164, states (f) Early disbursements. Except as provided under paragraph (f)(3) of this section—

(1) If a student is enrolled in a credit-hour educational program that is offered in semester, trimester, or quarter academic terms, the earliest an institution may disburse Title IV, HEA program funds to a student or parent for any payment period is 10 days before the first day of classes for a payment period.

Once the College was made aware of this problem, the College's Information Technology Division and Bursar's Office held discussions to address and solve the problem. The Bursar stated that the discrepancy arose from selected future charges having been assessed much earlier than usual due to a computer malfunction and that it was an isolated incident, and would most likely never happen again. (*Department of Education - Federal Supplemental Educational Opportunity Grants 84.007 and Federal Pell Grant Program 84.063*)

Recommendation

The College must ensure that its computer information system is functioning and reporting accurately, especially in regard to the proper handling of credit balances, including the issuance of student refund checks, so that any prepayment of Capital Fees for a future term will not be applied to a current term's credit balance and result in an underpayment of that term's student refunds. In addition, the College needs to ensure that timely student refunds are made in compliance with rules for the distribution of Title IV funds as stated in 34 CFR 668.164.

Department Corrective Action Plan

As of the date of the exit report of findings, the IT department had already provided the Bursar with a computer program, namely, TWRAPPL, which will allow the Bursar to determine if any payments have been made to a future term in the course of a financial aid disbursement. This report will detail any such transactions, permitting the Bursar to correct these manually before any refunds are issued. New parameters have been set and will be checked as standard operating procedures.

**Institution of Higher Education
Northern Essex Community College
Findings on Compliance with Rules and Regulations**

Finding Number 33: Inaccurate Student Refunds Issued (continued)

Department Corrective Action Plan (continued)

However, the comment must be made, again, that this occurrence was an isolated incident. There had never been, since the initial implementation of an automated student accounts receivable system in 1984, an instance when future term charges were on the system as early as in this isolated case. The random, untimely charges for the Fall 2006 semester should not have been present at the time of the disbursement in question; and, in retrospect, should have been removed from the system when they were first detected. This being the case, this finding should not be interpreted as a College policy that needed correction; but rather as an aberration which went undetected because, firstly, there was no historical occurrence with which to compare it; and secondly, there was, at the time, no system in place to uncover the discrepancy. That having been said, undoubtedly, this finding has facilitated an additional enhancement to the computer system which will assist the Bursar in detecting any unusual transactions of the type referred to in this finding.

Responsible person: Regina Correia-Branco, Bursar, James Cotton, Director of Information
Technology: Management Information Systems

Implementation date: September 12, 2006

Institution of Higher Education

Findings not Repeated from Prior Years

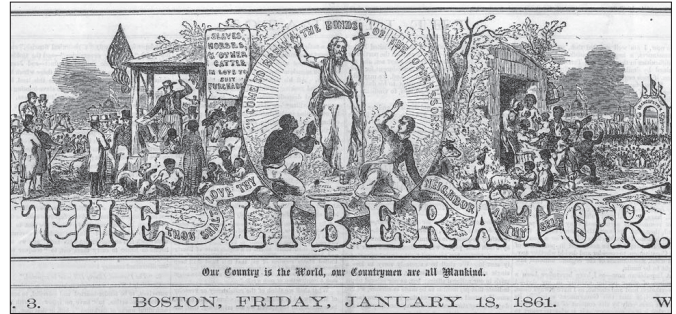
1. Bridgewater State College (College) was not timely in conducting exit-counseling sessions with students that were awarded Federal Perkins Loans (FPL). The College needed improvements in the coordination of student enrollment data and the timely scheduling of exit counseling. The College has implemented and executed its corrective action plan by instituting policies and procedures that addressed timely exit counseling for all students with FPL. (*Fiscal Year 2005 Single Audit Finding 46*)
2. Bridgewater State College (College) did not perform monthly reconciliations of its Federal Perkins Loan (FPL) fiscal and program records and therefore made loans exceeding the funds available. During 2006, the College's Fiscal Affairs and Financial Aid Offices performed monthly reconciliations between its program and fiscal records, developed clear audit trails, and developed and implemented follow-up procedures to review its FPL awards for accuracy. In addition, the College established a new Internal Auditor position to monitor procedures and activity over the loan award process. (*Fiscal Year 2005 Single Audit Finding 48*)
3. Middlesex Community College (College) exceeded the aggregate loan limit in its award of Federal Perkins Loans to a student. The excessive award amount did not comply with Federal regulation, 34 CFR 674.12 which limits Federal Perkins Loans to an aggregate maximum of \$8,000 for associate degree granting institutions. The College took corrective action by adjusting the student's Federal Perkins Loan and restoring the funds in the Perkins Loan Account. The College reviewed all Federal Perkins awards for fiscal years 2003, 2004, and 2005 and found each recipient to be within the aggregate loan limit. The College's Financial Aid Department has incorporated the aggregate loan limit into its written policies and procedures to avoid over-awarding in the future. (*Fiscal Year 2005 Single Audit Finding 49*)
4. Middlesex Community College's policies did not comply with Chapter 29, Section 32 of the Massachusetts General Laws (MGL), which requires checks outstanding over one year old to be transferred to the Office of the State Treasurer's (OST) Unclaimed Check Fund or federal grantee. The College took corrective action and immediately began to transfer funds to the OST's Unclaimed Check Fund in accordance with Chapter 29, Section 32 of the MGL. The College revised its internal control manual to include a procedure to address this issue. The College also stated it is in the process of responding to a request by the Department of Education to identify and refund, where appropriate, Title IV funds that were included in the transfer to the OST. (*Fiscal Year 2005 Single Audit Finding 50*)
5. Prior audit reports disclosed that the Roxbury Community College (College) continued to make significant progress in improving its administration over Student Financial Assistance (SFA) programs and all other financial areas, however the College's Jenzabar system, although in place and working, was not providing sufficient assurance and output documentation necessary for consistent reliance on the College's financial records. During fiscal year 2006 the College has fully implemented Jenzabar system functions and it is providing sufficient assurance, output documentation, and monthly financial reports necessary for the consistent reliance on the College's financial records. The College now utilizes its Jenzabar system for recording and tracking receivables and is periodically forwarding delinquent accounts to the OSC intercept program for collection. Furthermore, the College is continuing ongoing improvements to the Jenzabar system to improve the College's efficiency in budgeting and financial forecasting. (*Fiscal Year 2005 Single Audit Finding 51*)

SECTION VI

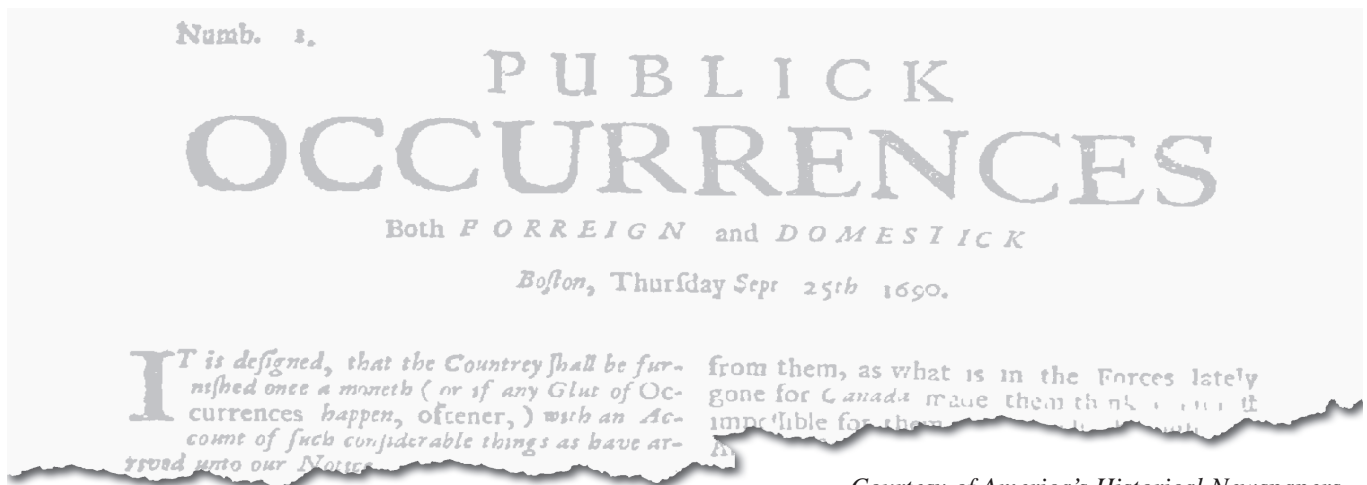
Schedule of Expenditures of Federal Awards

Newspaper

Publick Occurrences, Both Foreign and Domestick answered the colonists' need for news about their own lives and also dished the dirt. It was snapped up like hotcakes, but so enraged the censors that they quashed it after a single coveted edition. But still, Publick Occurrences – published September 25, 1690 – was the first American newspaper. On Thursday, September 25, 1690, Publick Occurrences, both Foreign and Domestick, the first and only edition, emerged wet and glorious from his press. A small but enthusiastic crowd gathered outside the shop, waiting to receive and hold the inky, handsome newspaper in outstretched arms, to read of events in their own community, documented, described, set up for debate.



Abolitionist newspaper, “the Liberator”



Courtesy of America's Historical Newspapers, 1690-1922, by the Readex Corporation

It was a booklet, made of two folded sheets printed on three sides, with two columns of neat newsprint on each page, and the last page left blank for readers' notes – successive readers' notes, actually, as it was expected that the newspaper would be passed on.

The Puritan establishment found portions of Occurrences unfit to print. Harris's reports of atrocities committed by American Indians aligned with the British were politically incorrect. His descriptions of suicide and murder were lurid. Boston Puritans did not regard this type of reportage as proper reading material, and declared their “high Resentment and Disallowance of said Pamphlet.”

Governor Simon Bradstreet forbade the distribution of the newspaper. Chief Justice Samuel Sewall buttressed the governor's injunction by citing the unlicensed status of the newspaper.

Communication and Literature firsts:

Published poet, Anne Bradstreet	1650
Copyright law, Boston	1672
Almanac published, William Pierce, Cambridge	1639
Antiquarian bookstore, Boston	1830
School Book Published, Boston	1689
Post office, Richard Fairbanks tavern, Boston	1639
Abolitionist newspaper, “the Liberator”, William Lloyd Garrison	1831
Regularly Issued Newspaper, The Boston News Letter	1704
American Christmas card, Louis Prang, Printer	1875
First United States postal code (Agawam 01001)	
Novel, William Hill Brown's The Power of Sympathy published in Worcester	1789



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Report on the Schedule of Expenditures of Federal Awards For the Fiscal Year Ended June 30, 2006

<u>CFDA #</u>	<u>FEDERAL PROGRAM DESCRIPTION</u>	<u>EXPENDITURES</u> <u>2006</u>
DEPARTMENT OF AGRICULTURE		
10.025	Plant and Animal Disease, Pest Control, and Animal Care	\$167,223
10.054	Emergency Conservation Program	9,303
10.072	Wetlands Reserve Program	26,351
10.156	Federal-State Marketing Improvement Program	72,645
10.163	Market Protection and Promotion	22,325
10.199	Federal Operating Reimb-EGG Grading	4,939
10.550	Food Stamps Distribution (Note 4)	14,582,095
10.551	Food Stamps	409,450,820
10.555	National School Lunch Program (Note 1)	128,123,140
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	93,656,268
10.558	Child and Adult Care Food Program	43,253,559
10.559	Summer Food Service Program for Children	4,495,567
10.560	State Administrative Expenses for Child Nutrition	2,535,395
10.561	State Administrative Matching Grants for Food Stamp Program	37,394,688
10.568	Emergency Food Assistance Program administrative costs	1,153,977
10.572	WIC Farmers' Market Nutrition Program (FMNP)	502,898
10.574	Team Nutrition Grants	47,400
10.576	Senior Farmers Market Nutrition Program	50,980
10.663	Forest Land Enhancement Grant	66,121
10.664	Cooperative Forestry Assistance	3,711,213
10.678	Forest Stewardship Program	5,186
10.913	Farm and Ranch Lands Protection Program	2,828,474
10.999	Department of Agriculture - Miscellaneous	18,394
		<hr/> 742,178,961 <hr/>
DEPARTMENT OF COMMERCE		
11.405	Anadromous Fish Conservation Act Program	19,879
11.407	Interjurisdictional Fisheries Act of 1986	126,290
11.419	Coastal Zone Management Administration Awards	2,998,405
11.420	Coastal Zone Management Estuarine Research Reserves	983,431
11.427	Fisheries Development and Utilization Research and Development Grants and Cooperative Agreements Program	7,509
11.463	Habitat Conservation	572,314
11.472	Unallied Science Program	10,013
11.474	Atlantic Coastal Fisheries Cooperative Management Act	380,275
11.499	Right Whale Conservation Program	742,901
		<hr/> 5,841,017 <hr/>
DEPARTMENT OF DEFENSE		
12.113	State Memorandum of Agreement Program for the Reimbursement of Technical Services	1,250,952
12.400	Military Construction, National Guard	5,558,252

Report on the Schedule of Expenditures of Federal Awards For the Fiscal Year Ended June 30, 2006

<u>CFDA #</u>	<u>FEDERAL PROGRAM DESCRIPTION</u>	<u>EXPENDITURES</u> <u>2006</u>
12.401	National Guard Military Operations and Maintenance (O&M) Projects	432,106
12.999	Dept of Defense - Miscellaneous	465
		<hr/> 7,241,775 <hr/>
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT		
14.182	Section 8 New Construction Program	6,764,644
14.228	Community Development Block Grants / State's Program	43,647,878
14.231	Emergency Shelter Grants Program	2,462,199
14.235	Supportive Housing Program	7,304,512
14.238	Shelter Plus Care	496,194
14.239	Home Investment Partnerships Program	14,962,400
14.241	Housing Opportunities for Persons with AIDS	242,958
14.401	Fair Housing Assistance Program State and Local	625,006
14.855	Section 8 Rental Voucher Program	1,554,366
14.856	Section 8 Moderate Rehabilitation	17,772,363
14.871	Section 8 Housing Choice Vouchers	200,858,228
14.900	Lead-Based Paint Hazard Control in Privately-Owned Housing	428,102
		<hr/> 297,118,849 <hr/>
DEPARTMENT OF THE INTERIOR		
15.605	Sport Fish Restoration	1,596,852
15.611	Wildlife Restoration	1,122,051
15.614	Coastal Wetlands Planning, Protection and Restoration Act	582,263
15.622	Sportfishing and Boating Safety Act	630,692
15.633	Landowner Incentive	464,030
15.644	Federal Junior Duck Stamp Conservation and Design	1,016
15.808	U.S. Geological Survey Research and Data Collection	40,727
15.904	Historic Preservation Fund Grants-In-Aid	355,006
15.916	Outdoor Recreation Acquisition, Development and Planning	1,906,692
15.999	Dept of Interior - Miscellaneous	272,507
		<hr/> 6,971,834 <hr/>
DEPARTMENT OF JUSTICE		
16.202	Offender Reentry Program	944,632
16.203	Sex Offender Management Discretionary Grant	60,710
16.393	Residential Substance Abuse Treatment For State Prisoners	444,614
16.523	Juvenile Accountability Incentive Block Grants	1,354,541
16.527	Supervised Visitation, Safe Havens for Children	186,565
16.528	Training Grants to Stop Abuse and Sexual Assault of Older Individuals or Individuals with Disabilities	23,573
16.540	Juvenile Justice and Delinquency Prevention Allocation to States	1,466,777
16.541	Part E - Developing, Testing and Demonstrating Promising New Programs	5,976
16.542	Part D - Research, Evaluation, Technical Assistance and Training	7,744
16.543	Missing Children's Assistance	179,964

Report on the Schedule of Expenditures of Federal Awards For the Fiscal Year Ended June 30, 2006

<u>CFDA #</u>	<u>FEDERAL PROGRAM DESCRIPTION</u>	<u>EXPENDITURES</u> <u>2006</u>
16.550	State Justice Statistics Program for Statistical Analysis Centers	43,591
16.555	National Criminal History Implementation Program	463,094
16.560	National Institute of Justice Research, Evaluation, and Development Project Grants	54,817
16.575	Crime Victim Assistance	7,408,717
16.576	Crime Victim Compensation	1,197,973
16.579	Byrne Formula Grant Program	10,559,169
16.580	Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	357,305
16.582	Crime Victim Assistance / Discretionary Grants	33,953
16.585	Drug Court Discretionary Grant Program	224,487
16.586	Violent Offender Incarceration and Truth in Sentencing Incentive Grants	4,084,447
16.588	Violence Against Women Formula Grants	2,340,523
16.589	Rural Domestic Violence and Child Victimization Enforcement Grant Program	416,759
16.590	Grants to Encourage Arrest Policies and Enforcement of Protection Orders	224,208
16.592	Local Law Enforcement Block Grants Program	782,184
16.595	Community Capacity Development Office	392,568
16.606	State Criminal Alien Assistance Program	5,562,582
16.609	Community Prosecution and Project Safe Neighborhoods	275,607
16.631	DNA Capacity	260,219
16.710	Public Safety Partnership and Community Policing Grants	438,721
16.727	Enforcing Underage Drinking Laws Program	326,649
16.733	National Incident based Reporting System	15,288
16.738	Edward Byrne Memorial Justice Assistance Grant Program	1,188,501
16.999	Dept of Justice - Miscellaneous	7,609,871
		48,936,329

DEPARTMENT OF LABOR

17.002	Labor Force Statistics	2,406,426
17.005	Compensation and Working Conditions	111,682
17.207	Employment Service	18,098,481
17.225	Unemployment Insurance (Note 8)	1,405,302,344
17.235	Senior Community Service Employment Program	1,665,237
17.245	Trade Adjustment Assistance Workers	19,774,301
17.258	WIA Adult Program	13,171,977
17.259	WIA Youth Activities	18,274,641
17.260	WIA Dislocated Workers	30,196,082
17.266	Work Incentives Grant	1,010,204
17.500	Occupational Safety & Health	58,050
17.504	Consultation Agreements	1,422,059
17.505	OSHA Data Initiative	91,597
17.600	Mine Health and Safety Grants	67,358
17.801	Disabled Veterans' Outreach Program (DVOP)	1,451,752
17.802	Veterans' Employment Program	228,908
17.804	Local Veterans' Employment representative Program	1,762,500

Report on the Schedule of Expenditures of Federal Awards For the Fiscal Year Ended June 30, 2006

<u>CFDA #</u>	<u>FEDERAL PROGRAM DESCRIPTION</u>	<u>EXPENDITURES</u> <u>2006</u>
17.805	Homeless Veterans Reintegration Project	200,000
17.999	Dept of Labor – Miscellaneous	146,581
		<u>1,515,440,181</u>
DEPARTMENT OF STATE		
19.999	Department of State - Miscellaneous	162,089
		<u>162,089</u>
DEPARTMENT OF TRANSPORTATION		
20.106	Airport improvement Program	32,183
20.205	Highway Planning and Construction	453,312,290
20.217	Motor Carrier Safety	185,306
20.218	National Motor Carrier Safety	3,498,604
20.507	Federal Transit Formula Grants	139,302
20.509	Formula Grants for Other Than Urbanized Areas	4,653,275
20.513	Capital Assistance Program for Elderly Persons and Persons with Disabilities	267,849
20.514	Transit Planning and Research	13,870
20.600	State and Community Highway Safety	10,580,724
20.700	Pipeline Safety	285,762
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants	190,034
		<u>473,159,200</u>
EQUAL EMPLOYMENT OPPORTUNITY COMMISSION		
30.002	Employment Discrimination State and Local Fair Employment Practices Agency Contracts	1,719,000
		<u>1,719,000</u>
NATIONAL FOUNDATION ON THE ARTS AND THE HUMANITIES		
45.024	Promotion of the Arts Grants to Organizations and Individuals	594,000
45.025	Promotion of the Arts Partnership Agreements	537,313
45.026	Folk and Traditional Arts	25,000
45.310	State Library Program	3,234,704
		<u>4,391,017</u>
NATIONAL SCIENCE FOUNDATION		
47.074	Biological Sciences	106,129
47.076	Education and Human Resources	33,727
		<u>139,856</u>

Report on the Schedule of Expenditures of Federal Awards For the Fiscal Year Ended June 30, 2006

<u>CFDA #</u>	<u>FEDERAL PROGRAM DESCRIPTION</u>	<u>EXPENDITURES</u> <u>2006</u>
<hr/>		
VETERANS ADMINISTRATION		
64.014	Veterans State Domiciliary Care	3,386,474
64.015	Veterans State Nursing Home Care	13,738,039
64.016	Veterans State Hospital Care	25,557
64.203	State Cemetery Grants	2,676,076
		<hr/> 19,826,146 <hr/>
 ENVIRONMENTAL PROTECTION AGENCY		
66.032	State Indoor Radon Grants	179,565
66.436	Surveys, Studies, Investigations, Demonstrations, and Training Grants and Cooperative Agreements - Section 104(b)(3) of the Clean Water Act	40,000
66.439	Targeted Watershed Grants	472,817
66.456	National Estuary Program	939,576
66.461	Regional Wetland Program Development Grants	20,472
66.463	Water Quality Cooperative Agreements	17,778
66.467	Wastewater Operator Training Grant Program (Technical Assistance)	16,435
66.471	State Grants to Reimburse Operators of Small Water Systems for Training and Certification Costs	84,407
66.472	Beach Monitoring and Notification Program Implementation Grants	293,617
66.474	Water Protection Grants to the States	545,690
66.500	Environmental Protection Consolidated Research	209,368
66.605	Performance Partnership Grants	13,508,328
66.606	Surveys, Studies, Investigations and Special Purpose Grants	106,664
66.608	Environmental Information Exchange Network Grant Program	184,657
66.630	Clean Air Act Section 103	627,515
66.700	Consolidated Pesticide Enforcement Cooperative Agreements	284,108
66.701	Toxic Substances Compliance Monitoring Cooperative Agreements	140,837
66.707	TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	302,248
66.802	Superfund State, Political Subdivision, and Indian Tribe Site Specific Cooperative Agreements	987,459
66.804	State and Tribal Underground Storage Tanks Program	140,167
66.805	Leaking Underground Storage Tank Trust Fund Program	1,177,248
66.808	Solid Waste Management Assistance Grants	21,238
66.810	Chemical Emergency Preparedness and Prevention (CEPP) Technical Assistance Grants Program	9,261
66.817	State and Tribal Response Program Grants	1,698,407
66.940	Environmental Policy and State Innovation Grants	11,135
66.999	Environmental Protection Agency - Miscellaneous	8,450,900
		<hr/> 30,469,896 <hr/>
 DEPARTMENT OF ENERGY		
81.041	State Energy Program	961,855

Report on the Schedule of Expenditures of Federal Awards For the Fiscal Year Ended June 30, 2006

<u>CFDA #</u>	<u>FEDERAL PROGRAM DESCRIPTION</u>	<u>EXPENDITURES</u> <u>2006</u>
81.042	Weatherization Assistance for Low-Income Persons	7,257,041
81.079	Regional Biomass Energy Programs	2,557
81.090	State Heating Oil and Propane Programs	19,390
81.117	Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis / Assistance	15,159
81.119	State Energy Program Special Projects	625,294
		8,881,296
 FEDERAL EMERGENCY MANAGEMENT ADMINISTRATION		
83.113	NRC Security Inspection Grant	6,736
83.535	Pre-Disaster Mitigation Grant	140,768
83.550	FEMA National Dam Safety Program	7,006
		154,510
 DEPARTMENT OF EDUCATION		
84.002	Adult Education State Grant Program	10,282,720
84.010	Title I Grants to Local Educational Agencies	229,797,204
84.011	Migrant Education State Grant Program	1,815,799
84.013	Title I Program for Neglected and Delinquent Children	1,584,160
84.027	Special Education Grants to States	263,863,898
84.031	Higher Education Institutional Aid	308,943
84.033	Federal Work-Study Program	243,368
84.042	TRIO Student Support Services	1,098,992
84.044	TRIO Talent Search	386,383
84.047	TRIO Upward Bound	540,274
84.048	Vocational Education Basic Grants to States	18,904,912
84.066	TRIO Educational Opportunity Centers	140,938
84.069	Leveraging Educational Assistance Partnership	966,753
84.126	Rehabilitation Services Vocational Rehabilitation Grants to States	49,252,167
84.128	Rehabilitation Services Service Projects	85,293
84.161	Rehabilitation Services Client Assistance Program	232,184
84.169	Independent Living State Grants	1,665,402
84.173	Special Education Preschool Grants	9,906,660
84.176	Paul Douglas Teacher Scholarship	28,840
84.177	Rehabilitation Services Independent Living Services for Older Individuals Who are Blind	737,026
84.181	Special Education Grants for Infants and Families with Disabilities	9,201,143
84.185	Byrd Honors Scholarships	759,000
84.186	Safe and Drug-Free Schools and Communities State Grants	7,783,629
84.187	Supported Employment Services for Individuals with Severe Disabilities	704,765
84.190	Christa McAuliffe Fellowships	3,054
84.195	Bilingual Education Professional Development	15,812
84.196	Education for Homeless Children and Youth	1,004,651
84.206	Javits Gifted and Talented Students Education Grant Program	101,783
84.213	Even Start State Educational Agencies	4,278,490
84.224	Assistive Technology	504,006

Report on the Schedule of Expenditures of Federal Awards For the Fiscal Year Ended June 30, 2006

<u>CFDA #</u>	<u>FEDERAL PROGRAM DESCRIPTION</u>	<u>EXPENDITURES</u> <u>2006</u>
84.235	Rehabilitation Services Demonstration and Training Programs	96,181
84.243	Tech-Prep Education	1,616,908
84.265	Rehabilitation Training State Vocational Rehabilitation Unit in-service Training	92,884
84.282	Charter Schools	3,009,197
84.287	Twenty-First Century Community Learning Centers	17,258,434
84.298	State Grants for Innovative Programs	4,352,460
84.318	Education Technology State Grants	8,499,960
84.323	Special Education - State Personnel Development	707,306
84.325	Special Education - Personnel Development to Improve Services and Results for Children with Disabilities	23,340
84.330	Advanced Placement Program	488,896
84.331	Grants to States for Incarcerated Youth Offenders	53,241
84.332	Comprehensive School Reform Demonstration	5,385,678
84.334	Gaining Early Awareness and Readiness for Undergraduate Programs	3,851,240
84.336	Teacher Quality Enhancement Grants	218,221
84.346	Vocational Education Occupational and Employment information State Grants	102,879
84.350	Transition to Teaching	191,611
84.352	School Renovation Grants	164,000
84.357	Reading First State Grants	16,325,886
84.358	Rural Education	133,566
84.365	English Language Acquisition Grants	10,864,676
84.366	Mathematics and Science Partnerships	1,958,438
84.367	Improving Teacher Quality State Grants	51,342,576
84.369	Grants for State Assessments and Related Activities	7,681,075
84.938	Hurricane Education Recovery	489,250
84.999	Dept of Education - Miscellaneous	136,783
		<hr/> 751,242,936 <hr/>
NATIONAL ARCHIVES AND RECORDS ADMINISTRATION		
89.003	National Historical Publications and Records Grants	91,250
		<hr/> 91,250 <hr/>
DEPARTMENT OF HEALTH AND HUMAN SERVICES		
93.003	Public Health and Social Services Emergency Fund	10,563,781
93.006	State and Territorial and Technical Assistance Capacity Development	
	Minority HIV/AIDS Demonstration Program	42,051
93.044	Special Programs for the Aging Title III, Part B Grants for Supportive Services and Senior Centers	9,644,854
93.045	Special Programs for the Aging Title III, Part C Nutrition Services	13,328,220
93.048	Special Programs for the Aging Title IV and Title II Discretionary Projects	11,885
93.052	National Family Caregiver Support	4,254,098
93.053	Nutrition Service Incentive Program	3,189,880
93.103	Food and Drug Administration Research	321,405

Report on the Schedule of Expenditures of Federal Awards For the Fiscal Year Ended June 30, 2006

<u>CFDA #</u>	<u>FEDERAL PROGRAM DESCRIPTION</u>	<u>EXPENDITURES</u> <u>2006</u>
93.104	Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	860,672
93.110	Maternal and Child Health Federal Consolidated Programs	785,451
93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	2,156,981
93.126	Mass Youth Violence Prevention Program	82,954
93.127	Emergency Medical Services for Children	154,739
93.130	Primary Care Services Resource Coordination and Development	131,364
93.136	Injury Prevention and Control Research and State and Community Based Programs	1,748,727
93.150	Projects for Assistance in Transition from Homelessness (PATH)	1,209,411
93.153	Coordinated Services and Access to Research for Women, Infants, Children, and Youth	862,476
93.161	Health Program for Toxic Substances and Disease Registry	444,788
93.165	Grants To States for Loan Repayment Program	201,807
93.184	Disabilities Prevention	275,695
93.197	Childhood Lead Poisoning Prevention Projects State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	1,303,520
93.206	Human Health Studies Applied Research and Development	56,758
93.226	Research on Healthcare Costs, Quality and Outcomes	392,574
93.235	Abstinence Education Program	354,667
93.238	Cooperative Agreements for State Treatment Outcomes and Performance Pilot Studies Enhancement	130,724
93.239	Policy Research and Evaluation Grants	7,000
93.241	State Rural Hospital Flexibility Program	165,023
93.243	Substance Abuse and Mental Health Services Projects of Regional and National Significance	957,236
93.251	Universal Newborn Hearing Screening	129,665
93.256	State Planning Grants Health Care Access for the Uninsured	158,290
93.259	Rural Access to Emergency Devices Grant	7,301
93.262	Occupational Safety and Health Program	422,470
93.268	Immunization Grants	32,735,835
93.276	Drug-Free Communities Support Program Grants	21,860
93.283	Centers for Disease Control and Prevention Investigations and Technical Assistance	36,198,946
93.301	Small Rural Hospital Improvement Grant Program	74,720
93.551	Abandoned Infants	66,667
93.556	Promoting Safe and Stable Families	4,726,804
93.558	Temporary Assistance for Needy Families	350,726,683
93.563	Child Support enforcement	61,273,536
93.564	Child Support enforcement research	36,630
93.565	State Legalization Impact	2,684
93.566	Refugee and Entrant Assistance State Administered Programs	6,733,461
93.568	Low-Income Home Energy Assistance	111,678,170
93.569	Community Services Block Grant	15,785,120
93.575	Child Care and Development Block Grant	108,202,724
93.576	Refugee and Entrant Assistance Discretionary Grants	168,728

Report on the Schedule of Expenditures of Federal Awards For the Fiscal Year Ended June 30, 2006

<u>CFDA #</u>	<u>FEDERAL PROGRAM DESCRIPTION</u>	<u>EXPENDITURES</u> <u>2006</u>
93.583	Refugee and Entrant Assistance Wilson / Fish Program	928,148
93.584	Refugee and Entrant Assistance Targeted Assistance Grants	1,117,588
93.586	State Court improvement Program	178,417
93.590	Child Abuse Prevention Activities	605,729
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund	74,232,585
93.597	Grants to States for Access and Visitation Programs	170,768
93.599	Chafee Education and Training Vouchers Program (ETV)	927,214
93.600	Head Start	177,110
93.608	Training of Child Welfare Agency Supervisors	249,722
93.617	Voting Access for Individuals with Disabilities Grants to States	15,400
93.623	Basic Center Grant	210,988
93.630	Developmental Disabilities Basic Support and Advocacy Grants	1,328,666
93.631	Developmental Disabilities Projects of National Significance	285,097
93.643	Children's Justice Grants to States	307,639
93.645	Child Welfare Services State Grants	4,505,467
93.647	Social Services Research and Demonstration	42,750
93.652	Adoption Opportunities	322,593
93.658	Foster Care Title IV-E	87,401,975
93.667	Social Services Block Grant	83,321,806
93.669	Child Abuse and Neglect State Grants	486,981
93.671	Family Violence Prevention and Services / Grants for Battered Women's Shelters Grants to States and Indian Tribes	1,644,291
93.674	Chafee Foster Care Independence Program	2,541,935
93.767	State Children's Health Insurance Program	143,492,626
93.773	Medicare Hospital Insurance	14,752,715
93.775	State Medicaid Fraud Control Units	3,088,086
93.777	State Survey and Certification of Health Care Providers and Suppliers	6,280,651
93.778	Medical Assistance Program	4,828,179,660
93.779	Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	946,475
93.786	State Pharmaceutical Assistance Programs	4,064,616
93.913	Grants to States for Operation of Offices of Rural Health	109,876
93.917	HIV Care Formula Grants	19,877,545
93.926	Healthy Start initiative	6,135,810
93.938	Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	486,870
93.940	HIV Prevention Activities Health Department Based	8,973,478
93.943	Epidemiologic Research Studies of Acquired Immunodeficiency Syndrome (AIDS) and Human Immunodeficiency Virus (HIV) Infection in Selected Population Groups	131,008
93.944	Human Immunodeficiency Virus (HIV) / Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	1,535,751
93.945	Assistance Programs for Chronic Disease Prevention and Control	1,835,979
93.958	Block Grants for Community Mental Health Services	8,319,816
93.959	Block Grants for Prevention and Treatment of Substance Abuse	33,429,509
93.977	Preventive Health Services Sexually Transmitted Diseases Control	

Report on the Schedule of Expenditures of Federal Awards For the Fiscal Year Ended June 30, 2006

<u>CFDA #</u>	<u>FEDERAL PROGRAM DESCRIPTION</u>	<u>EXPENDITURES</u> <u>2006</u>
	Grants	1,567,109
93.978	Preventive Health Services Sexually Transmitted Diseases Research, Demonstrations, and Public Information and Education Grants	425,082
93.988	Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	1,034,492
93.991	Preventive Health and Health Services Block Grant	2,823,394
93.994	Maternal and Child Health Services Block Grant to the States	12,327,062
93.999	Dept of Health and Human Services - Miscellaneous	548,995
		<hr/> 6,144,158,510 <hr/>
CORPORATION FOR NATIONAL AND COMMUNITY SERVICES		
94.004	Learn and Serve America School and Community Based Programs	915,841
		<hr/> 915,841 <hr/>
SOCIAL SECURITY ADMINISTRATION		
96.001	Social Security Disability Insurance (Note 3)	36,627,233
96.008	Social Security Benefits Planning, Assistance, and Outreach Program	359,309
96.999	Social Security Administration - Miscellaneous	364,800
		<hr/> 37,351,342 <hr/>
DEPARTMENT OF HOMELAND SECURITY		
97.003	Chronic Wasting Disease and Pesticide Recording Keeping	111,247
97.004	State Domestic Preparedness Equipment Support Program *	59,243,962
97.005	State and Local Homeland Security Training Program	655,097
97.012	Boating Safety Financial Assistance	973,425
97.017	Pre-Disaster Mitigation (PDM) Competitive Grants	147,255
97.023	Community Assistance Program State Support Services Element (CAP-SSSE)	200,308
97.029	Flood Mitigation Assistance	237,046
97.036	Public Assistance Grants	16,034,272
97.039	Hazard Mitigation Grant	260,177
97.042	Emergency Management Performance Grants	7,006
97.044	Assistance to Firefighters Grant	73,106
97.056	Port Security Grant Program	115,771
97.070	Map Modernization Management Support	35,534
97.078	Buffer Zone Protection Plan (BZPP)	356,132
97.091	Homeland Security Biowatch Program	57,784
		<hr/> 78,508,121 <hr/>
99.999	Federal Reimbursement - Miscellaneous	1,747,877
		<hr/> 1,747,877 <hr/>
TOTAL - FEDERAL DEPARTMENTS		10,176,647,834

**Report on the Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2006**

<u>CFDA #</u>	<u>FEDERAL PROGRAM DESCRIPTION</u>	<u>EXPENDITURES</u> <u>2006</u>
	Programs administered by Public Institutions of Higher Education (Note 5)	92,476,509
	TOTAL FEDERAL EXPENDITURES	<u>\$10,269,124,343</u>

* Includes 97.067 Homeland Security Grant Program.

Notes to Schedule of Expenditures of Federal Awards For the Fiscal Year Ended June 30, 2006

NOTE 1 - BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards is presented on the Commonwealth's statutory basis of accounting. It is drawn primarily from the Massachusetts Management Accounting and Reporting System (MMARS), the centralized accounting system which is the basis for the Commonwealth's combined financial statements - statutory basis as published in the Commonwealth's Statutory Basis Financial Report for the fiscal year ended June 30, 2006.

The Schedule of Expenditures of Federal Awards is presented by catalog of federal domestic assistance number (CFDA#) and also includes certain programs administered by the Commonwealth's public institutions of higher education, except for the University of Massachusetts, which issues its own Schedule of Expenditures of Federal Awards and Data Collection Form, and the activity of certain non-cash programs. The institutions and responsible administrative departments maintain the detail of such program activity.

Statutory basis expenditures are generally recorded when the related cash disbursement occurs. At year-end, payroll is accrued and payables are recognized for goods or services received by June 30, to the extent of approved encumbrances. With the exception of certain actuarially determined accruals related to Medicaid claims liabilities, statutory basis expenditures are consistent with GAAP with regard to grant activity.

The following is a reconciliation of the Schedule of Expenditures of Federal Awards to the combined financial statements-statutory basis (amounts in thousands):

Total Federal Revenue per Statutory Basis Financial report	\$ 8,404,363
Add:	
Programs administered by public institutions of higher education	92,476
State share of Unemployment Insurance funds from note 8	1,314,157
Expenditures	7,172
Non Cash Programs	
Food stamp script	408,612
Value of donated foods	14,582
Vaccine purchases directly from federal government	27,762
Total expenditures of Federal Awards per Schedule	<u>\$ 10,269,124</u>

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. The Commonwealth has generally combined its departmental program accounts by federal catalog number, and it has made a concerted effort to reduce the number of program accounts lacking full catalog number identifiers. In the current year, CFDA# 10.553 and 10.556 were consolidated with 10.555 (all related to the National School Lunch Program) in accordance with the way the grant was received by the Commonwealth.

NOTE 2 - REPORTING ENTITY

The Schedule of Expenditures of Federal Awards includes various departments, agencies, boards and commissions governed by the legislature, judiciary and/or constitutional officers of the Commonwealth of Massachusetts. It also includes research grants and contracts and federally-funded financial assistance to students provided to the Commonwealth's institutions of public higher education, excluding the University of

Notes to Schedule of Expenditures of Federal Awards For the Fiscal Year Ended June 30, 2006

Massachusetts, which is reported separately, and the values of food stamps and commodities received under U.S. Department of Agriculture programs.

The Schedule of Expenditures of Federal Awards does not include federal funds received and expended by independent authorities and other organizations included in the reporting entity under the criteria of the Governmental Accounting Standards Board, as described in Note 1 to the Commonwealth's general purpose financial statements published in the Comprehensive Annual Financial Report for the fiscal year ended June 30, 2006. These authorities and organizations are responsible, where necessary, for obtaining separate audits of their federal awards.

NOTE 3 - SOCIAL SECURITY DISABILITY INSURANCE PROGRAM

The Massachusetts Rehabilitation Commission operates the Social Security-Disability Insurance Program (CFDA 96.001) and the Supplemental Security Income Disability Program (CFDA 96.006) under a single state appropriation and departmental program account. On an operating basis, expenditures are allocated between the programs based on medical expenses incurred; personnel and overhead costs are determined by the Social Security Central Office. For the fiscal year ended June 30, 2006 expenditures of \$17,151,536 were attributed to the Supplemental Security Income Disability Program.

NOTE 4 - DONATED FOOD VALUE

Donated food represents surplus agricultural commodities received from the U.S. Department of Agriculture valued in accordance with federal guidelines. Commodity inventories at June 30, 2006 totaled approximately \$1,754,243.

NOTE 5 - HIGHER EDUCATION FEDERAL FINANCIAL ASSISTANCE PROGRAMS

The 24 public institutions of higher education, excluding University of Massachusetts, record expenditures for financial assistance programs as follows:

Federal Supplemental Educational Opportunity Grant	84.007	\$3,888,639
Federal Work Study Program	84.033	\$4,964,609
Federal Pell Grant	84.063	\$66,465,985
Other Federal Student Services	Various	\$17,157,276
		<u>\$92,476,509</u>

NOTE 6 - FEDERAL FAMILY EDUCATION (FFEL) AND FEDERAL DIRECT STUDENT LOANS (FDL)

The Schedule of Expenditures of Federal Awards does not include FFEL (CFDA 84.032) nor FDL (CFDA 84.268) which are made directly to individual students. For Massachusetts residents, FFEL loans are guaranteed by the American Student Assistance Corporation, which is not part of the reporting entity of the Commonwealth. FDL loans are made directly by the U.S. Department of Education. FFEL loans made to students enrolled in the Commonwealth's public institutions of higher education during fiscal year 2006 totaled \$70,457,561; FDL Loans totaled \$47,592,334.

Notes to Schedule of Expenditures of Federal Awards For the Fiscal Year Ended June 30, 2006

NOTE 7 - FEDERAL PERKINS LOAN PROGRAM

The Federal Perkins Loan Program (CFDA 84.038) is administered by the Commonwealth's public institutions of higher education, excluding the University of Massachusetts. Fiscal year 2006 activity included federal revenues of \$209,777, loan repayments of \$3,018,524 and loan funds disbursed of \$2,251,631. Loans outstanding at June 30, 2006 totaled \$28,146,903.

NOTE 8 – UNEMPLOYMENT INSURANCE PROGRAM (UI) CFDA 17.225

The U.S. Department of Labor, in consultation with the Office of Management and Budget, has determined that for the purpose of audits and reporting under OMB Circular A-133, state UI funds as well as federal funds should be considered federal awards for determining Type A programs. The State receives federal funds for administrative purposes. State unemployment taxes must be deposited to a state account in the Federal Unemployment Trust Fund, used only to pay benefits under the federally approved state law. State UI funds as well as federal funds are included on the Schedule of Expenditures of Federal Awards. The following schedule provides a breakdown of the state and federal portions of the total expended under CFDA Number 17.225:

State UI Funds	\$ 1,314,157,134
Federal UI Funds	<u>91,145,210</u>
Total Expenditures	<u>\$ 1,405,302,344</u>

NOTE 9 - PROGRAM CLUSTERS

In accordance with Subpart A §.105 of OMB Circular No. A-133, *Audits of States, Local Governments and Non-Profit Organizations*, the Commonwealth has clustered certain programs in determining major programs. The following represents the clustered programs:

Special Program for the Aging, Title III, Part B	CFDA# 93.044
Special Programs for the Aging Title III, Part C	CFDA# 93.045
Nutrition Services Incentive Program	CFDA# 93.053
Medical Assistance Program	CFDA# 93.778
Hurricane Katrina Relief Program	CFDA# 93.776
State Medicaid Fraud Control Unit	CFDA# 93.775
State Survey & Certification of Health Care Providers	CFDA# 93.777
Special Education-State Grants	CFDA# 84.027
Special Education-Preschool Grants	CFDA# 84.173
National School Lunch Program	CFDA# 10.555
School Breakfast Program	CFDA# 10.553
Special Milk Program	CFDA# 10.556
Summer Food Service Program	CFDA# 10.559
Food Stamps	CFDA# 10.551
State Administrative Matching for Food Stamps	CFDA# 10.561

Notes to Schedule of Expenditures of Federal Awards For the Fiscal Year Ended June 30, 2006

Student Financial Assistance	Various
Homeland Security Grant Program	CFDA# 97.067
State Domestic Preparedness Equipment Support Program	CFDA# 97.004
Section 8-New Construction of Substantial Rehab	CFDA# 14.182
Section 8-Moderate Rehab	CFDA# 14.856
Disability Insurance Program	CFDA# 96.001
Supplemental Security Income Program	CFDA# 96.006

NOTE 10 – SUBRECIPIENTS

In OMB Circular A-133 § 105 subrecipients are defined as non-Federal entities that expend federal awards received from a pass through entity to carry out a Federal program, but do not benefit from that program. In fiscal year 2006, the Commonwealth passed through the following amounts to subrecipients:

<u>CFDA #</u>	<u>FEDERAL PROGRAM DESCRIPTION</u>	<u>EXPENDITURES</u> <u>2006</u>
10.156	Federal-State Marketing Improvement Program	68,265
10.163	Market Protection and Promotion	22,325
10.555	National School Lunch Program	127,440,671
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	61,885,812
10.558	Child and Adult Care Food Program	42,992,482
10.559	Summer Food Service Program for Children	4,406,886
10.561	State Administrative Matching Grants for Food Stamp Program	1,097,187
10.568	Emergency Food Assistance Program administrative costs	1,071,665
10.664	Cooperative Forestry Assistance	348,669
10.678	Forest Stewardship Program	1,280
10.913	Farm and Ranch Lands Protection Program	241,497
11.419	Coastal Zone Management Administration Awards	157,275
11.420	Coastal Zone Management Estuarine Research Reserves	21,686
11.499	Right Whale Conservation Program	419,557
14.182	Section 8 New Construction Program	3,980,919
14.228	Community Development Block Grants / State's Program	42,121,079
14.231	Emergency Shelter Grants Program	2,082,162
14.235	Supportive Housing Program	7,299,875
14.238	Shelter Plus Care	495,912
14.239	HOME Investment Partnerships Program	13,928,765
14.241	Housing Opportunities for Persons with AIDS	230,137
14.856	Section 8 Moderate Rehabilitation	16,729,199
14.871	Section 8 Housing Choice Vouchers	200,419,924
14.900	Lead-Based Paint Hazard Control in Privately-Owned Housing	378,864
15.614	Coastal Wetlands Planning, Protection and Restoration Act	357,000

Notes to Schedule of Expenditures of Federal Awards For the Fiscal Year Ended June 30, 2006

<u>CFDA #</u>	<u>FEDERAL PROGRAM DESCRIPTION</u>	<u>EXPENDITURES</u> <u>2006</u>
15.622	Sport fishing and Boating Safety Act	525,246
15.904	Historic Preservation Fund Grants-In-Aid	65,986
15.916	Outdoor Recreation Acquisition, Development and Planning	1,906,692
16.202	Offender Reentry Program	231,402
16.393	Residential Substance Abuse Treatment For State Prisoners	204,116
16.523	Juvenile Accountability Incentive Block Grants	713,002
16.527	Supervised Visitation, Safe Havens for Children	161,962
16.540	Juvenile Justice and Delinquency Prevention Allocation to States	991,783
16.575	Crime Victim Assistance	6,545,479
16.579	Byrne Formula Grant Program	7,171,035
16.585	Drug Court Discretionary Grant Program	149,900
16.586	Violent Offender Incarceration and Truth in Sentencing Incentive Grants	2,393,670
16.588	Violence Against Women Formula Grants	1,445,698
16.592	Local Law Enforcement Block Grants Program	79,200
16.595	Community Capacity Development Office	291,485
16.609	Community Prosecution and Project Safe Neighborhoods	140,596
16.631	DNA Capacity	78,467
16.727	Enforcing Underage Drinking Laws Program	83,294
16.738	Edward Byrne Memorial Justice Assistance Grant Program	849,601
17.207	Employment Service	5,227,168
17.225	Unemployment insurance	357,226
17.235	Senior Community Service Employment Program	1,588,489
17.258	WIA Adult Program	12,281,793
17.259	WIA Youth Activities	15,550,818
17.260	WIA Dislocated Workers	24,342,289
17.266	Work Incentives Grant	830,742
17.801	Disabled Veterans' Outreach Program (DVOP)	37,544
17.804	Local Veterans' Employment representative Program	32,798
17.805	Homeless Veterans Reintegration Project	180,000
20.507	Federal Transit Formula Grants	139,054
20.509	Formula Grants for Other Than Urbanized Areas	3,865,181
20.513	Capital Assistance Program for Elderly Persons and Persons with Disabilities	3,411
20.600	State and Community Highway Safety	2,741,671
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants	31,633
20.205	Highway Planning and Construction	10,759,159
45.024	Promotion of the Arts Grants to Organizations and Individuals	594,000
45.025	Promotion of the Arts Partnership Agreements	421,420
45.026	Folk and Traditional Arts	25,000
45.310	State Library Program	1,306,217

**Notes to Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2006**

<u>CFDA #</u>	<u>FEDERAL PROGRAM DESCRIPTION</u>	<u>EXPENDITURES 2006</u>
66.436	Surveys, Studies, Investigations, Demonstrations, and Training Grants and Cooperative Agreements - Section 104(b)(3) of the Clean Water Act	40,000
66.439	Targeted Watershed Grants	423,349
66.456	National Estuary Program	56,472
66.463	Water Quality Cooperative Agreements	14,792
66.474	Water Protection Grants to the States	187,179
66.605	Performance Partnership Grants	3,445,254
66.606	Surveys, Studies, Investigations and Special Purpose Grants	538
66.700	Consolidated Pesticide Enforcement Cooperative Agreements	27,326
66.817	State and Tribal Response Program Grants	36,238
66.940	Environmental Policy and State Innovation Grants	11,135
81.041	State Energy Program	5,000
81.042	Weatherization Assistance for Low-Income Persons	6,713,070
81.119	State Energy Program Special Projects	591,712
83.535	Pre-Disaster Mitigation Grant	116,228
84.002	Adult education State Grant Program	7,666,847
84.010	Title I Grants to Local Educational Agencies	219,166,739
84.011	Migrant education State Grant Program	1,815,799
84.013	Title I Program for Neglected and Delinquent Children	907,033
84.027	Special Education Grants to States	242,071,120
84.048	Vocational Education Basic Grants to States	17,349,113
84.069	Leveraging Educational Assistance Partnership	966,753
84.126	Rehabilitation Services Vocational Rehabilitation Grants to States	7,078,061
84.128	Rehabilitation Services Service Projects	53,823
84.169	Centers for Independent Living	1,479,940
84.173	Special Education Preschool Grants	7,193,982
84.176	Paul Douglas Teacher Scholarship	28,840
84.177	Rehabilitation Services Independent Living Services for Older Individuals Who are Blind	37,558
84.181	Special Education Grants for Infants and Families with Disabilities	5,800,163
84.185	Byrd Honors Scholarships	759,000
84.186	Safe and Drug-Free Schools and Communities State Grants	6,911,918
84.187	Supported Employment Services for Individuals with Severe Disabilities	459,754
84.196	Education for Homeless Children and Youth	751,176
84.206	Javits Gifted and Talented Students Education Grant Program	100,000
84.213	Even Start State Educational Agencies	4,060,408
84.224	Assistive Technology	473,511
84.235	Rehabilitation Services Demonstration and Training Programs	(2,046)
84.243	Tech-Prep Education	1,520,408
84.282	Charter Schools	2,839,537

Notes to Schedule of Expenditures of Federal Awards For the Fiscal Year Ended June 30, 2006

<u>CFDA #</u>	<u>FEDERAL PROGRAM DESCRIPTION</u>	<u>EXPENDITURES</u> <u>2006</u>
84.287	Twenty-First Century Community Learning Centers	16,782,961
84.298	State Grants for Innovative Programs	3,282,781
84.318	Education Technology State Grants	7,881,833
84.323	Special Education - State Personnel Development	122,707
84.330	Advanced Placement Program	331,026
84.332	Comprehensive School Reform Demonstration	4,919,082
84.334	Gaining Early Awareness and Readiness for Undergraduate Programs	3,168,463
84.350	Transition to Teaching	125,744
84.352	School Renovation Grants	164,000
84.357	Reading First State Grants	13,590,296
84.358	Rural Education	132,474
84.365	English Language Acquisition Grants	10,251,573
84.366	Mathematics and Science Partnerships	1,712,883
84.367	Improving Teacher Quality State Grants	47,813,137
84.938	Hurricane Education Recovery	489,250
84.999	Dept of Education – Miscellaneous	(22,305)
89.003	National Historical Publications and Records Grants	91,250
93.003	Public Health and Social Services Emergency Fund	4,981,297
93.044	Special Programs for the Aging Title III, Part B Grants for Supportive Services and Senior Centers	8,459,013
93.045	Special Programs for the Aging Title III, Part C Nutrition Services	13,328,220
93.048	Special Programs for the Aging Title IV and Title II Discretionary Projects	11,111
93.052	National Family Caregiver Support	4,008,879
93.053	Nutrition Service Incentive Program	2,017,727
93.104	Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	834,594
93.110	Maternal and Child Health Federal Consolidated Programs	127,547
93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	80
93.127	Emergency Medical Services for Children	55,885
93.136	Injury Prevention and Control Research and State and Community Based Programs	424,698
93.150	Projects for Assistance in Transition from Homelessness (PATH)	1,208,239
93.153	Coordinated Services and Access to Research for Women, Infants, Children, and Youth	606,328
93.197	Childhood Lead Poisoning Prevention Projects State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	368,393
93.235	Abstinence Education Program	138,067
93.239	Policy Research and Evaluation Grants	7,000
93.243	Substance Abuse and Mental Health Services Projects of Regional and National Significance	352,835

Notes to Schedule of Expenditures of Federal Awards

For the Fiscal Year Ended June 30, 2006

<u>CFDA #</u>	<u>FEDERAL PROGRAM DESCRIPTION</u>	<u>EXPENDITURES</u> <u>2006</u>
93.268	Immunization Grants	191,672
93.283	Centers for Disease Control and Prevention Investigations and Technical Assistance	6,816,969
93.551	Abandoned Infants	9,773
93.556	Promoting Safe and Stable Families	3,588,030
93.565	State Legalization Impact	2,684
93.566	Refugee and Entrant Assistance-State Administered Programs	1,461,627
93.568	Low-Income Home Energy Assistance	110,940,929
93.569	Community Services Block Grant	14,927,673
93.576	Refugee and Entrant Assistance Discretionary Grants	137,045
93.583	Refugee and Entrant Assistance Wilson / Fish Program	916,000
93.584	Refugee and Entrant Assistance-Targeted Assistance Grants	1,007,976
93.590	Child Abuse Prevention Activities	522,664
93.597	Grants to States for Access and Visitation Programs	55,175
93.600	Head Start	14,875
93.623	Basic Center Grant	100,000
93.630	Developmental Disabilities Basic Support and Advocacy Grants	399,343
93.631	Developmental Disabilities Projects of National Significance	35,711
93.643	Children's Justice Grants to States	125,001
93.645	Child Welfare Services State Grants	260,258
93.652	Adoption Opportunities	255,076
93.669	Child Abuse and Neglect State Grants	133,948
93.671	Family Violence Prevention and Services / Grants for Battered Women's Shelters-Grants to States and Indian Tribes	1,191,580
93.674	Chafee Foster Care Independence Program	144,750
93.779	Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	553,707
93.786	State Pharmaceutical Assistance Programs	621,781
93.917	HIV Care Formula Grants	15,806,421
93.938	Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	2,500
93.940	HIV Prevention Activities Health Department Based	4,807,224
93.944	Human Immunodeficiency Virus (HIV) / Acquired Immunodeficiency Virus Syndrome (IDS) Surveillance	187,895
93.945	Assistance Programs for Chronic Disease Prevention and Control	320,000
93.958	Block Grants for Community Mental Health Services	8,129,906
93.959	Block Grants for Prevention and Treatment of Substance Abuse	20,305,589
93.977	Preventive Health Services Sexually Transmitted Diseases Control Grants	92,990
93.978	Preventive Health Services Sexually Transmitted Diseases Research, Demonstrations, and Public Information and Education Grants	12,734
93.991	Preventive Health and Health Services Block Grant	551,884

**Notes to Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2006**

<u>CFDA #</u>	<u>FEDERAL PROGRAM DESCRIPTION</u>	<u>EXPENDITURES</u> <u>2006</u>
93.994	Maternal and Child Health Services Block Grant to the States	3,212,060
94.004	Learn and Serve America-School and Community Based Programs	744,958
97.004	State Domestic Preparedness Equipment Support Program	44,383,125
97.005	State and Local Homeland Security Training Program	575,587
97.017	Pre-Disaster Mitigation (PDM) Competitive Grants	147,255
97.029	Flood Mitigation Assistance	237,046
97.036	State Homeland Security Program	10,296,996
97.039	Hazard Mitigation Grant	193,372
97.042	Emergency Management Performance Grants	7,006
97.078	Buffer Zone Protection Plan (BZPP)	336,944