

2013 Annual Report

Internal Special Audit Unit

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2013

Office of the Inspector General
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Inspector General Council

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Executive Summary

The Internal Special Audit Unit (“ISAU” or “the Unit”) respectfully submits the following annual report in accordance with M.G.L. c. 6C, § 9(e).

In 2009, the Massachusetts Legislature created the Unit within the Inspector General’s Office through the passage of M.G.L. c. 6C, § 9. The ISAU was created to be an independent unit responsible for monitoring the quality, efficiency and integrity of the Massachusetts Department of Transportation’s (“MassDOT’s”) operating and capital programs. The ISAU’s responsibilities are defined by the Inspector General Council (“the Council”) as part of its oversight role. Following the passage of M.G.L. c. 6C, § 9, the Council further defined the details of the ISAU through approval of a resolution in July 2010. The resolution included suggested staffing levels of the ISAU, and established reporting criteria for the Unit. The ISAU operates as a division of the Massachusetts Office of the Inspector General (“OIG”), specifically dedicated to reviewing MassDOT operations. As an independent agency, the OIG has a broad legislative mandate to prevent and detect fraud, waste and abuse of public funds at all levels of state government. The ISAU’s scope encompasses, but is not limited to, (1) monitoring the quality, efficiency and integrity of MassDOT’s operating and capital programs; (2) seeking to prevent, detect and correct fraud, waste and abuse in the expenditure of public and private transportation funds; and (3) examining and evaluating the adequacy and effectiveness of MassDOT’s operations, including its governance, risk management practices, and internal processes.

The ISAU formally commenced operations in April 2013, and has an annual budget of \$350,000. During its initial year of operation, the ISAU has been involved in several transportation reviews, and has identified multiple opportunities for potential cost savings and waste of taxpayer funds. The ISAU investigated matters involving public corruption, excessive spending, potential lost tax revenue, and state contract bidding. The ISAU receives referrals from MassDOT management and the Office of the State Auditor, as well as anonymous complaints from MassDOT employees and the general public.

In its first year of operation, the ISAU identified approximately \$4 million in potential cost savings and \$1 million in under-reported taxable benefits through its review of MassDOT’s parking program. The review identified potential errors in accounting practices, wasteful spending of borrowed capital funds, underutilized and/or unnecessary complimentary parking, and lack of formal MassDOT policy directives. At the Registry of Motor Vehicles, the ISAU identified several opportunities for automation and enhancement of controls, the potential misuse of inspector licenses, an ineffective station license cap, inadequate inventory control on

inspection stickers, and an overall lack of management oversight. The ISAU also provided information to MassDOT on bidding procedures and best practices.

Background

The ISAU performs audits, investigations and reviews of MassDOT operations and is guided by a philosophy of protecting public and private transportation funds and of helping to improve the operations of MassDOT. It assists the Commonwealth, the taxpayers and MassDOT by identifying potential cost savings, waste of transportation funds, fraudulent activities, and misuse or abuse of public authority.

Specific activities of the ISAU may include:

- Investigating allegations of fraud, waste and abuse in the expenditure of public or private transportation funds.
- Evaluating specific operations at the request of the Council, MassDOT's Board of Directors, or MassDOT management, as appropriate.
- Evaluating operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned.
- Evaluating the reliability and integrity of information and the means used to identify, measure, classify and report such information.
- Identifying significant risk exposures and control issues, including fraud risks, governance issues, and other matters.
- Evaluating the systems established to ensure compliance with those policies, plans, procedures, laws, and regulations which could have a significant impact on MassDOT.
- Evaluating the means of safeguarding assets and, as appropriate, verifying the existence of such assets.

The ISAU is guided by the appropriate auditing and investigatory standards, such as those of the Institute of Internal Auditors and the Council of the Inspectors General on Integrity and Efficiency. These activities enable the ISAU to promote governance, accountability, and compliance that will both improve MassDOT's operations and protect transportation funds.

Identification of Potential Savings

A primary focus of the ISAU is to identify potential cost savings and/or funds wasted in MassDOT's operations. During 2013, the ISAU identified several opportunities for cost savings, as well as instances of waste and taxable benefits not reported to the state. The table below details the amounts of these savings and/or errors, and the associated resource. Further specifics of each investigation or review are detailed in the *Audits, Investigations and Reviews* section of this report.

Potential Cost Savings	
Investigation/Review	Cost Savings
MassDOT and MBTA Parking Review: Cost of complimentary employee annual parking	\$293,280
MassDOT and MBTA Parking Review: Estimated 5-year debt service expense on borrowed funds used to pay for rent and parking	\$3,800,000 ¹
Total	\$4,093,280
Under-Reported Taxable Benefit	
MassDOT and MBTA Parking Review: Estimated taxable fringe benefit under-reported (2008-2013)	\$1,003,000

Audits, Investigations and Reviews

Registry of Motor Vehicles Vehicle Safety and Compliance Operation

Within a few months of its creation, the ISAU completed its first review of a division of the Registry of Motor Vehicles (RMV), and issued a written report detailing findings and recommendations. In April 2013, MassDOT sent the ISAU a high-priority request to review the operations of the RMV's Vehicle Safety and Compliance Services Department following a federal indictment of an RMV employee. The employee was charged with violating the Hobbs Act by conspiring to extort money under color of official right in exchange for an official license to conduct Massachusetts motor vehicle safety inspections. The ISAU found several opportunities for automation and enhancement of controls within the division, as well as

¹ Represents forecasted 5-year debt service expense on approximately \$25 million total rent and parking costs paid for with borrowed capital funds. MassDOT is in year 4 of its 5-year lease term.

identified potential misuse of inspector licenses, an ineffective station license cap, inadequate inventory control on inspection stickers, and an overall lack of management oversight of the unit.

The ISAU made the following recommendations to the RMV:

- Restrict the number of Class D inspection licenses issued.
- Revise Field Inspection standards to include closer inspection of Inspector ID card usage.
- Separate inventory, sales and tracking of motorcycle inspection stickers from cash processing.
- Improve documentation standards for station waiting lists.
- Reinforce the current Class M inspection license restrictions.
- Reconcile Field Investigations with active inspection stations periodically to identify any stations that are missed.
- Remove or restrict employees' access to ALARS that is not consistent with their job functions.
- Formalize the process by which users are added/deleted to/from Management Console, and revisit the need for multiple system administrators.
- Implement a dual-signature requirement on station inspection applications, and track application status changes.
- Automate station inspection files.

In January 2014, the RMV underwent a leadership change when the MassDOT Secretary appointed a new Registrar. The Registrar has taken steps to meet with the ISAU in an effort to address the issues identified in the report.

MassDOT and MBTA Parking Benefits

The ISAU evaluated MassDOT's and the MBTA's use of funding to provide employees with complimentary parking. In addition to spending over \$293,000 annually on parking, the review identified over \$1 million² in under-reported state and federal taxable fringe benefits provided to employees, resulting in lost tax revenue to the state. The ISAU found that MassDOT spent over \$29,000 annually on rarely-used parking passes and was using borrowed capital funds to pay for this parking expense instead of allocated operating funds. Following the issuance of the report, it was determined that using borrowed funds to pay for rent and parking could cost taxpayers an estimated extra \$3.8 million³ in debt service expenses over the 5-year lease term.

² From 2008 to 2013.

³ See Note 1.

The ISAU made the following recommendations to MassDOT regarding parking benefits:

- Calculate and report fringe benefit taxes for employees who have complimentary parking at 185 Kneeland Street in Boston.
- Update the MassDOT and MBTA fringe benefit calculations to include current exclusion rates and formally inform the affected employees of the increase/decrease in the non-cash benefit for 2013. Consider funding rent expense and complimentary employee parking through the Operating Budget, instead of the Capital Budget.
- Replace underutilized passes with single-use vouchers.
- Eliminate parking privileges for individuals who are not MassDOT employees, including temporary, contract and consultant personnel.
- Eliminate parking passes for MassDOT state vehicles that are not used daily for official state business.
- Consider eliminating individual pass assignments for facilities employees, and replacing them with single-use vouchers.
- Formalize a policy which defines the specific circumstances under which parking privileges are assigned and approved. To avoid any appearance of waste or abuse, consider establishing specific criteria for receiving complimentary parking (*e.g.*, job assignment, job duties, seniority).
- Revisit the list of employees with parking privileges annually to verify all assignments are justified and authorized.

Following issuance of the report, MassDOT and MBTA payroll corrected their fringe benefit calculations and updated the tax basis to be in alignment with current federal and state exemption limits. Non-employees were required to reimburse MassDOT for the cost of their parking. MassDOT has not yet formalized a parking policy or addressed the potential tax issue regarding the Kneeland Street fringe benefit.

Investigations Referred to the Massachusetts Office of the Inspector General

In accordance with M.G.L. c. 6C, § 9(d), the ISAU may report and refer findings to the investigative division in the OIG, and the results of such investigation may be referred to the Attorney General for appropriate action. During 2013, all issues identified or received by the ISAU were investigated or reviewed internally; therefore, no items required referral.

Creation of the Unit and Progress Made in 2013

During its initial year of operation in 2013, the ISAU achieved several milestones geared toward building a strong investigative unit, equipped to meet and exceed the requirements set forth by the Massachusetts Legislature in M.G.L. c. 6C, § 9. Some of the highlights of progress made in 2013 include:

- Creation of an ISAU Hotline
- Acquisition of Analytical Audit Technology Tools
- Recruiting and Staffing of the Unit

The ISAU Hotline

The ISAU has created a dedicated internal reporting tool for MassDOT employees to anonymously report fraud, waste or abuse of MassDOT funds. The ISAU, in conjunction with MassDOT's information technology department, designed and created an internal website on the MassDOT *TransNET* site to facilitate employee reporting of potential issues. This tool is critical to the success of the ISAU's mission in preventing and detecting fraud, waste and abuse of taxpayer funds. The ISAU intends to expand the hotline to MassDOT's public website, as well as to the MBTA's website and intranet.

Audit Technology Tools

Within a few months of its inception, the ISAU was able to acquire and implement essential analytical audit software for use by the ISAU team. Acquisition of this technology was vital to the early success of the Unit, and continues to allow the ISAU to perform extensive data analytics. Frequent use of this tool has resulted in numerous reportable findings and is a valuable asset to the ISAU.

Recruiting and Staffing

The ISAU currently operates with four team members, including a Director, a Senior Auditor, an Investigator and a part-time Situation Analyst. The limited size of the Unit prohibits the ISAU from taking on more than a few projects per year. Staffing of the ISAU is somewhat disproportionate to the relative size of MassDOT's operations, given the amount of the agency's budget and number of employees. In Fiscal Year 2014, MassDOT's annual operating budget is approximately \$970 million, its 5-year capital budget is \$12.4 billion, and it employs over

10,000⁴ people as of January 2014. Considering the overall size of MassDOT and initial findings identified by the ISAU within its short time in operation, additional funding for enhancement of ISAU staffing levels is recommended. With additional funding, the ISAU would be able to increase the scope of its work and provide a greater benefit to MassDOT and the Commonwealth.

Reports and Publications

The ISAU's reports and publications are available on the Inspector General's website at www.mass.gov/ig.

⁴ Includes the MBTA.