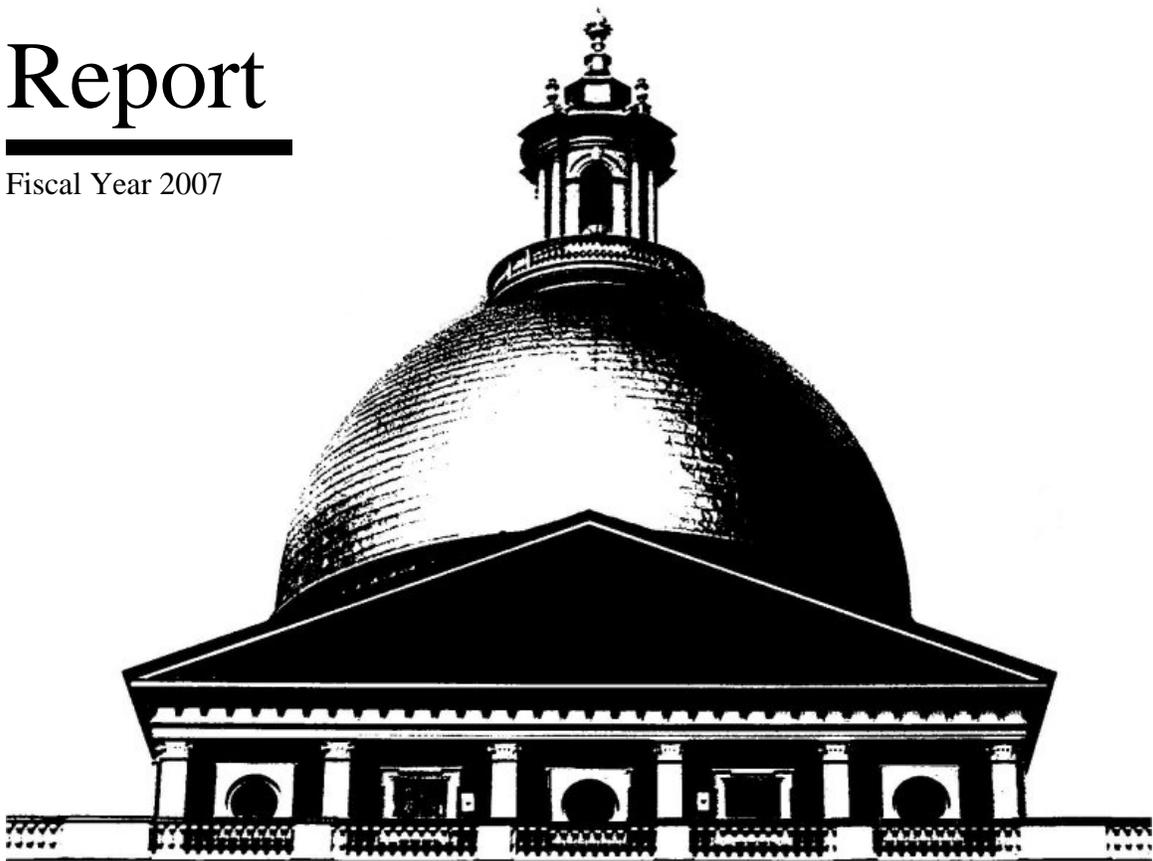


Office  
of the  
State  
Auditor

Annual  
Report

Fiscal Year 2007



A. Joseph DeNucci

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*Auditor of the Commonwealth*



# The Commonwealth of Massachusetts

AUDITOR OF THE COMMONWEALTH

STATE HOUSE, BOSTON 02133

A. JOSEPH De NUCCI  
AUDITOR

TEL (617) 727-2075

November 2007

His Excellency Deval Patrick, Governor  
Honorable Timothy P. Murray, Lt. Governor  
Honorable Therese Murray, President of the Senate  
Honorable Salvatore F. DiMasi, Speaker of the House of Representatives  
Honorable Steven C. Panagiotakos, Chairman of the Senate Ways and Means Committee  
Honorable Robert A. DeLeo, Chairman of the House Ways and Means Committee  
Honorable Members of the General Court:

I am pleased to submit herewith the Annual Report of Audit Results and Activities of the Office of the State Auditor (OSA) for the period July 1, 2006 through June 30, 2007.

This report summarizes major OSA audit and other oversight activities, as well as proposed and ongoing audit initiatives. Of particular interest during this report period, my office issued two audits of Medicaid Transportation Services, an audit of the Department of Public Health's Food Protection Program, a follow-up review of the state's Fuel Assistance Program, and a statewide comprehensive audit of health and safety problems at public housing projects. In addition, as noted in a discussion of audit resolution policy (see page 18), findings of misspent funds reported in OSA audits resulted in repayments of \$7.5 million by Spectrum Health Systems, Inc., and nearly \$900,000 by Valley Educational Services, Inc.

Copies of individual audit reports are available by calling the OSA at (617) 727-2075 or (617) 727-6200. Recent audits, Division of Local Mandates studies, and annual reports can also be downloaded from the OSA's website (<http://www.mass.gov/sao>).

I look forward to continuing to work with you to improve the quality, cost-effectiveness, and accountability of state government and the services that the Commonwealth provides its citizens.

Sincerely,

A handwritten signature in black ink, appearing to read "A. Joseph DeNucci".

A. Joseph DeNucci  
Auditor of the Commonwealth

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## **OFFICE OF THE STATE AUDITOR: AUTHORITY AND RESPONSIBILITIES**

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The Office of the State Auditor (OSA) operates under the direction of the State Auditor, A. Joseph DeNucci, an independently elected constitutional officer. The OSA provides the Governor, the Legislature, auditees, oversight agencies, and the general public with an independent and objective evaluation of the Commonwealth's financial and programmatic activities. As mandated by Chapter 11, Section 12, of the Massachusetts General Laws (MGLs), the OSA audits the operations of state government, including state agencies, higher education institutions, the state court system, and authorities. The Auditor also performs audits of vendors and contractors that do business with the Commonwealth, and carries out mandated responsibilities relative to privatization initiatives. Furthermore, the Auditor is responsible, under MGL Chapter 11, Section 6B for the Division of Local Mandates, which is charged primarily with determining the financial impact of legislation and regulations on cities and towns. In addition, under provisions of Chapter 184 of the Acts of 2002, the Bureau of Special Investigations, which investigates fraud within public assistance programs, became a division of the OSA.

The OSA conducts financial, performance, and information technology audits in accordance with "Government Auditing Standards" issued by the Comptroller General of the United States. These standards are known in the profession both as Generally Accepted Government Auditing Standards and as the Yellow Book standards. OSA audit activities include the following objectives:

- Determining whether the Commonwealth's resources are properly safeguarded;
- Determining whether such resources are properly and prudently used;
- Evaluating internal controls to help ensure integrity in financial management systems;
- Determining an auditee's compliance with legal and regulatory requirements;
- Determining whether computer systems and technology environments meet control objectives regarding security, integrity, and availability;
- Evaluating and determining a program's results, benefits, or accomplishments; and
- Ensuring that all audit results are disclosed to the public and the auditees.

All OSA audit results and recommendations are intended to assist agency and program administrators by indicating areas where internal controls, financial operations, program results, and efficiency and effectiveness can be improved. The OSA also offers technical assistance where appropriate. In short, the OSA is not simply a critic but is an agent, advocate, and catalyst for improved management and delivery of government services.

## **AUDIT RESULTS, RECOMMENDATIONS, AND INITIATIVES: OVERVIEW**

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During the report period July 1, 2006 through June 30, 2007 the Office of the State Auditor issued 240 reports covering 566 agencies, authorities, institutions of public higher education, human service entities, judiciary/law enforcement entities, vendors, and various other state activities. For a complete listing of audit reports, see the Appendix on page 68. In these reports the OSA disclosed millions of dollars in financial and operational deficiencies and provided recommendations intended to safeguard the Commonwealth's assets and improve the effectiveness and efficiency of governmental operations.

OSA audits are not intended to sensationalize, but rather to present an accurate appraisal of financial management, legal compliance, and, where appropriate, program effectiveness and efficiency. Risk analyses, preliminary surveys, and referrals from state agencies assist the OSA in focusing on areas in which weaknesses may exist. Most audit reports highlight matters that need to be improved, even though these findings may be exceptions in otherwise well-managed operations. However, effective government operations and corrective actions in response to prior audit findings are also acknowledged in audit reports.

Audit results and recommendations are important to auditees, and in a majority of instances auditees have indicated a willingness to take appropriate corrective actions. Audit results, viewed in the aggregate, give focus to problem areas for legislators and administration officials and are the basis of OSA legislative and administrative initiatives and recommendations.

The following information demonstrates that OSA audits have promoted the safeguarding and enhancement of the Commonwealth's assets and assisted auditees in improving their financial and managerial operations.

## **AUDIT SUMMARIES**

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### ***Education***

During the report period, the OSA released 17 audits of education entities. These reports include a contract performance audit at the University of Massachusetts Medical School and an audit of a company that runs a school serving special needs students. In addition, as part of the Single Audit of the Commonwealth, the OSA issued audits of federal student assistance programs at selected colleges, which are also detailed in the section that follows.

## **Salem State College**

Salem State College notified the OSA of a theft of \$2,836 by a student employee who exploited certain internal control weaknesses at the College's central mailing facility to steal three checks over a three-month period. According to the filed report, the student, who worked in the mailroom, took the checks, endorsed them, and deposited them into his personal bank account. Pursuant to the requirements of Chapter 647 of the Acts of 1989, the Internal Control Statute, the OSA investigated the College's control environment and made recommendations, as summarized below.

- The major deficiency noted was a lack of continuous supervision of student employees, particularly those with direct access to College funds. Although the central mailroom was usually supervised, the physical layout of the facility is such that student activities could go unmonitored, and student employees, on occasion, were left alone in the mailroom unsupervised. Moreover, the College's internal control plan did not address the issue or assess the risk of student employees working in the mailroom. In response to OSA recommendations, the College drafted new procedures under which two College employees work in the mailroom during the metering and handling of College checks, and students do not participate in these activities. In addition, financial services staff will conduct unannounced audits of mailroom check handling procedures.
- The OSA also recommended that the College pursue reimbursement of all funds taken by the student. According to the College Police Department, the student, who has been dismissed from the school, admitted to depositing a stolen check into his account in the amount of \$1,940. This amount has been returned and reinstated into the College's main account. As of the close of the audit period, the balance of the funds taken had not been returned. The College concurred and is pursuing reimbursement through court action and negotiation with Eastern Bank.

## **University of Massachusetts (UMass) Medical School: Contract Audit**

At the request of the Commissioner of the Department of Correction (DOC), the OSA conducted a special-scope audit of a contract awarded by DOC to the UMass Medical School for the provision of comprehensive medical services to prison inmates. The Commissioner's audit request followed from a request from the Medical School, as it entered the third year of its contract, for additional funding to cover net losses it claimed it had incurred under the contract. The audit, as summarized below, found certain areas in which contract administration needed to be improved in order for the Medical School to fully support a request for expanded funding.

- UMass Medical School had not adequately documented its original cost proposal for the medical services contract under review, and had not developed a cost allocation plan to ensure that all contract costs would be properly identified and accounted for by program site. Moreover, the Medical School lacked adequate controls over the reporting of hours by psychiatrists, doctors, and a nurse practitioner, and made numerous errors in both the methodology and figures used to calculate expenditures.

## Education

- As a result of administrative and control deficiencies, the Medical School was not able to generate accurate supplemental funding requests to the Department of Correction. However, the audit also noted that the Medical School had, in fact, incurred additional costs, largely due to changes in the medical complexity of inmates at the Massachusetts Alcohol and Substance Abuse Center. Moreover, the Department of Public Health had reduced the number of detoxification beds that it funded throughout the Commonwealth, which resulted in a greater number of civil commitments to the Department of Correction facility. The OSA ultimately determined that, during fiscal year 2005, the Medical School incurred additional expenses totaling at least \$1,281,146, considerably less than the Medical School was seeking, and, in part, for costs provided in excess of contract requirements. As of the close of the audit period, officials from both agencies were continuing to meet to determine whether additional funding would be provided to the Medical School for either fiscal year 2005 or 2006 expenditures under the contract.

### **Audits of Federal Student Assistance Programs**

The OSA, in this audit period, completed six reviews of student financial assistance programs funded through the United States Department of Education. These reviews were conducted in conjunction with the Single Audit of the Commonwealth for the fiscal year ended June 30, 2006 to determine compliance with federal regulations regarding student assistance and state laws and regulations. The reviews found that several prior audit findings had been corrected and that compliance was generally satisfactory, especially with federal regulations and procedures for administering student federal financial assistance. Noted deficiencies, as well as corrective actions, are detailed below.

- **Bridgewater State College** had improved the accuracy of its Perkins Loan Program awards and balances by conducting timely exit counseling for students participating in the Program and implementing new procedures that ensure timely reconciliations of in-house records of student assistance funding with information entered into the Massachusetts Management Accounting and Reporting System. During the current audit period, the College did not award loans that exceeded available funds and no longer needed to transfer funds from other College accounts to cover Perkins awards. However, the College was still not adequately managing and monitoring federal work student timesheets. As previously noted, some timesheets were written in pencil, altered without approval, and not submitted on the required pre-printed form. In addition, students were permitted to work more than twenty hours per week, contrary to federal work study policy; were paid for hours not worked; and were paid without signing their timesheets.

The OSA and the Office of the Attorney General continued to investigate missing cash receipts totaling \$355,441 discovered by Bridgewater State College and the OSA at the close of fiscal year 2006 during the year-end closing of the College's books of account. At an early point in the investigation, an employee from the College's Bursar's Office was dismissed. As of the close of fiscal year 2007, the investigation was ongoing, with the OSA focusing on the internal control deficiencies that resulted in the shortage of funds and on recommendations for strengthening the control environment. The College, in response to OSA recommendations, has improved its procedures for cash collections, its accountability over deposits, and its general oversight of Bursar's Office activities.

- **Holyoke Community College** allowed supervisors of work/study students to distribute work/study checks and, in certain instances, to cash checks for students with no local bank account. Although audit testing revealed only one student for whom checks had been cashed by a supervisor, the OSA noted that the practice did not comply with federal regulations and increased the potential for a supervisor to receive funds to which he or she is not entitled. Furthermore, a review of this student's timesheets indicated numerous conflicts between work/study hours and class schedule. Although College officials stated their belief that their internal control procedures were sufficient to bring to light any irregularity, they agreed to implement alternative procedures, as recommended. They also stated that the prohibition on work hours that conflict with scheduled classes will be more strictly enforced.
- **The Massachusetts College of Liberal Arts** completed and updated its Internal Control Plan, bringing it into compliance with the requirements of the state's Internal Control Statute and Office of the State Comptroller internal control guidelines. The College also began to enter its non-appropriated fund activity into the state's automated accounting system on a quarterly basis, rather than waiting until the end of the year to do so. College officials also stated that they were working toward full compliance with monthly reporting and reconciliation requirements, as recommended by the OSA in order to improve the accuracy of financial records and reports.
- **Middlesex Community College** satisfactorily resolved issues reported in a prior audit by updating its Internal Control Plan to include a risk assessment document and specific Student Financial Aid policies and by transferring all unpaid checks over one year old to the Office of the State Treasurer's Unpaid Check Fund.
- **Northern Essex Community College** issued inaccurate refunds and was late in awarding financial aid for 46 students, due to a system software issue. Once the College was made aware of the problem, its Information Technology Division and Bursar's Office worked to resolve it through enhancements to the College's computer system. In addition, the College needed to update its Internal Control Plan to include a comprehensive risk assessment, a complete presentation of control activities, and specific accountability references.
- **Roxbury Community College** satisfactorily resolved the issues identified in the prior audit by entering its non-appropriated fund activity into the Massachusetts Management Accounting and Reporting System on a monthly basis and by improving the timeliness and accuracy of financial reconciliations. The audit also noted that full implementation of the College's own automated system has, in addition to improving its management of federal funds, increased the College's efficiency in other areas, such as budgeting and financial forecasting.
- **Worcester State College** has taken appropriate corrective action by strengthening its inventory controls and by complying with the provision of Chapter 647 of the Acts of 1989 that requires the prompt reporting of losses or thefts of funds or property to the OSA.

### ***The Center for School Crisis Intervention and Assessment, Inc.***

The OSA conducted an audit of various administrative and operational activities at the Center for School Crisis Intervention and Assessment, Inc., a for-profit company that operates a school for special needs students and also provides assessment, crisis intervention, and other community-based services. As summarized below, the audit found that the Center billed and was reimbursed for certain expenditures that were unallowable under state contracts.

- The Center for School Crisis Intervention and Assessment, Inc., paid two consultants a total of \$160,400 for business and legal services without using a competitive bidding process or entering into formal written agreements detailing the consultants' salary and responsibilities. In addition, the Center maintained documentation to support only \$3,200 of these expenses. As a result, the Center was not in compliance with state bidding regulations and could not demonstrate, as required for reimbursement, that \$157,200 in expenditures was necessary and proper. The OSA recommended that the Commonwealth recover the \$157,200 in unallowable consultant expenses on behalf of local communities that paid tuitions between fiscal years 2003 and 2006, the period under review.
- The Center made several other smaller payments for nonreimbursable items. Specifically, the Center used \$3,565 in public funds to make charitable contributions, reimbursed its Executive Director \$755 for undocumented student recreation expenses, and paid \$500 for non-program-related expenses incurred by a related party. Center officials indicated that they would return all funds determined to be unallowable.

## INITIATIVES

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The following is an update of ongoing initiatives in the area of education.

### ***Student Financial Aid Programs***

The OSA is continuing to conduct audits of federal student financial assistance programs at the Commonwealth's institutions of public higher education.

### ***Public Higher Education Faculty Workload Practices***

The OSA has completed an audit of internal procedures at selected state and community colleges for assigning faculty work schedules, including course loads and alternative professional responsibilities. The audit, which also reviewed procedures for granting permission to faculty members to teach less than a full course load and the documentation maintained to support and justify non-teaching duties, will be detailed in the next Annual Report. It is currently available online or from the State Auditor's Office at (617) 727-2075 or (617) 727-6200.

## **AUDIT SUMMARIES**

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### ***Health and Human Services***

During fiscal year 2007, the OSA issued 22 audits pertaining to 114 health and human service agencies, contractors, and activities. Audit work in this area covered activities administered under the Executive Office of Health and Human Services and the Executive Office of Elder Affairs. Utilizing both agency and contract workers, these entities provide a broad array of services, including medical assistance; public health initiatives; mental health programs; programs that serve the mentally retarded; rehabilitation services; child protection, childcare, and family assistance programs; refugee assistance; juvenile justice programs; and home care and other senior services. Issued reports, which are summarized in the section that follows, include audits of transportation services provided under the state's Medicaid Program, the Department of Public Health's Food Protection Program, the state's Fuel Assistance Program, Compliance with Audit Resolution Policy, and private vendors that provide services under state contracts.

## **Medicaid Program: Transportation Provider Services**

The OSA is continuing a series of audits on various medical assistance topics and activities relative to MassHealth's administration of the state's Medicaid program. Medicaid serves more than a million people and accounts for approximately 25% of total Commonwealth expenditures. In the first phase of this audit initiative, the OSA issued a comprehensive audit, which found that, as of October 25, 2005, MassHealth did not have either the resources or internal controls to effectively deter Medicaid fraud. Two subsequent audits examined non-emergency transportation services and emergency ambulance services provided through the Medicaid Program. In fiscal year 2005 there were 2,731,218 transportation claims paid totaling \$76,087,427, an average of 7,483 claims aggregating \$208,458 in payments daily. Audit findings and recommendations, which focused on provider enrollment and credentialing procedures in one audit, and, in the other audit, on questionable Medicaid transportation claims, are summarized below.

- MassHealth needed to improve oversight and procedures for the enrollment, credentialing, and re-credentialing of its contracted transportation providers. As of the period of the audit, MassHealth did not conduct ongoing credentialing and monitoring activities, including investigations of the qualifications, infraction records, and equipment of providers of transportation. A review of 37 transportation files found that none of the selected providers was in full compliance with the terms of their MassHealth contract and applicable laws, rules, and regulations in that they had not provided all required information in the initial application or notified MassHealth within fourteen days of changes in the information. In addition to finding a provider agreement that was not authorized by MassHealth, the OSA noted that 21 provider files did not contain full ownership or control disclosures, and 36 files did not have evidence of insurance. As a result of these deficiencies, ineligible and unqualified providers could be operating in the MassHealth program, placing recipients at risk.
- MassHealth indicated that it relied on the Office of Emergency Medical Services within the Department of Public Health for emergency services and Regional Transit Authorities for non-emergency services to confirm compliance with laws and regulations. However, no correspondence or other documentation was found regarding provider compliance issues. Furthermore, eighteen of the 37 providers of non-emergency transportation were not subcontractors to a Regional Transit Authority and, therefore, not subject to Transit Authority oversight. These providers raised particularly troubling concerns that unlicensed drivers, drivers with serious motor vehicle offenses, and convicted felons could be transporting MassHealth members. In response to this finding, MassHealth has updated files and terminated contracts with certain providers.
- In response to the OSA's recommendation that the process of re-credentialing providers be reinstated, MassHealth officials stated that they would begin the formal process of re-credentialing on July 1, 2006 and would re-credential one-third of all providers annually on a continuing basis.

- MassHealth did not have adequate internal controls over transportation provider payments, as evidenced by a 58% error rate in claims tested. Moreover, medical services could not be confirmed in 34% of claims audited. Other issues noted in questioned claims were payments made to the wrong provider type, resulting in higher costs; overstated mileage; shared rides billed as single passenger trips; and duplicate payments resulting from deficiencies in MassHealth's billing software. With respect to this last issue, audit testing identified duplicate payments to eleven transportation providers totaling approximately \$200,000 in fiscal year 2005. Providers in this category contacted by the OSA indicated that they knew they had been overpaid, but had encountered difficulty in trying to return the funds. The administrative errors, inadequate oversight, and other internal control deficiencies noted could cost millions of dollars annually in unnecessary, inaccurate, and fraudulent payments.
- The OSA recommended several initiatives for strengthening internal controls and oversight over payments to transportation providers. These included the systematic post-payment review, at provider locations, of paid claims; automated billing system enhancements; identification of high-risk providers for immediate and comprehensive review; and intensified efforts to obtain prompt reimbursement for overpayments. MassHealth officials responded that they were taking steps to strengthen internal controls by conducting on-site reviews of paid claims, improving automated systems to prevent errors, and reviewing current practices for collecting overpayments.

### ***Department of Public Health: Food Protection Program***

The OSA completed an audit of the Department of Public Health's (DPH) Food Protection Program, which, in conjunction with local health authorities, is responsible for inspections of retail and wholesale food establishments, as well as investigation and response activities when food-borne illnesses occur. The audit found that due to understaffing, inadequate training, and funding cuts, Massachusetts does not have an effective food inspection program at the state and local level, posing a significant risk to public health and safety. The OSA also criticized the state's inefficient decentralized system of food inspections, which, as constituted, cannot meet the critical public health responsibilities with which it is charged. Audit results, as well as recommendations for urgently needed corrective action, are summarized below.

- DPH did not provide adequate oversight of local health board food protection activities. A prior OSA audit had identified deficiencies in the quality, frequency, standardization, and oversight of local inspections. DPH responded that it planned to augment program staffing at the state level with ten additional positions, including seven inspectors. The current audit found that the planned corrective staffing measures were never implemented. Instead, the number of DPH inspectors was reduced from five to less than one full-time position for oversight of the thousands of retail food establishment inspections scheduled for conduct across the Commonwealth's 351 cities and towns.
- DPH's operational capacity for planned inspections of more than 2,000 wholesale firms was inadequate. With the exception of 150 high priority firms that sell interstate milk and shellfish, wholesale firms in the Commonwealth were inspected on an average of only once every four years.

- Local health authority food inspection activities were significantly understaffed. Specifically, eleven of the thirteen health authorities visited during audit field work were not in compliance with federal and state standards that call for inspections at least every six months for most food establishments and three or four times a year for high-risk establishments such as hospitals, nursing homes, and certain restaurants. It was not uncommon for some high-risk establishments to go more than a year without being inspected, and some did not receive even routine inspections for as long as seven years. The audit cited one local authority that had not complied with the minimum number of inspections for any of the thirteen establishments under its responsibility during the period under review.
- Food-borne illness reporting, investigation, and response activities were deficient in many communities. Statewide oversight and coordination were also inadequate, contributing to communication breakdowns between state and local officials and incomplete investigations of many suspected food-borne illness incidents. According to the federal Centers for Disease Control and Prevention, approximately 76 million people contract a food-borne illness in the United States each year; approximately 325,000 require hospitalization; and approximately 5,000 die.
- Inspector training and qualification requirements were inadequate. Only eight percent of local inspections met the preferred Certified Food Safety Professional qualifications standard, and over 50 percent met only minimal qualification requirements.
- The federal Food and Drug Administration has characterized the Commonwealth's highly decentralized system, operated by municipal government health authorities with minimal oversight, coordination, and technical assistance from state government, as unique in the nation and of concern to federal food protection officials. In most states, relatively large county-based health authorities carry out retail food protection activities, often with significant coordination and oversight by state agencies. Numerous local public health officials responded to OSA inquiries that, in their view, food protection activities should be restructured, using a regional approach. This would preserve some of the strengths of the current system while addressing problems such as the extensive reliance on part-time staff, the potential for delays, coordination and communication issues, and barriers to training initiatives and quality assurance systems.
- The OSA made a number of recommendations for addressing the serious issues identified in this audit. Of highest immediate priority was DPH's need for additional resources to improve its oversight of local food inspection activities. A longer-range strategy would involve reassessment of the existing decentralized operational structure and possible implementation of alternatives such as the larger regional authorities used in many other states. At a minimum, a regional model should be considered for smaller existing jurisdictions. Other recommendations included implementation of significant operational changes, such as improved tracking systems, full adherence to detailed food-borne illness and complaint investigation standards, establishment of electronic data exchange systems for both inspection and response activities, and public posting of state and local inspection and related food-borne illness investigation results.

## **Fuel Assistance Program**

The OSA completed a follow-up audit of the state's Fuel Assistance Program, including oversight responsibilities of the Department of Housing and Community Development (DHCD) and eligibility determination services provided by Local Administering Agencies under contract with DHCD. The audit assessed the status of income verification issues identified in the prior audit and updated program statistics on environmental and economic factors that impact the ability of low-income families to meet their home heating costs. Federal funding for the Fuel Assistance Program totaled approximately \$118 million in fiscal year 2006. This amount was supplemented by a \$20 million state subsidy. Eligible households, on average, received \$787, an increase of \$222 from the prior year. In addition, the number of eligible households increased from 135,068 in fiscal year 2005 to 141,014 in fiscal year 2006. Results of this review are summarized below.

- DHCD has strengthened its income verification procedures, increasing assurance that only low-income households with insufficient means to meet home heating costs receive program benefits. Specifically, DHCD has amended its application form to include a checklist of potential income sources, which intake workers review with applicants. Also, income documentation from the four consecutive weeks prior to the application date and information regarding real estate tax payments must be submitted. Furthermore, some Local Administering Agencies have begun utilizing an automated wage-match program operated by the state's Department of Revenue, and DHCD has initiated a required post-audit review of the Fuel Assistance Program. However, DHCD was still not requiring Local Administering Agencies to obtain tax returns from applicants other than the self-employed, thereby limiting intake workers' ability to independently verify financial representations made by applicants.
- The OSA continued to express concern that, even with increased subsidies and program efficiencies, low-income households will have great difficulty in meeting fuel expenses, especially during severe winters. The audit noted that the restoration of the state's fuel assistance appropriation program in fiscal years 2005 and 2006, along with an increase in federal funding, was offset by the higher cost of home heating fuel and an increase in the number of program participants. In addition, several uncertainties surrounded funding commitments for fiscal year 2007. As of December 2006, federal funding for Massachusetts was set at \$81 million, substantially less than the \$118 million received by Massachusetts in the previous year. Moreover, as of the same date, the state had not committed any supplementary funding for fiscal year 2007. Without additional federal and state funding, fuel assistance recipients would see their benefits in 2007 reduced by at least \$300. The OSA therefore renewed the Auditor's recommendation that state fuel assistance supplementary funding be appropriated for use, if needed, when federal funds are exhausted. This supplementary funding would help ensure that low-income families would be able to heat their homes during the winter months without sacrificing food and medications.

## **Department of Social Services**

The OSA, in conjunction with the Single Audit of the Commonwealth for the fiscal year ended June 30, 2006, conducted a review of the financial activities of the Department of Social Services (DSS). The audit reviewed prior audit findings; assessed internal controls; and evaluated compliance with laws, regulations, and requirements, including those governing federally funded programs. During fiscal year 2007, DSS administered approximately \$859 million, of which federal funds totaled \$247 million. The audit found that DSS was continuing to address the deficiencies cited in several previous reports relative to the licensing and oversight of foster homes and foster placements. However, as detailed below, improvements were still needed to fully resolve these serious issues and to improve the timeliness of appeal hearings.

- Although DSS continued to significantly improve the timeliness of Criminal Offense Record Information (CORI) checks for foster care providers, 28 instances of overdue CORI checks were identified. Furthermore, DSS continued to place children in foster homes without completing proper licensing requirements. During fiscal year 2006, 324 children were placed in foster homes prior to the homes being licensed, of which 62 exceeded the 40 days emergency placement allowed. These continuing deficiencies could affect the safety of children in state care and jeopardize DSS's eligibility for certain federal reimbursements. DSS responded that it has shifted oversight of foster care homes to a Central Office of Foster Care Support Services in order to improve monitoring and compliance.
- The monthly DSS report compiled from the agency's computerized Family Net data and issued to agency personnel to monitor foster care provider licensing and criminal background checks had a 21% error rate, a marginal increase from the fiscal year 2005 error rate of 20%. The errors, as in the past, involved missing and overdue annual reassessments, including missing criminal background checks. Continuing data integrity problems in the automated system DSS uses to make home approval decisions elevated the risk that children could be placed or allowed to remain in unsafe homes.
- DSS was not in compliance with the requirement that fair appeal hearing requests in response to Department decisions be scheduled within 90 calendar days. Of 5,454 such requests received from 1998 to June 2006, 4,353 had not resulted in the scheduling of a timely hearing. DSS officials stated that this longstanding problem was primarily due to budget constraints and the necessity of prioritizing foster care-related issues, but that they had made data entry improvements intended to reduce the current case backlog.

### ***Metro Residential Services Program: Client Fund Issues***

In accordance with provisions of Chapter 647 of the Acts of 1989, the state's Internal Control Statute, the Department of Mental Retardation's Metro Residential Services Program notified the OSA of missing client funds at its residences in Canton and Needham. Pursuant to the requirements of Chapter 647, the OSA investigated the control environment maintained by the Metro Residential Services Program, especially with respect to its Canton and Needham residences and to a residence in Dorchester, where client fund records and receipts were missing but no misuse of funds was found. Details of OSA findings at the Canton and Needham residences, as well as recommendations for improvements in the management and monitoring of client funds at all program residences, are summarized below.

- The OSA found that financial duties at the Canton and Needham residences were not adequately segregated in that House Managers, in both cases, had access to client funds as well as full responsibility for accounting for cash transactions. In addition, administrative controls and procedures, including supervisory oversight, needed to be improved. As a result of these control deficiencies, the House Manager of the Canton residence was able to divert for personal use \$9,158 from six clients, and the House Manager at the Needham residence was similarly able to misappropriate \$2,407 from seven clients. In response to OSA recommendations, officials indicated that they would segregate client fund activities to the extent possible, given the small number of resident house staff, and improve both staff training and supervision. Program officials also stated that they now require the use of Request for Funds forms for purchases at all of their residences, thoroughly review all client expenditures on a monthly basis, limit the amount of funds on hand for each client to \$150, keep original financial records in their central office, and maintain copies of these records in the individual residences.
- The thefts of client funds at the Canton and Needham residences were also reported to appropriate law enforcement agencies. The House Manager at the Canton residence admitted to the theft and has made partial restitution. Court action is proceeding in both cases, with the Department of Mental Retardation seeking full restitution.

### ***The Soldiers' Home in Holyoke: Privatization Proposal***

Chapter 7, Sections 52-55 of the Massachusetts General Laws, the state's Privatization Statute, establishes procedures that must be followed by agencies seeking to privatize a service currently being performed by state employees. These procedures, which apply to contracts of \$200,000 or more, include preparing a detailed statement of services to be used in soliciting competitive bids, estimating the most cost-efficient method of providing those services with agency employees, and comparing the in-house cost with the cost of contract performance. Additional provisions address wage, benefit, and other compliance issues. The proposal is then submitted to the State Auditor, who conducts an independent evaluation and, based upon the requirements of the law, accepts or rejects the contract.

During the report period, the Soldiers' Home in Holyoke submitted a proposal to privatize its pharmacy, which serves both inpatient and outpatient veterans. Under the terms of the proposal, the state Office for Pharmacy Services, which would have oversight and program evaluation responsibilities, would contract with McKesson Medication Management LLC to staff and operate the pharmacy. As required by law, the notification to the OSA was accompanied by a certification signed by the Deputy Superintendent of the Soldiers' Home and the Secretary of the Executive Office for Administration and Finance, as well as necessary supporting documentation.

- The State Auditor determined that the Soldiers' Home had complied with statutory provisions in awarding this privatization contract. The Soldiers' Home certified and demonstrated that the quality of services to be provided by the contractor would be equal to or greater than that which had been provided by Soldiers' Home employees, that cost savings would be realized by having the work performed under contract, and that the contract addressed all other requirements of the state's Privatization Statute. Therefore, the State Auditor approved the contract.

### ***Compliance with Audit Resolution Policy***

The OSA conducted an audit to determine the status of issues identified in a prior review of compliance by selected agencies with the state's Operational Service Division's (OSD) Audit Resolution Policy and to review corrective actions taken to address deficiencies delineated in 33 additional audit reports. The prior audit focused on corrective measures, including the recoupment of more than \$3.8 million in state funds, recommended in 27 audit reports issued between December 1997 and March 2001. This report found that although the ten state agencies covered in the report had either recovered or were in the process of recovering over \$2.5 million, they did not fully comply with OSD's Audit Resolution Policy, and hundreds of thousands of dollars in misused state funds had not been recovered. The current audit found that state agencies were entering into Corrective Action Plans with a substantial number of providers, but had not established such plans for eleven of 38 providers reviewed. Major audit findings are summarized below.

- For nine of the 38 human service providers included in the current audit, the contracting state agencies either properly implemented Corrective Action Plans or took other measures, such as referring audits to law enforcement agencies. For three of these audits, which were referred to the Office of the Attorney General, the OSA recommended recovery of more than \$19.5 million. As of the close of the audit period, two of these cases were pending resolution, while a settlement reached in the third case returned approximately \$700,000 to the Commonwealth.

- For the remaining 29 providers, contracting state agencies had deficiencies that, if corrected, would improve provider contract compliance and maximize recoupments of state funds. Specifically, for eleven audits reviewed, there was no negotiated Corrective Action Plan between the provider and its state purchasing agency, and \$1.7 million owed to the Commonwealth was not repaid. In addition, in two instances, state agencies reduced recommended recoupment amounts by \$657,306 without the knowledge or approval of OSD, and, in eleven instances, Corrective Action Plans involving approximately \$951,700 in unallowable expenses charged to state contracts were implemented from 203 to 1,237 days beyond the six-month timeframe prescribed by OSD's Audit Resolution Policy. Finally, in several instances, state agencies did not conduct the recommended reviews of expenses in areas where problems were identified in order to determine whether additional funds should be recovered. The Executive Office of Health and Human Services agreed with the audit's general findings and, in response, initiated several internal control and program integrity reforms. These include enhanced oversight and training and implementation of an automated Provider Data Management System. Responding officials also stated that, as of September 2006, four additional providers entered into approved Corrective Action Plans, representing \$208,427 in recoupments.
- **Events subsequent to this audit have led to significant additional repayments of misspent vendor reimbursements.** As detailed below, findings reported in OSA audits have resulted in negotiated settlements for the return of \$7.5 million by Spectrum Health Systems, Inc., and nearly \$900,000 by Valley Educational Services, Inc.
  - Spectrum Health Systems, Inc., a nonprofit vendor of mental health services, was cited in a 2004 OSA audit for misusing millions of dollars in state funds over a ten-year period. The problems noted were largely due to inappropriate related-party transactions involving CiviGenics, a for-profit company owned by Spectrum's former president. The audit identified over \$10.2 million in excessive management fees paid to CiviGenics, nearly \$1 million in unallowable compensation paid to Spectrum's former chairman for undocumented consulting services, and \$3.3 million paid to purchase a financially failing clinic owned by CiviGenics. In January 2007, the Attorney General's Office, which conducted an investigation based on the OSA's findings, announced a settlement under which Spectrum Health Systems, CiviGenics, and Spectrum's former president will repay the Commonwealth a total of \$7.5 million.
  - Valley Educational Services, Inc., which operates Valley West Day School for special needs students, was cited in a 2006 audit for incurring \$897,414 in expenses that were unallowable and nonreimbursable under state regulations. The audit disclosed that Valley West paid close to \$395,000 to the wife of Valley Educational Services' Chief Executive Officer (CEO) for consulting work without documenting that the services provided directly benefited the school's programs or students. In addition, Valley West overcharged the Commonwealth by approximately \$440,000 to lease property owned by the CEO; could not document that \$30,600 in vehicle expenses were used for school-related purposes; and billed the state more than \$32,650 for various unallowable administrative

expenses, including cell phones for the CEO's family members, non-school-related meals, entertainment, travel, and donations. Because Valley West is funded by tuition payments from municipalities, the funds that Valley Educational Services, Inc., has agreed to repay the Commonwealth will directly benefit school districts. Under an agreement between the vendor and OSD, Valley West will reduce participating school districts' tuition payments by \$2,690 per day student and \$599 per summer student over the next three fiscal years. This will result in the recovery of all identified unallowable expenditures.

### **Current Vendor Audits**

OSA reviews of individual vendors that contract with Commonwealth agencies to provide services identified continuing issues involving questionable and unallowable charges and reimbursements, as well as administrative control weaknesses and noncompliance with various state regulations.

- **Commonwealth Family Childcare, Inc.**, a for-profit company that helps families find daycare services, charged and was reimbursed \$75,902 during fiscal years 2005 and 2006 for 2,333 days on which contracted service providers were closed, days in excess of providers' fourteen state-approved closure days. Furthermore, although regulations state explicitly that "the childcare provider must be paid the sub-unit rate for every day that the family childcare system receives payment," the childcare coordinating agency did not pass any portion of these payments on to its service providers. The audit concluded that Commonwealth Family Childcare billed for and used for its own purposes funds to which it was not entitled and which should be repaid to its funding agency, the Department of Early Education and Care. The audit also cited as inappropriate \$25,000 in charges for a vehicle that was used exclusively by its Executive Director. Commonwealth Family Childcare did not have any formal written policies and procedures regarding the provision of this fringe benefit and did not require its Executive Director to document the business and personal use of the vehicle. As such, these charges were also inappropriate and unallowable.
- **Hawthorn Services, Inc.**, a nonprofit organization that provides residential and day services to disabled elderly individuals with mental and physical disabilities, was not performing reconciliations for client checking accounts, and cash disbursements from clients' accounts were not adequately documented. As a result, entity officials could not readily review these accounts for improper expenditures or verify the accuracy of clients' account balances. In addition, the entity, contrary to state regulations, purchased a building from a Board member without providing notification to the Commonwealth of the real estate transaction. Such related-party transactions are allowable but must be properly disclosed on financial statements and cannot result in either party realizing a profit. Finally, Hawthorn Services utilized \$7,551 in state funds to provide medical insurance premiums for one of its Board members. Because this benefit was not provided under an established agency policy and was not made available to all Board members, the \$7,551 expended was not allowable under state regulations and should be repaid to the Commonwealth.

## INITIATIVES

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The following is an update of ongoing initiatives in the area of health and human services.

### ***Office of Medicaid (MassHealth): Durable Medical Equipment***

The OSA is conducting an audit of durable medical equipment providers for MassHealth recipients in order to determine whether they are submitting proper claims and providing all claimed services. The audit will include an examination of claims and billing procedures, focusing on whether submissions are complete, accurate, and in compliance with applicable laws, rules, and regulations.

### ***Office of Medicaid: Drug Rebate Accounting***

The OSA is conducting an audit to evaluate the effectiveness of the Drug Rebate Accounting Management System. The audit will focus on, but not be limited to, an assessment of internal controls and accountability, as well as compliance with applicable laws, rules, and regulations. The audit will also determine whether amounts due from drug manufacturers are collected in a timely manner, are accurately reported, and are monitored by MassHealth.

### ***Personal Care Attendant Program***

The OSA is reviewing the Personal Care Attendant (PCA) program under the Executive Office of Elder Affairs (EOEA) to determine whether adequate regulations have been established and whether sufficient monitoring and oversight procedures are in place to protect consumers and prevent program abuses. The audit will also include a review of the contractual and program obligations of the Fiscal Intermediary Agencies and PCA Agencies that provide administrative support to EOEA, training, and certain services to consumers to assess contract compliance.

## AUDIT SUMMARIES

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### *Housing Authorities*

Massachusetts public housing is built and managed under the direction of the Department of Housing and Community Development. Its Bureau of Housing Management oversees the operation of 247 local housing authorities, which provide apartments for low- and moderate-income families, the elderly, and individuals with disabilities. OSA audits help to ensure the solvency and proper operation of local housing authorities by making sure that adequate accounting and administrative controls are in place, and that authorities are in compliance with laws and regulations governing eligibility, rents, inspections, tenant selection, and unit turnover.

During fiscal year 2007, the OSA issued 106 housing authority reports, a significant number of which addressed the urgent problem of long-term neglect of public housing units resulting from funding delays and shortages. Findings from this comprehensive audit initiative, as well as recommendations for correcting severe health and safety issues, are among the issues summarized in the section that follows.

## **Special Audit Section**

### **Health and Safety Problems at Public Housing Units**

The OSA conducted a statewide comprehensive audit of the physical conditions at state-aided public housing projects in order to determine whether mandated standards for the provision of safe, decent, and sanitary housing were being met. The review, which included survey data, as well as site visits to 66 housing authorities across the state, also examined the availability of resources for the operation and upkeep of housing authority properties. The audit's most significant finding was that chronic shortfalls in capital funding and state operating subsidies have led to significant deterioration of state-funded public housing units, jeopardizing the health and safety of low-income and elderly tenants. Audit findings and recommendations, including recurring issues discussed in individual audit reports, are summarized below.

- The Department of Housing and Community Development's (DHCD) subsidy payments to local housing authorities have been irregular, inadequate, and untimely. As of the close of fiscal year 2006, DHCD, despite laws to the contrary, owed the housing authorities more than \$7.75 million in overdue subsidies for fiscal years 2002 through 2005. Although the funds were finally distributed in July 2006, the lack of timely receipt of this aid forced housing authorities to delay much needed maintenance and repairs, reduce staff and salaries, and deplete reserve funds. As troubling, DHCD, for the past four years, has required the housing authorities to submit budgets with no increases and has rejected budgets that do not conform to this rule. As a result, DHCD's expenditures for housing subsidies, which totaled \$34.8 million in 2006, were less than the \$38 million it expended in 1986. In contrast, federally aided housing operated by many of the same local housing authorities is in much better physical condition because the federal government has provided higher, more timely subsidies. Lower state subsidies have resulted in a steady drain on reserves, which are intended for emergencies, while failing to provide sufficient funding to prevent the continued deterioration of housing units.
- Local housing authorities across the state expressed a need to make major capital improvements to their properties. In a majority of cases, however, capital modernization projects for which funding applications had been submitted to DHCD were delayed or denied. As a result, conditions at many housing authorities continued to deteriorate, in some cases rendering units and buildings uninhabitable. In addition, the large number of unfunded modernization projects identified in individual audits increased the risk that emergency situations would increase at the same time emergency reserves had been drained.
- The great majority of housing authorities visited in the conduct of this audit had state-aided housing units that were in violation of the State Sanitary Code. The health and safety issues noted included cracked and damaged foundations, crumbling concrete stairs and sidewalks, missing hand railings, extensive mold and mildew damage to interior walls, exposed wiring, insect infestation damage, missing smoke detectors, and window leaks. Many of these housing authorities also lacked an official preventive maintenance plan to inspect, maintain, repair, and upgrade housing units.

- Many housing authorities did not comply with DHCD guidelines for reoccupying vacant units within 21 working days. In some cases, turnaround times were as high as 75 days. As a result, potential rental income was lost and eligible low-income persons were deprived, at least temporarily, of needed housing. In response to this finding, authorities cited the need for extensive repairs to vacant apartments as the main reason for units remaining vacant over an extended period of time.
- The OSA emphasized that the substandard conditions identified in this report require urgent corrective action. Its major recommendations were directed to DHCD and included the following:
  - DHCD should immediately conduct a complete and comprehensive analysis of the capital improvements necessary to repair, renovate, and modernize the aging and deteriorating public housing stock throughout the Commonwealth and develop a short-range plan for the funding and completion of all such repairs and renovations. If no plan can be developed to initiate prompt corrective action, the Legislature should give serious consideration to creating a separate quasi-public authority to create a more timely response to neglected repairs and renovations, as well as budget issues.
  - DHCD should allow local housing authorities to submit budget requests and explanations for all of their actual operating and modernization costs consistent with statutory requirements so that the Legislature is fully informed of actual fiscal needs when making its deliberations. DHCD should also make clear to the Legislature that its current level of funding does not allow it to fulfill its statutory requirement to provide tenants of authority property with decent and livable public housing. A realistic agency goal would be to seek and provide sufficient funding to eliminate the disparity that exists between federally assisted and state-housed tenants.
  - DHCD should pay all local housing authorities on a monthly up-front basis and remain current on its obligations. The agency also needs to make provisions for each housing authority to maintain a full operating reserve, as required under Chapter 121B, Section 32, of the General Laws.
  - DHCD should maintain a centralized list of vacancies and waiting lists for all housing authorities so that it can respond to the ongoing demand for housing and be prepared to promptly respond in time of emergencies or disasters.

## ***Internal Control and Compliance Audits***

The OSA also continued to conduct audits of housing authorities' financial controls and compliance with laws and regulations governing specific programs. These audits found general compliance and adequate fiscal controls at most housing authorities reviewed. Of those audits with reportable findings, questionable accrual of compensatory time, inadequate documentation of employee vacation and sick leave balances, excessive tenant accounts receivable, and inadequate inventory controls were identified as issues that needed to be addressed. Findings from selected audits are summarized below.

- ***Concord Housing Authority*** had lost its tenant accounts receivable records as well as other tenant file information when its computer hard drive crashed in November 2005. The information was not easily retrievable because the Authority had not maintained back-up tapes or retained hard copies of tenant activity. As a result, the Authority's monthly financial statements, which, for example, showed total tenant accounts receivable balances as unchanged from October 2005 to January 2006, were incorrect. At the close of the audit period, the Authority was working to reconstruct its lost tenant financial data, utilizing a new automated system. During this time of reconstruction, the Authority risked improper charges to tenants and a loss of potential rental income. The Authority responded that it subsequently completed the reconstruction of its files and could assure that tenant accounts receivable documentation was accurate and available.
- ***Hadley Housing Authority's*** Executive Director did not maintain timesheets and had been working for several years without a formal contract. In addition, the Authority did not maintain leave records necessary to account for employee sick and vacation time and also allowed compensatory time earned to accrue over a period of several years. While the audit was in progress, the Authority revised its personnel policies to require that compensatory time be taken within two months from the date earned and formalized a contract with its Executive Director. The Executive Director also indicated that the other issues identified were being addressed.
- ***Hatfield Housing Authority*** did not document employee vacation and sick leave balances, which resulted in errors and an under-estimation of accrued compensation owed. In addition, the Authority had not conducted an annual physical inventory and did not maintain a master inventory listing. As a result, inventory items could not be located, and property and equipment was generally exposed to loss, theft, or misuse. Finally, some rent redeterminations had not been properly calculated, and copies of the Authority's Annual Report had not been submitted, as required, to the State Auditor, DHCD, and the Town of Hatfield.

- **North Brookfield Housing Authority** did not have a written collection policy and did not effectively pursue the collection of delinquent tenant rent. As a result, its tenant accounts receivable balance, which, in 2003 was already high at \$32,236, had grown by 2006 to \$55,495, of which \$38,216 was more than 90 days old. Of the total amount due, \$9,979 was owed by four vacated tenants and \$45,516 was due from fourteen active tenants. The Executive Director responded that she had already initiated corrective action by establishing repayment agreements with tenants and requesting Board approval to write off \$7,352 in older, uncollectible debt. She also stated that, in accordance with a new written collection policy, the Authority, where appropriate, will utilize a collection agency and report delinquent accounts to a credit bureau.
- **Shelburne Housing Authority** could not document that it had conducted a required annual physical inventory and did not have a complete listing of its property and equipment. The audit noted that certain items were not found in their stated location and other items were not posted on the inventory listing. As a result, the Authority could not ensure that its fixed assets were adequately safeguarded or accurately reported on financial statements. The Authority also needed to strengthen controls over tenant accounts receivable balances. Specifically, the Authority was owed \$4,692 for nine tenants who had vacated over the past six years, including six who were now deceased. The OSA found that although Authority staff had performed the required due diligence to collect the amounts due, the Executive Director had not presented uncollectible accounts to the Board of Commissioners for a timely disposition or obtain permission from the Department of Housing and Community Development to write off the old accounts.

## **INITIATIVES**

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The following is an update of ongoing initiatives in the area of housing authority audits.

### ***Review of Housing Authorities***

The OSA will continue to conduct reviews to determine whether local housing authorities are properly verifying tenant income, properly maintaining and administering tenant waiting lists, and complying with laws and regulations regarding rent redeterminations, vacancy turnarounds, site inspections, and subsidy calculations. The audits will also examine controls over procurements and cash management.

## **AUDIT SUMMARIES**

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### ***Independent Authorities***

Independent entities, including the Massachusetts Bay Transportation Authority (MBTA), the Massachusetts Port Authority, and the Massachusetts Water Resources Authority (MWRA), provide and oversee essential services, such as public transportation, airport administration and construction, and the maintenance of public water resources. As summarized in the section that follows, the OSA, during the report period, issued 26 audit reports regarding independent entities, including reviews of the MBTA's purchase of Green Line cars, the MWRA's Combined Sewer Overflow project, and the Massachusetts Housing Finance Agency.

### ***Massachusetts Bay Transportation Authority (MBTA): Purchase of Green Line Cars***

The OSA conducted a follow-up audit of the MBTA's procurement process for low-floor, disabled-accessible Green Line cars purchased from Breda Construction: Ferroviarie (Breda). The prior audit identified significant contract control deficiencies, including the MBTA's agreement to a reduced testing period for the cars and utilization of computer-adjusted track survey data from San Francisco. In addition to these issues, which contributed to derailments and delays in the delivery of 75 cars, the MBTA incurred unnecessary contract costs resulting from design changes, cost overruns, and the failure to bid for certain necessary additional costs. The intent of the current audit is to present a final accounting of costs under the Breda contract and review the MBTA's response to recommendations in the prior audit for resolving safety issues and for restructuring the financial terms of the contract so that Breda assumes an equitable share of technical and financial responsibilities for improving the reliability of the cars.

- The combined effect of procurement problems, design errors, change orders, and oversight issues will result in expenditures by the MBTA of \$101 million more than the original contracted cost of \$215 million for the purchase of the Breda cars. These costs also include the wheel and track modifications necessary to address the car derailment problems.
- In April 2002, the MBTA stopped accepting delivery and testing of the Breda cars pending resolution of the derailment issue. Breda, charging that the MBTA's stop work order was improper, subsequently submitted a claim for an additional \$43,480,000. The MBTA countered with its own multi-million dollar list of damages suffered due to contract nonperformance. After protracted negotiations, in December 2005, the MBTA and Breda entered into an Interim Settlement Agreement intended to achieve full and successful implementation of the new cars. Both Breda's and the MBTA's claims were waived; Breda agreed to participate in certain technical enhancement efforts; and the remaining Breda cars were scheduled for delivery in early 2007.

### ***Massachusetts Water Resources Authority (MWRA)***

The OSA conducted an audit of the MWRA's Combined Sewer Overflow project, a federally mandated water improvement program. Some older Massachusetts sewer systems carry a combined flow of storm water and sewage to MWRA treatment facilities. Because these systems experience overflow problems during heavy rains, the MWRA created relief points that direct excess flows into nearby bodies of water. This prevents backups into homes and businesses, but threatens water quality. The improvement program, comprised of 25 water quality protection projects, includes a comprehensive facilities plan to address discharges from combined systems in Boston, Cambridge, Chelsea, and Somerville. Results of this review, which focused on the MWRA's efforts to address wastewater issues, are summarized below.

- The MWRA's Combined Sewer Overflow project costs had grown significantly since the project's inception in 1994. At that time, the project was expected to cost \$395 million and be completed by 2008. However, due to substantial project revisions without which local and environmental approvals would not have been granted, as well as court renegotiations and inflation, the total cost had more than doubled to \$856 million as of 2006. Furthermore, the work, most likely, would not be finished until 2015. The Combined Sewer Overflow project, the MWRA's largest capital spending commitment, is one of three major components of the overall court-ordered Boston Harbor cleanup plan. The other two, which have already been completed, are construction of the Deer Island Primary and Secondary Treatment facilities and the Fore River Shipyard Plant that converts sludge into fertilizer.
- Although Combined Sewage Overflow project delays have been extensive, fourteen of the 25 separate components that comprise the master plan have been completed, and construction has begun on others. These improvements, along with overall MWRA wastewater system enhancements begun in 1988, have reduced the average annual volume of combined overflow discharges from 3.3 billion gallons to 800 million gallons, a 76 percent reduction. The OSA recommended that the MWRA, in order to achieve the full benefits of the Combined Sewer Overflow project by 2015 or earlier, should maximize its efforts to reduce project costs and delays. Activities should include formal negotiations with the state Department of Environmental Protection, the federal Environmental Protection Agency, and the impacted communities in order to timely resolve any remaining outstanding issues and develop definite timelines for completion.

### ***Massachusetts Housing Finance Agency***

The OSA audit of the Massachusetts Housing Finance Agency reviewed and assessed internal controls over administrative expenses, lending program operations, contract compliance issues, and activities undertaken to increase the supply of low-income housing in the Commonwealth. As of June 2006, the Agency had 319 full-time employees; managed combined total assets of over \$5.1 billion; and had a net income from investment earnings, state and federal subsidies, and fees of \$49.7 million. The review indicated that, except for the contract procurement and financial management issues summarized below, the Agency had adequate internal controls over its lending programs and financial projects and complied with applicable laws and regulations.

- The Massachusetts Housing Finance Agency, contrary to sound business practices and its own guidelines for procurement, awarded three no-bid contracts totaling \$744,340. Specifically, the Agency awarded two contracts to an advertising company totaling \$634,205 and one contract to a consultant for \$110,135 without using a competitive bid process. In addition, the construction consultant was working without a written contract identifying scope of services, contract payment schedules, and other contract terms. As a result, the Agency could not be assured that it received the highest quality services at the lowest cost and, in the case of the construction consultant, lacked an effective mechanism for monitoring contract performance.

### *Independent Authority*

- The Agency did not have a written policy that establishes eligibility requirements for employee bonus awards. Moreover, although managed by a compensation committee composed of Agency executive staff, performance bonus allocations did not require Board approval. The OSA recommended improved documentation of the employee bonus incentive program, which distributed \$993,264 in calendar years 2004 and 2005, and enhanced Board governance of bonus awards.
- Although under no legal or procedural mandate to do so, the Agency, in 2003, established a \$600,000 revolving line of credit. In so doing, the Agency accumulated \$12,480 in fees and was also required to pledge \$600,000 as collateral. The OSA questioned this undertaking, especially since the Agency had sufficient retained earnings in readily available reserve accounts to provide for any possible payroll contingencies and did not need to incur the fees associated with the line of credit or be subject to providing collateral. Agency officials responded that they had corrected this matter on their own initiative, switching in 2004 from a line of credit to a certificate of deposit to avoid unnecessary costs.

## INITIATIVES

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The following is an update of ongoing initiatives in the area of independent audits.

### ***Central Artery Tunnel Project (CA/T)***

The OSA, in July 2007, issued its 21<sup>st</sup> CA/T audit, which evaluated efforts to recover water leak and ceiling collapse repair costs. This report, which will be detailed in the next Annual Report, is available online or by calling the OSA at (617) 727-6200 or (617) 727-2075. Current OSA activity continues to focus on determining whether contract and other payments owed to the project are being aggressively and effectively pursued. For example, the OSA is reviewing the issues relating to a \$50 million debt owed by MassPort for the construction of a section of tunnel near Logan Airport. In addition to discussing issues of contention between the two entities, the OSA will determine what efforts have been taken by the CA/T Project to resolve the impasse and what additional steps need to be taken.

### ***Massachusetts Bay Transportation Authority: The Ride***

The OSA is conducting a performance audit of “The Ride,” an MBTA program that provides door-to-door transportation to eligible individuals who are unable to use general public transportation because of disabilities. The audit will include, but not be limited to, a review of eligibility determinations, payment systems, on-time performance, complaint systems, and monitoring procedures. It will also evaluate financial controls over receipts and expenditures and assess whether financial records are complete, accurate, and up-to-date.

### ***Massachusetts Bay Transportation Authority: Controls over Monthly Passes***

The OSA is reviewing inventory controls over monthly MBTA passes. The audit will include, but not be limited to, an evaluation of the system in place for accounting for all monthly passes, a review of MBTA records pertaining to monthly passes sold and revenues received, and a determination as to whether the MBTA conducts monthly reconciliations of its inventory of passes.

### ***Massachusetts Bay Transportation Authority: SMART CARD Fare System***

The OSA is completing an audit of the MBTA’s implementation of its new SMART CARD fare system. The audit will include a review of the internal controls built into the new fare system to ensure accuracy and accountability and to safeguard the inventory of new cards. The bid and contract award process, as well as costs to date, including change orders, will also be reviewed and assessed.

## **AUDIT SUMMARIES**

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### ***Judiciary/Law Enforcement***

During fiscal year 2007, the OSA issued 47 audit reports covering judiciary, law enforcement, and public safety entities. These reviews included audits of financial administration activities at the probate, district, and superior courts; a review of the Division of Capital Asset Management's administration of two court construction contracts; and two letter reports related to technical assistance provided to District Attorneys in connection with ongoing investigations. Findings from selected reports are summarized in the section that follows.

### ***Division of Capital Asset Management: Court Construction Contracts***

The OSA conducted an audit of the Division of Capital Asset Management and Maintenance's (DCAMM) administration of the contracts it awarded for renovation and expansion work at the Edward W. Brooke and John Adams courthouses in Boston. The audit determined that DCAMM followed applicable statutes in awarding both contracts and established reasonable internal control procedures over the processing of change orders. However, although these contracts contained clauses that allowed the Commonwealth to assess damages against contractors who did not meet certain performance criteria, DCAMM did not assess such penalties even when project work substantially exceeded agreed upon deadlines. The major finding of the audit is discussed below.

- DCAMM decided not to assess \$318,000 in damages against the contractor that performed the renovation work at the Edward W. Brooke Courthouse, although the work was completed 106 days past the contractually established completion date. In accordance with the terms and condition of its contract with this company, DCAMM could have sought \$3,000 for each late day or a total of \$318,000. DCAMM had also not assessed \$1,125,000 in penalties against the contractor that performed the renovation work at the John Adams Courthouse, although agency officials maintained their right to assess damages in this case. DCAMM officials stated that the agency does not usually assess penalties when deadlines are not met, although they may, as in the Adams Courthouse case, use the damage amount as a bargaining tool for final payment of outstanding change orders. Officials further indicated that delays in completion of the Brooke Courthouse were beyond the control of the contractor. The OSA responded that the Brooke Courthouse contract file contained no documentation indicating that DCAMM caused the completion date to be exceeded. Should this be the case in the future, the relevant contract should be amended, establishing a new mutually agreeable completion date. DCAMM agreed with this recommendation.

### ***Middlesex Sheriff's Department***

The OSA conducted an audit of the Middlesex Sheriff's Department, which was established as an independent state agency when county government was abolished in Middlesex County. The audit assessed internal controls over operations, the appropriateness of expenditures, and the status of certain issues, including deposits and reporting requirements, which have generally presented problems in transferred sheriff's departments. Results of this review are summarized below.

- The Sheriff's Department did not have a complete and updated internal control plan in accordance with Chapter 647 of the Acts of 1989, the state's Internal Control Statute. The internal control document and related risk assessments are required in order to safeguard assets and minimize administrative and accounting vulnerabilities. Furthermore, the Department did not submit to the Office of the State Comptroller (OSC) all of the financial activity necessary to assist OSC in completing the Commonwealth's Comprehensive Annual Financial Report. Finally, a theft of Civil Process Funds totaling \$60,593 was not reported immediately to the OSA, as required under the Internal Control Statute in order to ensure a prompt review of control systems and recommendations for corrective action. The audit did note that that the Department had reported the theft to appropriate law enforcement authorities, whose investigation resulted in the arrest and conviction of a former Deputy, as well as recoupment of the funds.
- The Sheriff's Department continued to pay a vendor more than \$15,000 annually under a contract that had been verbally extended upon expiration without a competitive bidding process or the signing of a formal contract. As a result, the Department was not in compliance with state purchasing policies, could not be assured that it was receiving the highest quality service at the lowest cost, and lacked an effective mechanism for monitoring contract performance.
- The Sheriff's Department continued to retain both telephone commission revenues and civil processing fees under laws and procedures that governed its operations as a county office. In addition, civil processing fees, which were retained by the Civil Processing Division, were "off line" and not accounted for on the Massachusetts Management Accounting and Reporting System. Since this department is now a state entity, these revenues may fall under a statute requiring that they be accounted for as state revenues and deposited, in full, into the General Fund. The OSA recommended, as it has in prior audits, that legal clarification be obtained to resolve these issues.

### ***The Executive Office of Public Safety and Homeland Security***

The OSA, in conjunction with the Single Audit of the Commonwealth for the fiscal year ended June 30, 2006, conducted a review of certain financial activities of the Executive Office of Public Safety and Homeland Security, the Secretariat that is responsible for applying for and administering federal and state criminal justice grants. The audit focused on the administration of approximately \$60.4 million in federal funding principally received through the Byrne Grant for combating violent crime, the Juvenile Accountability Block Grant, and Homeland Security grants. The audit found that the Secretariat continued to make improvements in the management of these grants by processing federal funds in a timely manner, ensuring that special conditions attached to grants were met, and properly documenting salary allocations. However, the audit also identified areas, as summarized below, where improved monitoring and cash management procedures would improve compliance with federal requirements and enhance revenues.

- The Executive Office of Public Safety and Homeland Security needed to strengthen its monitoring of reimbursements to subrecipients. The audit identified three overpayments totaling \$15,504 and a \$2,894 matching fund issue. Although the majority of these funds were subsequently recovered, careful review of all requests for reimbursement would increase program efficiency as well as compliance. The audit also found problems in reconciling in-house records of federal grant activity with amounts recorded on MMARS, the state's automated accounting system. As a result of reconciliation delays and certain technical problems, significant account variances were identified. Specifically, a federal grant drawdown in excess of \$300,000 was never posted to the Juvenile Accountability Block Grant account, and MMARS records for the Homeland Security Grant Program showed year-end funding of \$1.3 million where the unexpended balance should have been zero. In response to the audit report, the Secretariat and the Office of the State Comptroller initiated a review of federal grant activity dating back to July 2004.

## ***Special Audit Section***

### ***Court System: Financial Administration***

As part of an ongoing comprehensive review of internal controls over financial and management activities at superior, district, probate and family, and juvenile courts, the OSA, in fiscal year 2007, completed 29 financial administration audits. An additional 35 court audits, also included in this initiative, were issued in fiscal year 2006. These court audits assessed controls over bail funds, cash management systems, fee and fine collections, and compliance with applicable laws and regulations. In general, the courts complied with regulatory, administrative, and program requirements. However, a number of courts did need to address financial control issues, particularly with respect to bail fund management and revenue reconciliations. Major findings from court audits issued during this report period are summarized below.

- Several superior and district courts needed to strengthen internal controls over the reporting and processing of bail funds. For example, Bristol Superior Court and Norfolk Superior Court were in possession of thirteen bails totaling \$63,000 and 22 bails totaling \$105,000, respectively, from defendants in default, whose bail had not been ordered forfeited. As a result, the Commonwealth was delayed in receiving bail funds to which it was entitled. Hampden Superior Court did not transfer unclaimed bail amounts to the State Treasurer as required; had an unreconciled variance of \$1,000 between its Detail Account Trial Balance, a required monthly report that itemizes bail funds by case, and bank records; and did not promptly inform defendants, by letter, when their bail funds were available to be claimed. Similarly, among district courts, the Holyoke, Cambridge, and Uxbridge divisions needed to more promptly transfer unclaimed and forfeited bail funds to the State Treasurer. Furthermore, the Cambridge and Uxbridge district courts needed to improve procedures for notifying defendants, whose bail funds were available to be claimed. Retaining abandoned funds reduces Commonwealth revenues, while keeping on hand funds belonging to defendants reduces the likelihood that these people will be located and their money returned.

## *Judiciary/Law Enforcement*

- Three superior courts, sixteen district courts, three juvenile courts, and one family and probate court needed to improve controls over revenues, reconciliations, and/or fixed assets. More than half of the courts tested had not yet developed and implemented a comprehensive internal control plan or conducted a risk assessment. These documents and activities are required under Chapter 647 of the Acts of 1989, the state's Internal Control Statute, in order to safeguard assets and maximize operational efficiencies. Their absence creates vulnerabilities and may have contributed to noted accounting and administrative weaknesses. The most frequently cited deficiencies were failure to complete timely bank reconciliations, delayed depositing of revenues, inadequate segregation of duties, outdated and incomplete inventory listings, and inadequate oversight of vending machine contracts and revenues.

## INITIATIVES

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The following is an update of ongoing initiatives in the area of judiciary and law enforcement.

### ***Homeland Security Audit Initiative***

As part of an ongoing effort to determine whether Homeland Security and other relevant funding is being used, as intended, to significantly enhance the safety of the citizens and infrastructure of Massachusetts, the OSA is continuing to audit Homeland Security grants, expenditures, and programmatic issues. For the period from October 1, 2001 through August 1, 2006, the Commonwealth was awarded \$381 million in federal grants intended to enhance statewide capabilities to detect, prevent, and respond to acts of terrorism and other emergencies. The OSA is nearing completion of an audit that updates and follows up on its 2005 analysis of the amounts and categories of funds state entities have received. In addition, reviews of security initiatives, including initiatives that have been put in place to improve the state's capabilities relative to bioterrorism and biosecurity, are in progress at the Executive Office of Public Safety, the Department of Public Health, and the Department of Agricultural Resources. As of June 30, 2007, the OSA had completed six comprehensive Homeland Security audits and several additional examinations of safety and security issues within larger audits.

### ***Office of the Jury Commissioner***

The OSA has initiated an audit to determine whether the Office of the Jury Commissioner is effectively and efficiently administering the jury selection process, including the utilization of jurors, and is complying with applicable laws, rules, and regulations. The audit will evaluate procedures for creating annual Master Juror Lists, adjustments made in response to jury utilization rates, and sanctions imposed on delinquent jurors.

### ***Technical Assistance to District Attorneys***

The OSA will continue to provide technical assistance to District Attorney's Offices on a number of audit-related issues.

## **AUDIT SUMMARIES**

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### ***Financial Management and Other Special Audits***

During fiscal year 2007, the OSA issued 22 audit reports pertaining to 190 various agencies, boards, commissions, and funds. Four of these reports addressed statewide revenue issues and were completed in association with the Single Audit of the Commonwealth. Other significant reports, findings from which are also summarized in the section that follows, pertained to the Department of Industrial Accidents, the State Lottery Commission, and voluntary contributions collected through state income tax returns.

## ***Single Audit of the Commonwealth***

The OSA is a partner with a major private accounting firm and other small firms in performing the Single Audit of the Commonwealth, a comprehensive annual financial and compliance audit of the Commonwealth as a whole that encompasses the accounts and activities of all state agencies. This audit satisfies the federal and state requirements to audit the Commonwealth of Massachusetts' financial operations, consisting of its accounts, programs, activities, funds, and functions, as well as specified compliance issues.

The OSA performs the following audit functions: (1) determining the relationship of Net State Tax Revenues to Allowable Tax Revenues (Tax Cap Determination), (2) reporting on agency compliance with the Office of the State Comptroller's Official Year-End Closing Instructions for Cash and Revenue Management, and (3) reporting on agency compliance with the Office of the State Comptroller's Year-End Closing Instructions for Encumbrance and Advance-Fund Management.

As part of the Single Audit, the OSA also provides staff resources for the audit of federal programs, such as student financial assistance at state institutions of higher education. Finally, the OSA conducts audit procedures that are needed to render an opinion on the Commonwealth's Comprehensive Annual Financial Report, such as verifying certain accounts and documents at several agencies and testing selected financial transactions to determine their accuracy.

During fiscal year 2007, the OSA released fifteen separate reports based on audit work for the Single Audit. Four revenue-related audits are summarized below. Other audits conducted in conjunction with the Single Audit are detailed as part of the Education, Health and Human Services, and Judiciary/Law Enforcement sections of this report.

## **Agency Compliance with the State Comptroller's Year-End Closing Instructions for Cash and Revenue Management**

The OSA observed and reviewed procedures for handling cash receipts and reporting and depositing state revenue at 50 state agencies and two lockbox locations. The audit found that the majority of entities reviewed, including lockboxes, which are central locations within designated banks where receipts are deposited and recorded, complied with fiscal year 2006 Office of the State Comptroller's year-end closing instructions. Moreover, the Fall River District Court, which was previously cited for incorrectly processing and depositing certain year-end receipts, had all taken necessary corrective action, and Bridgewater State College, except for \$116 in improperly recorded debt collection receipts, had also resolved previously noted issues. During the audit, the OSA provided the Office of the State Comptroller with pertinent information, including the following findings, so that appropriate final adjustments could be made to the Commonwealth's records.

- Mount Wachusett Community College and the University of Massachusetts-Lowell improperly accounted for some fiscal year 2006 revenue. Specifically, neither school advised its debt collection agency of year-end deposit and reporting requirements. As a result, the College improperly recorded fiscal year 2006 tuition collection receipts totaling \$399.85 as fiscal year 2007 revenue, and the University similarly improperly accounted for \$1,695 in June 2006 debt collections.
- The Division of Fisheries and Wildlife's Licensing Division had improved the timeliness of reporting estimated June sales. However, the Division had not resolved difficulties in collecting funds from some of its licensing agents, which continued to result in overdue or late remittals of licensing sale receipts.
- Westborough District Court's Clerk-Magistrate's Office's primary cashier and bookkeeper duties continued to be performed by the same person. As a result, the Office's financial duties were still not adequately segregated, placing Court funds at an increased risk of loss or theft.
- The Division of Marine Fisheries, the Massachusetts Environmental Police, and the Department of Conservation and Recreation's Harold Parker State Park were not depositing cash receipts on a daily basis. The daily depositing of cash is required in order to maximize interest income and reduce the risk of the loss or theft of funds.
- Bristol Community College and the Massachusetts College of Liberal Arts, contrary to contract requirements, allowed state tuition recoveries to be deposited into the bank account of their collection agencies. In addition, these collection agencies did not inform debtors that checks were to be made payable to the Commonwealth and did not properly invoice the College for contingency fee payments. As a result, \$573.41 and \$3,892.54, respectively, were not deposited with the Office of the State Treasurer and processed through the Massachusetts Management Accounting and Reporting System.

- The Department of Fish and Game shared and relied on the Massachusetts Environmental Police's Internet application to process customer electronic payment transactions. This arrangement has resulted in the untimely reporting of revenues, as well as over \$39,000 in fiscal year 2006 shipping and handling revenues not being deposited with the Office of the State Treasurer and processed through the Massachusetts Management and Accounting Reporting System. Instead, the revenues were used to pay electronic payment and processing fees.

### ***Agency Compliance with the State Comptroller's Year-End Closing Instructions for Encumbrance Management***

The OSA reviewed encumbrance transactions at 75 state agencies to determine compliance with the requirement that goods and services purchased with fiscal year 2006 funds be received by June 30 and properly entered into the Massachusetts Management Accounting and Reporting System. The audit also examined advance-fund management activities at 31 state agencies in order to evaluate documentation supporting open encumbrance balances. Agency compliance was very high, with all advance funds and nearly 99% of encumbrance transactions reviewed in compliance with closing instructions. Moreover, the Cape and Islands District Attorney's Office, the Massachusetts District Attorneys Association, and the Massachusetts Office of Travel and Tourism, which were previously cited for using fiscal year 2005 funds to pay for 2006 obligations, had taken all necessary corrective action. Further, corrective measures had been implemented by the Department of the State Police to ensure compliance with the Commonwealth's bill-paying policy. However, some year-end closing issues were identified, as noted below.

- Cape Cod Community College and the Executive Office of Public Safety processed a total of three encumbrance transactions that did not comply with the State Comptroller's closing instructions. As a result, \$20,974 of fiscal year 2006 funds was used to pay fiscal year 2007 obligations. In addition, the Attorney General's Office used \$27,825 in fiscal year 2006 funds to pay obligations of prior years, without requesting and receiving permission to do so from the Office of the State Comptroller.
- The Department of Public Health processed two vendor payments for \$5,323.53 and \$3,668.25 that were paid 26 and 29 days, respectively, beyond the Commonwealth's 30-day bill-paying timeframe. Furthermore, the Department of Correction processed two encumbrances for capital improvements totaling \$23,849.46 and \$8,980.19, that required supplemental state funding because agency officials authorized scope of work changes costing \$641.72 and \$5,391.01, respectively, without ensuring that sufficient funding was available to pay for the additional construction work.

## ***Agency Compliance with Laws, Regulations, and Office of the State Comptroller Policies for Selected Transactions***

The OSA, in conjunction with the fiscal year 2006 Single Audit of the Commonwealth, reviewed selected transactions at ten state entities, as well as prior audit findings, for the purpose of determining agency compliance with applicable laws, rules, and regulations. The audit found that the Department of Mental Retardation, which was cited previously for collection issues, and Springfield Technical Community College, which needed to address discrepancies between its in-house accounts receivable records and information entered into the Commonwealth's automated system, had taken all necessary corrective action. Other transactions selected for review indicated that, for the areas tested, the audited entities complied with the Office of the State Comptroller's policies and procedures, as well as Massachusetts General Laws and state regulations.

### ***Chapter 62F: Tax Cap Determination***

Pursuant to Chapter 62F of the Massachusetts General Laws, the State Auditor is charged with annually determining whether the net state tax revenues of a particular year exceeded allowable state tax revenues for that year. The most recent review determined that the net state tax revenues for the fiscal year ended June 30, 2006 of \$18,592,174,995.47 were below allowable state tax revenues of \$21,284,349,832.59 by the amount of \$2,692,174,837.12. Therefore, no excess tax revenues, as defined in Chapter 62F, MGLs, existed for fiscal year 2006.

## ***The Department of Industrial Accidents***

The OSA conducted an audit of administration by the Department of Industrial Accidents of the Workers' Compensation Trust Fund. This Trust Fund, which is funded by the Commonwealth's employers, provides payments to injured workers whose employers, although mandated to do so, did not carry workers' compensation insurance and to insurers who paid benefits for certain on-the-job second injuries. From July 1, 1999 to June 30, 2004 the Trust Fund paid out \$19,473,709 to employees who were injured while working for uninsured employers and reimbursed \$93,059,531 to insurers who paid second-injury benefits. The audit found that the Department did not properly assess or effectively collect fines for failure to carry required insurance and did not follow up on "stop work orders," which close down a business until workers' compensation insurance is obtained and fines are paid. These issues, as well as serious internal control and oversight deficiencies, prevented the Department from optimizing fund revenues and containing Fund and Department operating costs, as discussed below.

- The Department of Industrial Accidents, during the period under review, did not adequately enforce employer compliance with important provisions of the Workers' Compensation Act, thereby allowing hundreds of employers to continue to operate without required insurance coverage. Specifically, the Department did not follow up on 1,582 stop work orders to determine whether cited employers subsequently obtained workers' compensation insurance. OSA tests on a sample of 100 of these stop work orders found that 21 companies were still operating without insurance. Moreover, because the Department did not monitor many of its stop work orders and did not exercise proper oversight even over stop work orders known to be out of compliance, it also did not file civil or criminal complaints, liens, or additional penalties against noncomplying employers, further reducing the incentive for uninsured employers to get insurance. Department officials responded that a new stop work order process, which addresses the noted problems, has been implemented.
- The Department of Industrial Accidents had numerous problems relative to collections. Of \$3,086,250 in fines owed by employers who received stop work orders, only \$139,886, or 4.5%, had been collected. Moreover, of \$11,319,234 paid to workers injured while employed by uninsured employers, the Department billed employers for only \$5,145,021, leaving a balance of \$6,174,213 not billed for recovery. Furthermore, the Department collected less than half of billed amounts. Among specific internal control and management deficiencies, the Department could not locate all of its collection agency reports, did not timely remit outstanding stop work order fines to collection agencies, did not reconcile its reports on the state's automated billing system with its in-house records, and did not include all of its outstanding debt on required financial reports. As a result, the Workers' Compensation Trust Fund lost revenue, which increased the likelihood of higher assessment rates being charged to Commonwealth employers. Department officials responded that corrective action had been taken to strengthen financial management practices and systems of internal control. Officials stressed that the oversight role of the Workers' Compensation Advisory Council has been increased, as recommended by the OSA.

## *Other Audits*

- The Department authorized, settled, and calculated second-injury reimbursement cases of one law firm using a higher base amount than its own internal control policies and procedures permitted. This law firm's clients were reimbursed using a base amount of 100% rather than the 75% maximum reimbursable figure allowed in settlements represented by other law firms. Settlements based on the more favorable formula increased Trust Fund operating costs by over \$10 million and created the perception of favoritism. Department officials responded that the uniform practices recommended in the audit have been adopted and implemented.

## ***Massachusetts State Lottery Commission***

The OSA conducted an audit, which assessed financial and administrative activities, internal controls, and compliance with applicable laws and regulations at the Massachusetts State Lottery Commission. The audit found that Lottery officials had made management and security improvements that addressed several issues identified in prior audits. However, the Lottery had still not developed an internal control plan as required by Chapter 647 of the Acts of 1989. In addition, the Lottery had not prepared an organization-wide risk assessment in accordance with Office of the State Comptroller guidelines. The absence of these agency-wide internal control policies and assessments contributed to the persistence of certain problems and to new issues requiring management attention. The following is a summary of major findings and recommendations.

- The Massachusetts State Lottery Commission had effectively addressed a number of longstanding problems, which had created vulnerability within the entity to waste, favoritism, and lost revenue. Specifically, the Lottery has implemented more frequent collections from sales agents in order to reduce outstanding accounts receivable and improve revenue cash flow, has imposed late fees on agents seriously delinquent in their payments, and has increased new sales agent application fees to \$200. In addition, the Lottery has added language to its contracts and agreements with agents and vendors indicating that they are subject to audit by the OSA and, for the period reviewed, was in compliance with provisions of the state's Internal Control Statute that require agencies to immediately report to the OSA all losses and thefts of funds or property. Finally, the Lottery resolved an overbilling charged by Verizon and was reimbursed over \$1.5 million by the telecommunications company.
- Although the Lottery has introduced certain effective measures to prevent sales agents from scanning unsold instant game tickets in order to identify and collect on winning tickets, further improvements were needed to protect the integrity of these games. The Lottery is now investigating all instances in which a sales agent has scanned eight or more losing tickets in a single day, an indication that the agent may be looking for unsold winning tickets. This practice has significantly reduced the misuse of scanning. However, full resolution of the scanning problem has proven difficult. The OSA continued to recommend that the Lottery immediately suspend an agent's license when a second infraction is suspected and, based upon results of the investigation, revoke the license of second offenders. The OSA also recommended that agents and immediate family members be prohibited from purchasing tickets from their own stores.

- Although Lottery officials have taken some recommended steps to curtail tax evasion among Lottery winners, professional cashers continued to claim hundreds of thousands of dollars in Lottery prizes, allowing actual winners to avoid tax obligations. In calendar year 2004, for example, 88 individuals cashed 5,332 winning tickets totaling over \$10 million. While the Massachusetts tax code now requires tax withholding on all winnings of \$600 and above, the federal government requires withholding only on winnings of \$5,000 and over, allowing the professional cashers themselves to avoid paying taxes owed. The OSA recommended, as it had in prior audits, that to the extent allowable under law, the Lottery should consolidate claimant information and withhold taxes on an accumulating basis. Withholding at the point of claim would potentially generate additional tax revenues. It would also help to curb illegal activities, such as money laundering and the fraudulent receipt of public assistance benefits. Lottery officials responded that they provide a monthly report, which identifies individuals who have claimed twenty or more prizes totaling \$20,000 or more in a calendar year, to the Internal Revenue Service, the Massachusetts Department of Revenue, and the Office of the Attorney General. In their view, these agencies and not the Lottery are responsible for enforcement of tax payment compliance.
- The Lottery still needed to improve contract compliance procedures. The audit noted that payments to an advertising agency with a contract providing for a total maximum obligation of \$14.5 million were made without vendor invoices to support billings and, in certain instances, prior to the provision of services. As a result, the Lottery was vulnerable to undetected pricing and billing errors and lacked the documentation necessary to monitor contract compliance.
- Internal controls over the Lottery's Instant Replay Recycling Program, which allows individuals to receive an instant game ticket for every twenty non-winning tickets returned at selected community fairs and events, needed to be strengthened. The OSA and the Lottery's own compliance reviews indicated that large numbers of live instant game tickets were transported by individual employees; non-Lottery employees were involved in the counting and handling of cash and instant tickets; night cash deposits duties were inadequately secured and segregated; cash proceeds were not counted and reconciled every evening; and as much as \$5,000 in cash was sometimes kept overnight at an employee's home. Officials responded that a new set of written internal control procedures had been developed and implemented to respond to the operational issues they had experienced in running this program.
- From 1994 through 1998, the Lottery conducted, by itself and in cooperation with the Attorney General's Office, a series of undercover stings to identify those sales agents who conducted business with minors under the age of eighteen. During this time period, of 464 individual sales agent stings, 97 sales agents, or 21% of those tested, were not in compliance with the Sales to Minors prohibitions. However, there have been no such sting operations since 1998. The OSA recommended, and the Lottery agreed, that tests to determine whether sales agents are selling tickets to minors should be a permanent part of Lottery operations.

### ***Gillette Stadium Infrastructure Payments***

The OSA conducted a review of payments made to the Commonwealth by the New England Patriots football team and the towns of Foxborough, Walpole, Sharon, and Wrentham as part of an agreement under which the state provided \$70 million for infrastructure improvements. Under Chapter 16, Section 7, of the Acts of 1999, as amended by Chapter 72 of the Acts of 2000, the four towns and the Gillette Stadium lessee (the Patriots' owner) are responsible for assessing parking fees that generate \$1.15 million for deposit into the Commonwealth's General Fund. In addition, the stadium lessee is required to remit to the state an annual administrative fee of \$250,000. The audit, which covered the period from June 2000 through December 2006, determined that all payments had been made in compliance with the law. The Commonwealth, which as of December 2006, collected \$6,143,000, is expected to receive a total of \$35 million over the life the 25-year bond issue that is financing the infrastructure improvements.

### ***Voluntary Contributions: State Income Tax Check-offs***

The OSA conducted an audit of the voluntary contributions collected by the Department of Revenue (DOR) through state income tax returns on behalf of the Organ Transplant Fund, Natural Heritage and Endangered Species Fund, Massachusetts AIDS Fund, Massachusetts United States Olympic Fund, and Massachusetts Military Family Relief Fund. The audit found that during the audit period, which covered fiscal years 2001 through 2006, DOR collected \$3,905,399 in voluntary contributions. The OSA also determined that the revenues disbursed from the funds were spent for the purposes intended under state statutes. Results of this review, including a breakdown of contributions to each of the funds, are detailed below.

- The Organ Transplant Fund, which is administered by the Department of Public Health, assists eligible Massachusetts residents in paying costs associated with medically required organ transplants. The Fund received \$166,129 in fiscal year 2006 and \$1,060,863 from fiscal year 2001 through fiscal year 2006. In fiscal year 2006, \$154,513 was expended from this account, in large part for the reimbursement of health insurance payments and medications. Although expenditures were found to be proper, the audit noted that the Fund was still operating under internal guidelines, rather than under statutorily required official regulations, and that the Advisory Council on Organ Transplants was not conducting public meetings as required.
- The National Heritage and Endangered Species Fund, which supports nongame wildlife programs in the Commonwealth, is retained by the State Treasurer's Office and utilized by the Legislature to appropriate funds for two accounts managed by the Division of Fisheries and Wildlife. Voluntary tax contributions totaled \$228,404 in fiscal year 2006 and \$1,252,389 from fiscal year 2001 through fiscal year 2006, and make up approximately one-third of Fund revenues. The audit found appropriate controls over the Fund's voluntary contributions, as well as compliance with applicable laws and regulations.

- The Massachusetts AIDS Fund, which is administered by the Commissioner of Public Health, is earmarked solely for AIDS research, treatment, and education. The Fund received \$164,029 in fiscal year 2006 and \$1,028,035 from fiscal year 2001 through fiscal year 2006 from voluntary tax contributions. This represented about one third of Fund revenues. The audit determined that Aids Fund expenditures, which totaled \$165,000, were fully documented and complied with statutory provisions.
- The Massachusetts U.S. Olympic Fund, which assists residents of the Commonwealth in paying costs associated with Olympics participation, is administered by the Department of Revenue (DOR). The Fund received \$56,252 in fiscal year 2006 and \$382,260 from fiscal year 2001 through fiscal year 2006 from voluntary contributions. During fiscal year 2006, the fund transferred \$130,545 to the U.S. Olympic Committee. The prior audit had disclosed that the U.S. Olympic Committee was commingling revenues received from DOR with other funds for the general benefit of Olympic events. The current audit determined that DOR had entered into a special agreement with the U.S. Olympic Committee and that Fund revenues were now earmarked to benefit Massachusetts athletes, as required under state statute.
- The Massachusetts Military Family Relief Fund was established in 2005 to help defray the costs of food, housing, and other expenses for the families of Massachusetts National Guard members and reservists who are called to active duty. The Fund, which is administered by the Friends of the National Guard and Reserve Families, received \$181,852 in voluntary contributions in fiscal year 2006, of which \$34,098 was expended. Although the audit determined that expenditures were proper, it also noted that the Fund had not yet developed statutorily required regulations or written policies and procedures pertaining to internal controls and daily operations.

### ***Massachusetts Teachers' Retirement Board***

The OSA conducted an audit of the Massachusetts Teachers' Retirement Board in order to evaluate the adequacy of its internal controls over administrative costs, as well as controls and procedures for ensuring that retirement benefits are accurately calculated and paid only to eligible recipients. In reviewing prior audit issues, the review found that the Teachers' Retirement Board had developed and implemented an internal control plan, was properly documenting expenditures, had improved its travel policies and procedures, and was properly restricting and monitoring the use of corporate credit cards. However, as detailed below, some prior audit findings were not adequately addressed, and certain new issues were identified.

- The Massachusetts Teachers' Retirement Board was cited in a previous audit for deficiencies in the receipt of goods and services. The current review found that the Retirement Board still needed to improve controls in this area. The OSA recommended the designation of an employee not otherwise assigned to procurement and payment duties to assure that goods and services are received and in accordance with procurement terms prior to payment. The prior audit also noted that inventory records were incomplete, a persistent issue that the Retirement Board was planning to address, beginning with the conduct of a comprehensive physical inventory of all property, including equipment, software, and furniture.

## *Other Audits*

- The Massachusetts Teachers' Retirement Board did not properly record and account for approximately \$241,000 in accounts payable and \$427,000 in accounts receivable resulting from unresolved pension payment obligations. Furthermore, these balances were also not included on its required annual financial statements. As a result, the Commonwealth was not informed regarding these additional assets and liabilities, and both the recovery of outstanding receivable funds and the remittance to the State Treasurer of accounts payable balances over three years old were delayed.
- The Massachusetts Teachers' Retirement Board incurred delays in upgrading its computer capabilities and unnecessarily spent a substantial amount of money in an unsuccessful attempt to develop an enhanced automated system. In August 2002, the Retirement Board awarded a contract for \$3,391,281 to a computer systems design company for the development of a proprietary computer system intended to protect mission-critical data, perform financial and reporting functions, and address a workload increase resulting from a marked rise in the number of eligible retirees. The Retirement Board also hired a consultant project manager at a cost of \$311,000. However, the Retirement Board did not properly oversee the activities of the project manager, who did not adequately monitor and test the work of the computer design company. As a result, one third of the contract cost had been paid before the project manager advised the Retirement Board to suspend further work and payments pending a review of contract performance to date. The assessment revealed that 80% of the computer code produced under the contract was defective and unusable. The Retirement Board subsequently reached a contract termination and settlement agreement with the systems design company, which included a repayment by the company of \$550,000.

## INITIATIVES

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The following is an update of planned and ongoing initiatives relative to various state agencies and programs.

### ***Single Audit of the Commonwealth***

During fiscal year 2008, the OSA will once again partner with a private auditing firm in performing the Single Audit of the Commonwealth, a comprehensive annual audit of the Commonwealth as a whole that encompasses the accounts and activities of all state agencies. This audit satisfies the federal and state requirements to audit the Commonwealth of Massachusetts' financial operations consisting of its accounts, programs, activities, funds, and functions, as well as specified compliance issues.

As a partner in the "Single Audit," the OSA will also provide staff resources for the audit of federal programs to determine whether the state is in compliance with applicable federal laws, rules, and regulations. The OSA will also conduct audit procedures that are needed to render an opinion on the Commonwealth's Comprehensive Annual Financial Report.

In addition to three reports relative to agency compliance with year-end closing instructions and a report determining the relationship of net state tax revenues to allowable tax revenues, the OSA will issue audits of:

- Federal student assistance programs at selected colleges, including Bridgewater State College, Holyoke Community College, Massachusetts College of Liberal Arts, North Shore Community College, Northern Essex Community College, Quinsigamond Community College, and Springfield Technical Community College;
- Federal grant programs at the Department of Housing and Community Development;
- Federal grant programs at the Department of Early Education and Care;
- Federal grant programs at the Department of Social Services; and
- Federal grant programs at the Massachusetts Rehabilitation Commission.

### ***Hurricane Katrina Reserve Account***

The OSA is conducting a performance audit of a reserve account created within the Executive Office for Administration and Finance to fund and reimburse agencies responsible for assisting Hurricane Katrina evacuees in Massachusetts. The audit will review financial controls over the reserve account, including documentation on file to support receipts and disbursements. The audit will also determine the current status of the account, including any outstanding encumbrances.

## AUDIT SUMMARIES

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### *Information Technology Audit*

During fiscal year 2007, the OSA's Information Technology (IT) Audit Division issued 24 audit reports detailing strengths and weaknesses of internal controls within IT-related areas.

The primary duty of the IT Audit Division is to examine how well information technology is being controlled within state organizations and to make recommendations for control enhancements that reduce the risks to which computer-based information systems and facilities are exposed. The IT Audit Division conducts general and application control examinations that provide independent, objective appraisals of the adequacy of internal controls over and within information systems and IT processing environments. One of the goals of IT auditing is to assist agencies in achieving and maintaining a technology environment that adequately safeguards assets, maintains data and system integrity, achieves organizational goals, and effectively and efficiently uses resources to achieve desired value. Information technology auditing also includes providing technical support to financial and performance auditors in evaluating IT-related or information systems-related controls and retrieving selected information from automated systems.

Audit objectives for information systems include determining whether adequate controls are in place to provide reasonable assurance that control objectives will be met regarding security, integrity, and availability of automated systems. The IT Audit Division may also examine operational and financial-related controls that are generally evaluated in integrated IT audits. Audit work during this report period has continued to be focused on evaluating general controls, including security over and within the IT processing environment and, increasingly, assessing the extent to which entities address IT governance objectives. During this report period, audit results disclosed issues that warrant management attention in a number of areas, including disaster recovery and business continuity planning, inventory control, environmental protection, physical security, and system access security. The following section highlights findings from this report period.

## **Land Court Department**

The OSA's IT Audit Division completed an audit of the Land Court Department, one of seven departments that comprise the Trial Court of the Commonwealth. The Land Court, which adjudicates property disputes, had an annual budget for fiscal year 2006 of \$2,386,331 and retained revenue of \$163,148. The OSA reviewed the operation of MassCourts, a new information technology system installed by the Trial Court within the Land Court Department, as well as certain IT-related internal controls. The audit found that the MassCourts application supports the mission of the Land Court by providing a comprehensive approach to case management information and that the system data tested was complete and accurate. However, certain issues related to user satisfaction, timely case processing, and IT-related controls were identified, as summarized below.

- Certain aspects of the MassCourts application were inefficient and slowed down the data entry process. Specifically, the inputting and updating of case files required navigation through a large number of online screens to locate necessary information. In addition, the MassCourt system does not batch print, so staff must wait for the data requested on one case file to be printed out before another case may be entered for printing. Virtually all staff interviewed had experienced these weaknesses.
- The Land Court had a backlog of 66,289 pending cases within the MassCourts application. Some of these cases, although designated as open, were actually closed and needed to be reclassified as such within the system. The Land Court was aware of this issue and was in the process of determining the status of each case. The application weaknesses discussed above also needed to be addressed in order to increase the timeliness of case processing. Beyond these two issues, however, the OSA noted that the number of cases filed grew from approximately 13,000 in fiscal year 2005 to about 17,800 in fiscal year 2006, in part due to the rise in foreclosure filings. As a result of the increase in current case filings, the Land Court may not have the resources to address its backlog even with improvements to the MassCourts application.
- Regarding the examination of other IT-related activities, the audit found that adequate controls were in place to provide reasonable assurance that information technology-related control objectives would be met with respect to IT organization and management, physical security, environmental protection, system access security, and inventory control for computer equipment. However, the Land Court did not have a comprehensive, tested disaster recovery strategy for restoring processing functions in the event that its automated systems were rendered inoperable or inaccessible. In addition, not all fiscal responsibilities were adequately segregated in that the same person who verified cash receipt postings to the MassCourts system also reconciled the posted information to bank statements.

## **Additional Findings Categorized by Issues**

The following are examples of findings from selected IT audits.

### **Disaster Recovery and Business Continuity Planning**

The overall objective of disaster recovery and business continuity planning is to provide reasonable assurance that mission-critical or essential computer operations can be restored within acceptable periods of time in the event of significant disruptions or loss of processing capabilities. Other contingency planning objectives are to ensure employee safety; to safeguard data, software, and critical documentation; to minimize security exposures and system damage; and to reduce the time and cost required to recover from system disruptions or failure.

- ***The Division of Insurance*** was cited in a previous audit for deficiencies in its business continuity plan. The current audit found that although data backup and storage weaknesses had been satisfactorily addressed, the Division still lacked a detailed plan for the restoration of computer functions in the event of a substantial loss of IT operations. Without adequate, tested recovery strategies, administrative and licensing activities could be seriously disrupted should automated systems be lost for an extended time.
- ***Malden Housing Authority*** had not developed a formal, comprehensive disaster recovery and business continuity plan for restoring processing functions in the event that automated systems were rendered inoperable or inaccessible. Without sufficient recovery plans, Authority activities, such as processing tenant applications and accounting for rental payments, would be adversely affected by a significant disruption of its automated capabilities. The OSA recommended that the Authority perform a risk analysis and criticality assessment and then develop, test, and implement a business continuity plan, including identification of an alternate processing site.
- ***Massasoit Community College*** did not have a formal, tested business continuity plan to help ensure timely recovery of essential operations should a disaster render automated systems inoperable or inaccessible. As a result, the College's academic and administrative activities, including admissions, registration, and financial aid, would be seriously disrupted should automated systems be lost for an extended time. The OSA recommended that the College conduct a risk assessment and then develop a business continuity plan that addresses various disaster scenarios and identifies cooperative activities necessary to assist in recovery efforts.
- ***The Department of Mental Retardation (DMR) Southeast Region's*** business continuity plan was not sufficiently comprehensive to address its processing needs should a disaster cause significant disruption to computer or business operations. The OSA recommended that the Southeast Region, in conjunction with DMR, conduct a comprehensive criticality assessment and then document and test a formal recovery plan. Without a detailed disaster recovery strategy, including an alternate processing site, user area plans, and the capacity to address various disaster and recovery scenarios, the Southeast Region risked being unable to provide essential client services should automated systems be inoperable or inaccessible for an extended period.

## ***Inventory Controls: IT-Related Assets***

All state entities are required to maintain complete inventories of IT resources, such as computer equipment and software, to ensure that these fixed assets are properly accounted for, safeguarded, and only used for authorized and intended purposes. The absence of complete and accurate records of computer equipment and software also hinders the ability of state entities to address IT infrastructure management objectives. As part of an ongoing review of controls over computer equipment at state colleges, the OSA completed four audits, with significant results summarized below.

- ***Bristol Community College*** did not have sufficient controls in place to ensure that information regarding missing fixed assets would be reported to the OSA as required under Chapter 647 of the Acts of 1989, the state's Internal Control Statute. The audit found that the College had not reported the thefts of seven notebook computers, one flat screen monitor, and one video projector, valued at \$14,282. As a result, the required immediate investigation by the OSA of the control environment did not take place; law enforcement review and recovery of the equipment may have been impeded; and steps to prevent the recurrence of computer thefts may have been delayed. The College also needed to complete its annual physical inventory and reconciliation to assist in verifying the accuracy and completeness of the inventory record.
- ***Massachusetts Bay Community College*** had substantial deficiencies in its inventory control practices relative to IT resources. The College had not performed an annual physical inventory in at least four years and was not maintaining a complete and accurate record of IT-related assets. Twenty-five of 85 pieces of computer equipment selected for testing were not at the locations indicated on the inventory record and could not be found by the College. In addition, adequate controls were not in place to prevent or detect data entry errors or omissions in the inventory system of record. Audit tests performed on 99 computer hardware purchases found that 90 of these items were not included in the College's system of record. As a result of data input errors, failure to record asset costs and acquisition dates, and lack of a complete inventory listing, the College could not ensure that its computer assets were properly accounted for and adequately protected against possible loss, theft, and misuse. The audit further noted that the College did not report to the OSA the theft of eighteen notebook computers valued at \$24,750 as required under Chapter 647 of the Acts of 1989.
- ***Massasoit Community College*** did not report to the OSA the thefts of two laptop computers, apparently because administrators were unaware of Chapter 647 reporting requirements involving missing or stolen equipment. Subsequent to audit fieldwork, the College developed written procedures to ensure prompt notification to the OSA of any future instances of unaccounted for variances, losses, or thefts of funds or property.

- ***Quinsigamond Community College*** could not provide documentation that an annual physical inventory had been performed and was not maintaining a current, accurate, and complete inventory record of computer equipment. Audit tests performed on 492 computer hardware items revealed that 126 items, valued at \$123,007, were not recorded on inventory records. Further audit tests found that 33, or 16%, of 212 items selected from the system of record were not at the locations indicated, including five items that could not be found. In addition, the College did not submit proper documentation to the Operational Services Division regarding surplus equipment, and, in ten of 30 instances, items that had been disposed of were still on the inventory listing, thereby overstating inventory valuations. Finally, the College did not comply with provisions of Chapter 647 of the Acts of 1989 by failing to properly secure computer assets and, subsequently, not reporting to the OSA thefts of four video projectors, four monitors, and one file server. The fact that the College had placed computer equipment in unlocked classrooms throughout the campus was the primary contributory factor leading to the thefts. As a result of the deficiencies noted above, the College was not properly safeguarding its computer assets or accurately reporting their value on financial statements.

### ***Environmental Protection Controls and Physical Security***

Proper environmental protection and physical security for data centers and on-site or off-site media storage rooms serve to minimize significant risks regarding staff safety and damage to, or destruction of, the physical plant, equipment, data, and software. In addition, adequate physical security helps to enhance staff safety and prevent damage to automated systems by minimizing the risk of unauthorized persons breaching security and gaining entry to areas housing computer-related equipment and information.

- ***The South Boston Division of the Boston Municipal Court*** needed to improve both environmental protection and security controls. Specifically, electronic switching equipment was located adjacent to a hot air radiator and water pipes in an area that also contained office supplies and water bottles. In addition, telecommunications equipment was at risk of being damaged due to its placement in an office rather than in a dedicated telecommunication closet. With respect to physical security, there were no surveillance cameras to monitor activities in areas adjacent to the courthouse, in spite of a record of prior incidents that corroborated the need for this security enhancement. The audit also found that Court management did not maintain a list of key holders and could not account for every key distributed. As a result, the Court was unable to provide adequate assurance that only authorized employees had access to courthouse offices. In response to the audit, Court officials acted promptly to compile a master key list. Officials also noted that their request for outside surveillance cameras had been denied due to budgetary constraints and that they were working with the Administrative Office of the Trial Court to improve the housing of all telecommunications equipment.

- ***The Department of Fish and Game within the Executive Office of Environmental Affairs*** needed to strengthen both environmental protection controls and physical security at its data center. Although the data center did have air conditioning, a sprinkler system, fire detection devices, and emergency lighting, it lacked water detection devices. Furthermore, file servers, which were inappropriately located directly below a sprinkler, were at substantial risk of water damage. Regarding physical security, the door to the data center, which did appear to be kept locked when not in use, opened into a corridor accessible to the public, and logs were not maintained of visitors entering the facility with a cardholder. Moreover, the data center did not have a motion detector or an intrusion alarm to signal unauthorized access. Finally, the data center's two street-level windows were not alarmed or barred. As a result of these weaknesses, the Department could not be assured that its computer assets were adequately protected from unauthorized use, damage, or theft.
- ***The Office of Refugees and Immigrants*** had been cited in a previous audit for having unacceptably high temperatures in its file server room and for leaving the door to this room open in an effort to lower temperatures for the file servers. The current audit found that no progress had been made in addressing these issues. Furthermore, the server room door was left open during normal business hours not only to increase air circulation and reduce temperatures, but also because a photocopier had been moved into the room. As a result of combining file server and copying functions, the Office had actually decreased physical security since the prior audit. Agency management stated in response that the Office intended to relocate within its building, where it will have a Network Operations Center that complies with the State Auditor's recommendations.
- ***The Wrentham Development Center's*** building designated to store confidential personal and medical records of former clients did not contain automatic fire suppression equipment. As a result, these important records were at risk of being damaged or destroyed in case of fire. The audit also found that although designated personnel were providing adequate security throughout the facility, controls over keys to resident units needed to be strengthened. At the time of the audit, each direct care employee was given a key for all patient units for safety reasons in cases of emergency. However, management did not maintain a list of individuals who had been given keys or collect all keys when employment was terminated. As a result, there was inadequate assurance that only authorized employees could gain access to resident units. Center management agreed with this finding and moved quickly to initiate corrective action.

## **System Access Security**

Industry guidelines and baseline controls advocate that appropriate access security controls be in place for automated systems, especially mission-critical or high-risk applications, to ensure that only authorized personnel obtain system access. Access to automated systems should be granted on a need to know, perform, and protect basis. Written policies and procedures for access security administration should be in place to provide operational rules and guidelines for the security of information and data and to ensure that appropriate and prompt actions are taken to review unauthorized access attempts. Without system access restrictions, such as the periodic changing or deactivation of user IDs and passwords for individuals no longer requiring or

authorized to have access, unauthorized access could be gained, resulting in the risk of system data and programs being disclosed, damaged, deleted, or modified.

- ***The Department of Housing and Community Development (DHCD)*** was not requiring users to change their passwords on a regular basis. Although the Department had generally strong access security policies, particularly in the important area of deactivating user accounts for individuals no longer authorized to access DHCD's automated systems, its users had not changed passwords in over a year. The OSA recommended that DHCD add to its written policies password administration procedures that address length and composition of passwords, frequency of password changes, and steps to take in the event of unauthorized access. When informed of this finding, DHCD took prompt corrective action by reinstating policies and procedures for password administration that had been suspended at a time when system changes and new security policies were under consideration.
- ***Lynn Housing Authority*** needed to strengthen control procedures to ensure that only authorized users have access to its automated systems. Specifically, the Authority did not have written policies or procedures requiring users to regularly change their passwords. Instead, passwords were distributed annually by an administrator, who maintained a copy of the distributed passwords. In addition, Authority administrators were not formally notifying IT staff of changes in employee status. As a result, eighteen former employees still had system access privileges. While the audit was in progress, the Authority disabled the user accounts identified as no longer valid. Authority officials also indicated that further security access enhancements would be made in order to reduce the risk of unauthorized access.
- ***Quinsigamond Community College*** needed to strengthen control procedures in order to ensure that only authorized users have access to its mission-critical primary application system, Janzabar. The audit identified active user IDs for this system for 58 individuals who were no longer associated with the College, some for over 36 months. Moreover, the College had no written policies and procedures for notifying its IT department when access privileges should be deactivated or to ensure monitoring of the deactivation process. As a result, critical information on the College's Janzabar application, as well as its wide area network, may have been vulnerable to unauthorized access, modifications, or deletions.
- ***Wrentham Development Center*** needed to strengthen certain access security controls to ensure that user IDs and passwords would be active for only authorized personnel and to ensure timely action in closing user accounts. The audit found that 26 out of 409 users of the Center's mission-critical application system, the Home and Community Services Information System, were not listed on the current payroll. One of the individuals with active user privileges had not been employed at the Center for the previous two years. In order to protect important and confidential information from unauthorized access or modification, timely notification must be made to the relevant IT administrator of any changes in job status that would impact an individual's level of authorization. Policies and procedures should also be monitored to assure that access privileges are then appropriately deactivated.

## INITIATIVES

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The following is an update of ongoing initiatives in the area of information technology.

### ***Data Integrity***

The Office of the State Auditor has implemented an initiative to review and evaluate data integrity for mission-critical application systems at selected state agencies. A major objective is to assess the extent to which data stored in application systems is sufficiently complete, accurate, and valid. The audit initiative, which will result in a series of reports and management letters, will also analyze state agencies' data on a proactive basis to help identify differences between information in these systems and supporting source documentation, as well as unusual trends and potential problems for maintaining the systems.

### ***IT Control Assessment***

The OSA is developing an internal control assessment methodology for examining and evaluating IT-related internal controls at small to medium-sized entities. This initiative, which will focus on ways in which generally accepted control practices can be introduced and used by small entities with limited IT staff, will result in a series of reports and management letters. The effort is also focused on assisting entities in assessing their IT general controls.

### ***Business Continuity Planning***

The OSA has begun an audit of two major areas of business continuity planning: state agencies' required Continuity of Operations (COOP) plans and alternate processing sites. The audit will include a review of the extent to which COOP plans have been developed by state entities and an assessment of whether the development of COOP plans has helped agencies develop more comprehensive recovery and business continuity plans. The audit will also assess the availability of alternate processing sites across the Commonwealth to support disaster recovery and business continuity strategies. Relative to this issue, initial audit work included a review of plans for an alternate processing site for the Commonwealth's primary data center. The OSA will review the process for determining the need for this back-up site and identifying a location that best supports the Commonwealth's requirements for alternate processing.

## **BUREAU OF SPECIAL INVESTIGATIONS**

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The OSA's Bureau of Special Investigations (BSI) is charged with investigating potentially fraudulent claims for or wrongful receipt of payment or services under public assistance programs. The division receives complaints and allegations of fraud from various state agencies, as well as from the State Police, the general public, and recipients. These referrals principally involve suspected fraud in Medicaid and in the Department of Transitional Assistance cash assistance and Food Stamp programs. The costs of these programs are enormous, and the services provided under them are essential to the Commonwealth's most vulnerable citizens. Therefore, BSI's role in combating fraud and recovering funds contributes significantly to the ongoing OSA mission and efforts to safeguard the state's financial assets, ensure that state expenditures are legal and used for the purposes intended, and maximize funds available for important state services.

To accomplish its mission, BSI works closely with other agencies at the federal, state, and local levels. BSI staff participate in joint investigations and serve on task forces focused on preventing and combating illegal activities. Agencies with which BSI interacts include the Federal Bureau of Investigation, the Food and Drug Administration, the federal Health and Human Services' Office of the Inspector General, the U.S. Attorney's Office, the state Attorney General's Medicaid Fraud Control Unit, the State Police, District Attorneys' Offices, local police, and administering agencies.

Of special interest, during fiscal year 2007, BSI fully implemented its new case tracking application and database, which puts an electronic investigative management tool in the hands of fraud examiners and other staff. This application, which electronically collects investigative data, performs analytical tasks, and helps to prioritize casework, has significantly expedited fraud investigations, accelerated referrals for recoveries, and provided information to enhance prevention activities. The OSA is also working closely with a variety of state agencies to maximize the application's benefit to other public entities.

## **Highlights of BSI activities and accomplishments**

- During fiscal year 2007, BSI identified fraudulently obtained cash assistance, Food Stamps, and Medicaid benefits totaling over \$2.7 million. These completed cases were referred to the appropriate agency for prosecution or civil recovery. As of June 30, 2007, BSI had more than 50 cases of identified fraud pending in various courts throughout the Commonwealth. Additionally, in the past year, ten cases resulting from BSI investigations were successfully prosecuted in federal, state, or county courts. These convictions resulted in court-ordered repayments totaling over \$152,914.
- BSI, during this period, completed 1,286 investigations into allegations of public assistance fraud. Over 30% of these cases involved recipients who applied for benefits based on income deprivation from an absent parent when, in fact, this parent was living with the family and was employed. In one such case BSI examiners found that an individual employed by the MBTA and residing with his family earned in excess of \$87,000 while illegally receiving over \$37,000 in public assistance. In some cases, investigations into allegations of public assistance fraud also uncover simultaneously occurring housing, healthcare, and Food Stamp fraud. In a recently completed case, BSI found that a family had received over \$47,000 in cash, medical assistance, and housing benefits by falsely representing their income. Other cases involved unreported income or assets, various eligibility violations, and, as described below, illegal activities such as drug diversions and Food Stamp trafficking.
- BSI is continuing its investigations of drug diversion cases, which involve the use of Medicaid benefits for drug-related criminal activities. Most of these investigations disclose MassHealth recipients or providers who fraudulently obtain certain prescription drugs, which are then either abused or sold on the street at a substantial profit. In some of these cases, recipients conspire with physicians and pharmacists to obtain these drugs, requiring investigation and criminal prosecution of both recipients and providers. In one drug diversion case, BSI's joint work with the federal Food and Drug Administration, the Hudson Police Department, and the U.S. Attorney's Office resulted in the conviction of an individual on charges of Medicaid fraud totaling \$70,000, conspiracy, and identity theft. This individual, who used forged prescriptions to obtain pain medications, was sentenced to 81 months imprisonment, ordered to make partial restitution, and required to undergo drug recovery and other counseling. His wife, who had earlier pled guilty to an accessory role in illegally obtaining controlled substances, was sentenced to five years probation. In another significant case, BSI worked with five federal departments, including the U.S. Attorney's Office, to uncover the illegal resale of prescription drugs by the owner and chief pharmacist of a drug store in Springfield. The pharmacist had instructed his employees to remove returned and sample drugs from their original packaging and use them for filling new prescriptions. In this process both the lot numbers and expiration dates were lost, creating a public health risk. In addition, both Medicaid and private health insurers were fraudulently billed for illegally dispensed drugs. Prior to court action, the pharmacist pled guilty to mail fraud, healthcare fraud, sale of drug samples, and sale of misbranded drugs. The charges in this case carry up to twenty years' imprisonment and a \$250,000 fine.

- The majority of BSI Food Stamp fraud referrals involve eligibility issues, such as unreported assets and income, and false identities. In addition, BSI investigates allegations of Food Stamp trafficking in which a recipient and a retailer conspire to convert Food Stamps into currency. Typically, the retailer pays the recipient substantially less than the value of the Food Stamp benefit in cash. This criminal activity not only defrauds the Food Stamp program, but also deprives needy children of food and increases their vulnerability to malnutrition and illness. BSI is currently investigating several cases involving Food Stamp trafficking.
- BSI has experienced a significant increase in Personal Care Attendant (PCA) fraud referrals, cases in which falsified records enabled certain caregivers to receive payment for services that were not provided. As a result, BSI and the Attorney General's Office have joined in an initiative to investigate major PCA fraud cases. In addition, BSI has initiated a program with the Disabled Persons Protection Commission (DPPC) to improve fraud examiners' understanding of the potentially abusive situations that they may encounter during field investigation work. An informative session run by DPPC, which focused on the identification and reporting of suspected cases of abuse, was followed by cross-training for DPPC staff regarding BSI's mission and willingness to work cooperatively on investigative matters. Of the cases investigated this year, the two most serious involved both benefits fraud and abuse and neglect. In one of the cases, a PCA was charged with abusing her client, a 49 year-old paraplegic woman, and stealing \$20,700 from the woman and the MassHealth Program. The PCA subsequently plead guilty to wanton neglect of a disabled person and submitting false timesheets in order to fraudulently obtain Medicaid reimbursement. She was sentenced to two years in a state house of correction. The second case involved a surrogate for a disabled person, who created fictitious PCAs, then billed the state for \$21,000 in services that were never rendered. In addition to uncovering the scheme, BSI investigators reported the case to DPPC and helped in the restoration of services. BSI also has a number of cases of identified fraud within the court system and is working with the Attorney General's Office to investigate over \$750,000 in additional suspected PCA fraud.
- BSI continues to investigate allegations of fraud in publicly funded childcare programs throughout the Commonwealth. Among completed cases involving large sums of money, court action has begun on a combined childcare and medical assistance fraud case involving \$123,000. In this case, co-subjects with unreported assets, including a business and substantial bank accounts, fraudulently obtained childcare vouchers totaling \$82,664 and MassHealth Medicaid benefits totaling \$40,558. Full restitution of funds is being sought.

## **DIVISION OF LOCAL MANDATES**

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To ease some of the impact of property tax limits, Proposition 2 1/2 included provisions establishing the Local Mandate Law and the Division of Local Mandates (DLM) within the State Auditor's Office. With limited financial resources, cities and towns would find it increasingly difficult to support unfunded state mandates. Accordingly, the Local Mandate Law sets the general standard that post-1980 state laws and regulations that impose new costs on cities, towns, regional school districts or educational collaboratives must either be fully funded by the Commonwealth, or subject to voluntary local acceptance. (See Chapter 29, Section 27C, of the General Laws.) DLM is responsible for determining the local financial impact of proposed or existing state mandates. Any community aggrieved by a law or regulation that is contrary to the standards of the Local Mandate Law may request an exemption from compliance in Superior Court, and submit DLM's fiscal impact determination as prima facie evidence of the amount of state funding necessary to sustain the mandate.

DLM maintains a Legislative Review Program to analyze pending legislation on mandate-related issues. To ensure that the General Court considers the local cost impact of legislation, DLM reviews significant bills, prepares preliminary cost studies where applicable, and contacts members of the Legislature to make them aware of the Auditor's concerns. In addition, DLM responds to requests for opinions and cost impact determinations from individual legislators, legislative committees, municipalities, state agencies, and governmental associations.

Chapter 126 of the Acts of 1984 expanded the Division's mission by authorizing DLM to examine any state law or regulation that has a significant local cost impact, regardless of whether it satisfies the more technical standards for a mandate determination. This statute is codified as Chapter 11, Section 6B, of the General Laws. Chapter 126 reviews include cost-benefit analyses and recommendations to the General Court.

Through these functions, DLM contributes to the development of state policy that is more sensitive to local revenue limits, so that cities and towns can maintain more autonomy in setting municipal budget priorities.

The following section highlights examples of this work during the reporting period.

## **MANDATE DETERMINATIONS**

### ***Chapter 125 of the Acts of 2005: Death Benefits for Survivors of Certain Volunteer Public Safety Personnel***

DLM issued an opinion in response to a petition from the Town of Hudson relative to the Local Mandate Law and Chapter 125 of the Acts of 2005. Relevant to concerns raised by the Town, this law requires cities, towns, and districts that use “volunteer emergency service providers” to provide for the payment of death benefits to surviving spouses or minor children of such volunteers who die in the line of duty.

DLM observed that Chapter 125 mandate issues might arise under either the Local Mandate Law or Article 115 of the Amendments to the Massachusetts Constitution. Both of these provisions limit the circumstances under which the state may impose new costs upon cities and towns. However, when enacting Chapter 125, the Legislature followed procedures to override both the Local Mandate Law and Article 115. Accordingly, DLM concluded that neither of these standards applies in this case.

Specifically, the standards of the Local Mandate Law apply generally to laws governing most fields of local government activity, but not to law regulating municipal labor relations. Nonetheless, in apparent recognition of the possibility that the Local Mandate Law may apply to Chapter 125, the Legislature included language to provide that those obligations would be imposed upon cities and towns “notwithstanding section 27C of chapter 29 of the General Laws.” If there were any question, this text clearly overrides the Local Mandate Law in this case. The Supreme Judicial Court has recognized this procedure as a legitimate exercise of legislative prerogative, ruling that the Legislature is free to supersede or override the Local Mandate Law with respect to any particular enactment.

By its specific terms, Article 115 allows that the state may impose costs in the field of municipal employment law, but only by two-thirds vote of the Legislature. Both the House and Senate enacted House No. 4369, the bill that became Chapter 125, by unanimous roll call votes. These actions negate any state funding questions that might arise under Article 115.

DLM summarized these findings by explaining that since the Local Mandate Law is not a constitutional amendment, the Legislature is free to suspend its operation, as with any other law. Even though Article 115 is a constitutional limit on legislative authority, it provides a procedure to override that limit, and that procedure was utilized in the passage of Chapter 125.

### ***No Child Left Behind, Supplemental Education Services***

In response to a request filed on behalf of the South Hadley Public Schools, DLM reviewed provisions of Title 1 of the federal No Child Left Behind Act that require Supplemental Education Services. In relevant part, these provisions require certain underperforming schools that receive federal Title 1 financial assistance to offer supplemental services, including tutoring and other student enrichment programs. These services must be offered outside of the regular school day and be provided by vendors approved by the state Department of Education (DOE).

Affected districts must earmark portions of their Title 1 budgets to pay service vendors, which may include public school districts that meet state standards, but most often are private sector entities. Although the petitioner raised a number of important concerns about compliance with this program, DLM concluded that the Local Mandate Law does not apply in this case, primarily due to the federal origin of the requirements.

The state Supreme Judicial Court has recognized that the Local Mandate Law does not apply to “mandated costs or services that were not initiated by the Legislature and over which it has no control.” In the case at hand, since it was the Congress of the United States that enacted the No Child Left Behind Act, and the U. S. Department of Education that oversees its implementation, the Commonwealth is not obligated to assume the cost of compliance with its provisions.

Nonetheless, DLM noted that the petitioner was not alone in expressing concerns about this program. At the request of Senator Kennedy and other Congressmen, the U. S. Government Accountability Office (GAO) has issued a report detailing recommendations to improve implementation and evaluation of the Supplemental Education Services program. Of particular relevance to this case, recommendations include expanding the current pilot program to allow districts in need of improvement to apply for provider status, and requiring that states collect data and provide more effective technical assistance and guidance. The GAO also recommended clarification of the role of the states in setting guidelines for program content and costs. Finally, the Massachusetts DOE reported that it was in the process of hiring an external evaluator to assess the effectiveness of the providers approved to deliver these services in our state. Noting the activity surrounding the Supplemental Education Services provisions of the No Child Left Behind Act, the Auditor directed DLM to monitor ongoing developments in this program.

### ***Department of Public Safety Elevator Regulations***

Responding to a request by the Town of West Springfield, DLM issued an opinion relative to an amendment to state regulations governing elevator safety, 524 Code of Massachusetts Regulations (CMR) 17.16 (24). According to the petitioner, a 2003 amendment to these regulations mandates over \$30,000 in new spending for deconstruction and reinstallation of required elevator safety equipment in one town office building. After a review of the facts and relevant law in this case, DLM concluded that 524 CMR 17.16 (24) does not impose “mandates” within the meaning of the Local Mandate Law. This is primarily because the regulations impose elevator safety obligations that are generally applicable to both the public and private sectors; they are not directed particularly at cities and towns.

Although the Local Mandate Law was adopted to protect municipalities from state imposed costs, the courts have ruled that Local Mandate Law protections do not apply to generally applicable state laws or regulations. In this case, the regulation imposes testing and inspection responsibilities on owners of all buildings with elevators to ensure that equipment is maintained in a safe operating condition. The inspection and safety provisions apply to all buildings, whether privately or publicly owned.

### ***House No. 5018: An Act to Reduce Asthma by Requiring Use of Safer Alternatives to Cleaning Products***

In response to a request from Senator Richard T. Moore, DLM reviewed legislation filed in the 2005-2006 legislative session that would require the Commissioner of the Department of Public Health to establish a “Safer Cleaning Products List” and would prohibit the use of excluded products in day care centers, schools, and public buildings. Under the proposal, state guidelines for safe use and disposal of such products, including training requirements, would be issued. Specifically, the petitioner asked whether these requirements would constitute unfunded local mandates.

DLM prefaced its conclusions by noting that since compliance costs would depend, in large part, on the content of Department guidelines, it was not possible to determine the precise financial impact of the legislation prior to their issuance. Furthermore, DLM noted that under the Local Mandate Law, the Commonwealth does not have to assume the cost of mandates that impose only “incidental local administration expenses.” Relevant to this point, it would not necessarily be more expensive to purchase “safer products” than the standard varieties that may be presently in use. According to a University of Massachusetts study, safer products tend to be water-based, thereby less costly to manufacture, handle, and dispose of than the traditional petroleum-based options. Additionally, it was expected that items on the Safer Products Cleaning List would be added to the state Operational Services Division’s existing list of Environmentally Preferable Products. Though not required, cities, towns, and school districts are eligible to use statewide contracts for these products, thereby avoiding the bidding process and benefiting from the bulk purchasing discounts often available to the Commonwealth.

As for the potential cost impact of training, the bill would allow training to be provided by either the manufacturers of the products or the employers. Additionally, it would provide for training by the Department of Public Health for a fee in the event that training requirements were violated. Again, until the precise training guidelines called for in the legislation are developed, the cost of conducting such programs cannot not be determined.

House No. 5018 was not enacted into law during the 2005-2006 legislative session. However, if similar legislation should become law at a future time, the Department of Public Health could develop guidelines intended to minimize local compliance costs. In this case, it is unlikely that the legislation would impose more than incidental administrative costs.

### ***Senior Property Tax Work-Off Programs and Minimum Wage Law***

DLM replied to an inquiry from the Director of the Attleboro Senior Center concerning senior property tax work-off programs and the increase in the state minimum wage that took effect on January 1, 2007 as a result of enactment of Chapter 271 of the Acts of 2006. Chapter 271 raised the minimum wage for most employees from \$6.75 per hour to \$7.50 per hour. On January 1, 2008, the rate is scheduled to increase further to \$8.00 per hour. Specifically, the petitioner asked whether cities and towns must pay this increased rate to elders who work in their property tax work-off programs.

A local option law allows cities and towns to reduce the property tax liability of qualified seniors who do volunteer work in the community. The law states that “no person shall receive a rate of, or be credited with, more than the current minimum wage of the commonwealth per hour for services provided...nor shall the reduction of the real property tax bill exceed \$750 in a given tax year.” A state Department of Revenue Informational Guideline Release (No. 02-210) clarifies that this text does not require a participating community to credit its senior volunteers precisely at the rate of the state minimum wage. Rather, the law allows that a credit against property taxes otherwise due may be granted in any amount the community decides to allow, but not in an amount greater than \$750. Participating seniors may earn the credit at any hourly rate the community may choose, as long as the rate is not less than the federal minimum wage, which at the time this response was written, was \$5.15 per hour, and not greater than the state minimum wage. Accordingly, DLM concluded that Chapter 271 of the Acts of 2006 does not mandate that cities and towns pay the state minimum wage to seniors participating in the property tax work-off program.

## INITIATIVES

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### ***State Funding for the Uniform Polling Hours Mandate***

In June 2007, DLM initiated the process of certifying expenses resulting from the Uniform Polling Hours Law for the federal and state elections upcoming in 2008. Chapter 503 of the Acts of 1983 requires that all polling places for these elections open no later than 7:00 a.m. and remain open until 8:00 p.m. Since state law prior to Chapter 503 allowed polling places to open as late as 10:00 a.m., three hours of mandated expenses are eligible for state funding under the Local Mandate Law.

Chapter 503 directs DLM to determine the incremental local costs attributable to the Act for each community. Since 1984, the OSA has certified approximately \$15 million in state funding for distribution to cities and towns for this purpose. Individual determinations for each of the 351 cities and towns for the 2008 elections will be completed in the upcoming period, and detailed in the next annual report.

### ***Dam Safety***

DLM has begun research and data base development for a review of the municipal financial impact of laws and regulations governing dam safety in Massachusetts. Cities and towns own and are financially responsible for inspections, emergency action plans, maintenance, and repair of about one-third of the approximately 1,700 dams that are subject to state regulations. Because there are numerous dams that pose potential threat to life and property in the event the structure fails, it is important to evaluate whether cities and towns have the fiscal ability to meet their responsibilities in this area.

## **PRIVATE OCCUPATIONAL SCHOOLS**

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In accordance with Chapters 75C, 75D, and 93 of the General Laws, all private, post-secondary, non-degree-granting occupational schools, which charge more than \$250 per year must be licensed by the Massachusetts Department of Education. As part of the licensure process, the Office of the State Auditor is required to annually evaluate the solvency of each license applicant and determine the appropriate level of tuition protection needed by each school. Such tuition protection may take the form of surety bond, an irrevocable letter of credit, or a term deposit account payable to the Commonwealth. This consumer protection program was established to address potential refunds due to students as a result of fraud, deceptive recruitment practices, or breach of contract by the school.

As of June 30, 2007, there were 195 private occupational schools on the OSA Proprietary School Active File, consisting of 138 private business schools, 49 private trade schools, seven private correspondence schools, and one registered school. At fiscal year-end, the financial certification process was ongoing for nineteen renewal applicants, while the process was completed for 176 schools that were found to be financially eligible to apply for occupational school licensure during the year. The 176 approvals by the OSA during fiscal year 2007 represented 24 original applications and 152 renewals.

Programs of study offered by licensed private occupational schools include automotive and appliance repair, bartending, broadcasting, business/secretarial skills, car audio/security system installation, computer technology, culinary arts, dental hygiene, dog grooming, electrical code and theory, fashion design, floral design, holistic health care, home health care/certified nurses' assistant training, HVAC/industrial technology, massage therapy, modeling, phlebotomy, photography, plumbing, and tractor trailer driving.

# **Appendix**

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## **AUDIT REPORTS ISSUED**

## EDUCATION AUDITS

	<i><b>Audit</b></i>	<i><b>Audit Number</b></i>	<i><b>Issue Date</b></i>
1.	Bridgewater State College - Student Financial Assistance Programs	2007-0177-16S	1/26/2007
2.	Bristol Community College	2006-0191-4T	12/20/2006
3.	Department of Education - Review of Legal Service Expenditures	2007-5126-3O2	12/28/2006
4.	Department of Education - Review of Out-of-State Travel	2006-0157-3O	10/18/2006
5.	Holyoke Community College - Student Financial Assistance Programs	2007-0195-16S	1/26/2007
6.	Massachusetts Bay Community College	2006-0196-4T	9/14/2006
7.	Massachusetts College of Liberal Arts - Student Financial Assistance Programs	2007-0183-7S	1/26/2007
8.	Massasoit Community College	2006-0197-4T	11/30/2006
9.	Middlesex Community College - Student Financial Assistance Programs	2007-0199-7S	1/26/2007
10.	Northern Essex Community College - Student Financial Assistance Programs	2007-0201-16S	1/26/2007
11.	Quinsigamond Community College	2006-0203-4T	12/19/2006
12.	Roxbury Community College - Student Financial Assistance Programs	2007-0204-7S	1/26/2007
13.	Salem State College - Chapter 647 Review	2006-0184-12S	8/10/2006
14.	University of Massachusetts Medical School - Review of Health Services Contract with the Department of Correction	2005-0216-3C	1/16/2007
15.	University of Massachusetts/Boston - Virus Protection Program	2004-0214-4T	8/17/2006
16.	Westfield State College - Review of Payroll Activities	2006-0185-3S	8/24/2006
17.	Worcester State College - Student Financial Assistance Programs	2007-0186-7S	1/26/2007

## HEALTH AND HUMAN SERVICES AUDITS

<i>Audit</i>	<i>Audit Number</i>	<i>Issue Date</i>
1. American Training, Inc.	2006-4501-3C	9/26/2006
2. Center for School Crisis Intervention and Assessment, Inc.	2006-4502-3C	1/24/2007
3. Commonwealth Family Childcare, Inc.	2006-4498-3C	5/2/2007
4. Department of Mental Retardation - Metro Residential Services Program-Needham Residence	2006-0234-12S2	1/30/2007
5. Department of Mental Retardation - Metro Residential Services Program-Canton Residence	2006-0234-12S1	1/30/2007
6. Department of Mental Retardation - Metro Residential Services Program-Dorchester Residence	2006-0234-12S3	1/30/2007
7. Department of Mental Retardation - Southeast Region	2007-1405-4T	6/29/2007
8. Department of Public Health - Food Protection Program (14 Entities)	2005-0290-3S	3/26/2007
9. Department of Public Health - Review of Legal Service Expenditures	2007-5126-3O5	12/28/2006
10. Department of Social Services - Single Audit of the Commonwealth	2007-1058-16S	2/7/2007
11. Fernald Developmental Center	2006-0267-3S	1/17/2007
12. Fuel Assistance/Low Income Home Energy Assistance Program (23 Entities)	2006-5108-7C	12/4/2006
13. Habilitation Assistance Corporation	2006-4496-3C	8/15/2006
14. Hawthorn Services, Inc.	2006-4283-3C	10/30/2006
15. Holyoke Soldiers' Home - Privatization of Pharmacy Services	2006-0064-13O	8/24/2006
16. Irving Glavin Center	2006-0863-3S	1/9/2007
17. Massachusetts Rehabilitation Commission - Single Audit of the Commonwealth	2007-0054-16S	1/26/2007
18. MassHealth Office of Medicaid - Oversight and Internal Controls over Transportation Service Provider Claims	2005-1374-3S1A	2/27/2007
19. MassHealth - Review of the Fee for Service Transportation Provider Enrollment and Credentialing Process (17 Entities)	2005-1374-3S1	11/16/2006
20. Office for Refugees and Immigrants	2006-1370-7T	12/27/2006
21. State Agency Compliance with the Operational Services Division's Audit Resolution Policy (42 Entities)	2006-5120-15C	10/31/2006
22. Wrentham Developmental Center	2007-0270-4T	6/25/2007

## HOUSING AUTHORITY AUDITS

<i>Audit</i>	<i>Audit Number</i>	<i>Issue Date</i>
1. Acushnet Housing Authority	2007-0592-3A	6/13/2007
2. Adams Housing Authority - Site Inspection Report	2006-0593-3A	12/20/2006
3. Andover Housing Authority - Site Inspection Report	2006-0598-3A	3/21/2007
4. Attleboro Housing Authority	2007-0603-3A	3/15/2007
5. Avon Housing Authority - Site Inspection Report	2006-0600-3A	5/2/2007
6. Ayer Housing Authority	2006-1037-3A	8/24/2006
7. Barre Housing Authority	2007-0607-3A	10/31/2006
8. Bellingham Housing Authority	2007-0610-3A	4/27/2007
9. Beverly Housing Authority - Site Inspection Report	2006-0612-3A	2/12/2007
10. Billerica Housing Authority - Site Inspection Report	2006-0614-3A	10/30/2006
11. Blackstone Housing Authority	2007-0615-3A	12/7/2006
12. Braintree Housing Authority	2006-0619-3A	9/29/2006
13. Bridgewater Housing Authority	2006-0620-3A	9/29/2006
14. Brockton Housing Authority - Site Inspection Report	2006-0621-3A	5/7/2007
15. Brookfield Housing Authority	2006-1075-3A	5/7/2007
16. Brookline Housing Authority - Site Inspection Report	2006-0623-3A1	2/12/2007
17. Canton Housing Authority	2007-0628-3A	8/24/2006
18. Carver Housing Authority	2006-1285-3A	12/19/2006
19. Chelmsford Housing Authority - Site Inspection Report	2006-0630-3A2	2/28/2007
20. Clinton Housing Authority - Site Inspection Report	2006-0635-3A	11/3/2006
21. Concord Housing Authority - Site Inspection Report	2006-0637-3A	4/12/2007
22. Concord Housing Authority - Transition Report	2006-0637-11A	4/12/2007
23. Dedham Housing Authority - Site Inspection Report	2006-0641-3A	12/7/2006
24. Department of Housing and Community Development	2006-0001-4T	10/10/2006
25. Department of Housing and Community Development - Review of Legal Service Expenditures	2007-5126-3O4	12/28/2006
26. Department for Housing and Community Development - Single Audit of the Commonwealth	2007-0001-16S	1/26/2007
27. Dighton Housing Authority	2006-0643-3A	8/2/2006
28. Dracut Housing Authority	2007-0843-3A	5/25/2007
29. Duxbury Housing Authority	2007-0644-3A	2/28/2007

## HOUSING AUTHORITY AUDITS

<i>Audit</i>	<i>Audit Number</i>	<i>Issue Date</i>
30. Duxbury Housing Authority - Site Inspection Report	2006-0644-3A	6/13/2007
31. Everett Housing Authority	2006-0650-3A	4/27/2007
32. Framingham Housing Authority	2006-0658-3A	8/24/2006
33. Franklin Housing Authority	2006-0660-3A	10/3/2006
34. Gloucester Housing Authority - Site Inspection Report	2006-0665-3A	4/17/2007
35. Grafton Housing Authority - Site Inspection Report	2006-0666-3A	12/20/2006
36. Great Barrington Housing Authority - Site Inspection Report	2006-0668-3A	3/6/2007
37. Hadley Housing Authority	2006-0670-3A	9/11/2006
38. Hamilton Housing Authority	2007-0671-3A	3/19/2007
39. Hampshire County Regional Housing Authority	2006-1047-3A	3/21/2007
40. Hatfield Housing Authority	2006-0672-3A	2/6/2007
41. Holliston Housing Authority	2007-0677-3A	2/1/2007
42. Holyoke Housing Authority - Site Inspection Report	2006-0678-3A	6/13/2007
43. Hopedale Housing Authority	2007-0680-3A	11/30/2006
44. Lancaster Housing Authority	2007-0687-3A	4/27/2007
45. Lawrence Housing Authority	2006-0688-4T	5/2/2007
46. Leicester Housing Authority - Site Inspection Report	2006-0691-3A	5/3/2007
47. Lenox Housing Authority - Site Inspection Report	2006-0692-3A	12/7/2006
48. Leominster Housing Authority	2007-0693-3A	1/9/2007
49. Lexington Housing Authority	2007-0694-3A	3/23/2007
50. Littleton Housing Authority	2007-0833-3A	5/4/2007
51. Ludlow Housing Authority - Site Inspection Report	2006-0697-3A	2/12/2007
52. Lunenburg Housing Authority	2007-0698-3A	6/27/2007
53. Lynn Housing Authority	2005-0699-4T	9/8/2006
54. Lynn Housing Authority - Site Inspection Report	2006-0699-3A	3/23/2007
55. Lynnfield Housing Authority	2007-0860-3A	4/27/2007
56. Malden Housing Authority	2007-0701-4T	6/25/2007
57. Manchester Housing Authority	2007-0703-3A	11/30/2006
58. Marblehead Housing Authority	2007-0705-3A	5/25/2007
59. Marshfield Housing Authority	2007-0708-3A	11/30/2006

## HOUSING AUTHORITY AUDITS

<i>Audit</i>	<i>Audit Number</i>	<i>Issue Date</i>
60. Mashpee Housing Authority	2007-0707-3A	5/4/2007
61. Millis Housing Authority	2007-0725-3A	11/30/2006
62. Montague Housing Authority - Site Inspection Report	2006-0727-3A	5/3/2007
63. Nantucket Housing Authority	2006-0584-3A	3/19/2007
64. Needham Housing Authority - Site Inspection Report	2006-0731-3A2	5/15/2007
65. Newton Housing Authority	2007-0736-8F	12/18/2006
66. Norfolk Housing Authority	2006-0841-3A	8/24/2006
67. North Attleboro Housing Authority	2007-0743-3A	3/20/2007
68. North Brookfield Housing Authority	2006-0901-3A	3/6/2007
69. Northbridge Housing Authority	2007-0745-3A	5/30/2007
70. Norton Housing Authority	2007-0747-3A	4/27/2007
71. Norwell Housing Authority	2007-0854-3A	6/13/2007
72. Orleans Housing Authority	2006-0750-3A	2/1/2007
73. Oxford Housing Authority	2007-0751-3A	1/16/2007
74. Palmer Housing Authority	2007-0752-3A	12/20/2006
75. Peabody Housing Authority	2006-0754-3A	8/24/2006
76. Pittsfield Housing Authority - Site Inspection Report	2006-0757-3A	2/28/2007
77. Plymouth Housing Authority	2006-0760-3A	10/3/2006
78. Rockland Housing Authority	2007-0766-3A	6/13/2007
79. Rockport Housing Authority	2007-0767-3A	4/27/2007
80. Rowley Housing Authority	2007-0768-3A	4/27/2007
81. Salisbury Housing Authority - Site Inspection Report	2006-0834-3A	11/21/2006
82. Sandwich Housing Authority	2006-0771-3A	3/23/2007
83. Seekonk Housing Authority	2007-0774-3A	5/8/2007
84. Sharon Housing Authority - Site Inspection Report	2006-0775-3A	2/12/2007
85. Shelburne Housing Authority	2006-0879-3A	11/3/2006
86. Somerville Housing Authority	2006-0778-3A	3/23/2007
87. Statewide Review of Public Housing Site Inspections by Local Housing Authorities (66 Entities)	2005-5119-3A	10/5/2006
88. Sterling Housing Authority	2007-0787-3A	6/22/2007
89. Stoneham Housing Authority - Site Inspection Report	2006-0788-3A	6/13/2007

## HOUSING AUTHORITY AUDITS

<i>Audit</i>	<i>Audit Number</i>	<i>Issue Date</i>
90. Stoughton Housing Authority	2007-0789-3A	6/13/2007
91. Sudbury Housing Authority	2007-0830-3A	11/30/2006
92. Sutton Housing Authority	2007-0791-3A	1/16/2007
93. Swansea Housing Authority	2006-0793-3A	9/29/2006
94. Templeton Housing Authority	2007-0872-3A	10/30/2006
95. Upton Housing Authority	2007-0797-3A	1/16/2007
96. Walpole Housing Authority	2007-0800-3A	4/27/2007
97. Waltham Housing Authority - Site Inspection Report	2007-0801-3A	4/12/2007
98. Wenham Housing Authority	2007-0832-3A	3/23/2007
99. West Boylston Housing Authority	2007-1278-3A	10/30/2006
100. West Bridgewater Housing Authority	2006-0810-3A	7/25/2006
101. West Brookfield Housing Authority	2006-1294-3A	7/28/2006
102. West Springfield Housing Authority - Site Inspection Report	2006-0814-3A	4/17/2007
103. Westborough Housing Authority - Site Inspection Report	2006-0809-3A	11/16/2006
104. Whitman Housing Authority	2007-0817-3A	4/27/2007
105. Wilbraham Housing Authority	2007-0818-3A	1/17/2007
106. Winthrop Housing Authority	2007-0822-3A	5/30/2007

## INDEPENDENT AUTHORITY AUDITS

<i>Audit</i>	<i>Audit Number</i>	<i>Issue Date</i>
1. Berkshire Regional Transit Authority	2007-0876-3A	6/27/2007
2. Bourne Recreation Authority	2007-0844-3A	5/8/2007
3. Brockton Area Transit Authority	2007-0881-3A	5/24/2007
4. Brockton Redevelopment Authority	2007-0622-8F	6/20/2007
5. Central Mass. Regional Planning Commission	2007-0574-3A	8/31/2006
6. Fitchburg Redevelopment Authority	2007-0656-3A	9/19/2006
7. Franklin Regional Transit Authority	2007-1275-3A	4/12/2007
8. Gardner Redevelopment Authority	2007-0663-6O	11/22/2006
9. Greater Attleboro-Taunton Regional Transit Authority	2007-1007-3A	5/30/2007
10. Greenfield-Montague Regional Transit Authority	2007-1276-3A	5/15/2007
11. Massachusetts Bay Transportation Authority - Purchase of Green Line Cars	2004-0583-7A	2/16/2007
12. Massachusetts Convention Center Authority	2007-1272-3A	5/31/2007
13. Massachusetts Convention Center Authority	2006-1272-3A	10/12/2006
14. Massachusetts Housing Finance Agency	2006-0141-3A	10/18/2006
15. Massachusetts International Trade Council, Inc.	2006-4499-3A	7/28/2006
16. Massachusetts Legal Assistance Corp.	2007-1300-4T	6/27/2007
17. Massachusetts Technology Collaborative	2007-1304-3A	4/13/2007
18. Massachusetts Technology Development Corporation	2006-0136-3A	8/8/2006
19. Massachusetts Thoroughbred Breeders Association, Inc.	2007-1352-3O	6/20/2007
20. Massachusetts Water Resources Authority - Combined Sewer Overflow Program	2005-1323-3C	9/14/2006
21. Montachusett Regional Transit Authority	2007-1038-3A	3/23/2007
22. Southeastern Regional Transit Authority	2007-0878-3A	5/25/2007
23. Standardbred Breeding Program (2 Entities) <i>Standardbred Owners of Massachusetts, Inc.</i> <i>State Racing Commission</i>	2007-1369-3O	1/22/2007
24. Woods Hole, Martha's Vineyard, and Nantucket Steamship Authority	2006-0587-3A	11/27/2006
25. Worcester Redevelopment Authority	2007-0826-6O	11/27/2006
26. Worcester Regional Transit Authority	2007-0880-3A	2/1/2007

## JUDICIARY/LAW ENFORCEMENT AUDITS

<i>Audit</i>	<i>Audit Number</i>	<i>Issue Date</i>
1. Appellate Tax Board	2007-0143-3S	1/16/2007
2. Barnstable District Court	2007-1189-3O	2/6/2007
3. Barnstable Juvenile Court	2007-1251-3O	3/20/2007
4. Board of Bar Examiners	2006-1103-7T	9/7/2006
5. Brighton Division of the Boston Municipal Court Department	2007-1165-4T	6/20/2007
6. Bristol Juvenile Court	2007-1249-3O	3/15/2007
7. Bristol Superior Court	2007-1119-3O	4/12/2007
8. Brockton District Court	2006-1198-3O	9/22/2006
9. Brookline District Court	2007-1164-3O	4/18/2007
10. Cambridge District Court	2006-1139-3O	10/18/2006
11. Concord District Court	2006-1150-3O	8/10/2006
12. Division of Capital Asset Management & Maintenance - Administration of the Courthouse Renovation Contracts at the Edward W. Brooke and John Adams Courthouses	2006-5125-3C	6/28/2007
13. East Brookfield District Court	2006-1188-3O	7/28/2006
14. Essex Juvenile Court	2007-1243-3O	4/27/2007
15. Executive Office of Public Safety - Single Audit of the Commonwealth	2007-0019-16S	3/15/2007
16. Franklin/Hampshire Juvenile Court	2007-1252-3O	5/2/2007
17. Gloucester District Court	2006-1155-3O	9/7/2006
18. Greenfield District Court	2007-1176-3O	5/4/2007
19. Hampden Superior Court	2006-1113-3O	11/20/2006
20. Haverhill District Court	2006-1152-3O	12/15/2006
21. Holyoke District Court	2007-1168-3O	4/12/2007
22. Land Court Department	2006-1124-4T	12/29/2006
23. Massachusetts District Attorneys Association	2007-1419-7T	3/20/2007
24. Middlesex Sheriff's Department	2004-1431-3S	12/6/2006
25. Nantucket District Court	2006-1196-3O	11/1/2006
26. Nantucket Probate and Family Court	2006-1233-3O	9/29/2006
27. Nantucket Superior Court	2006-1121-3O	7/25/2006
28. Norfolk Juvenile Court	2007-1253-3O	5/2/2007

## JUDICIARY/LAW ENFORCEMENT AUDITS

<i>Audit</i>	<i>Audit Number</i>	<i>Issue Date</i>
29. Norfolk Superior Court	2006-1112-3O	2/21/2007
30. Orleans District Court	2007-1190-3O	6/20/2007
31. Palmer District Court	2006-1169-3O	7/25/2006
32. Peabody District Court	2006-1159-3O	7/12/2006
33. Plymouth Juvenile Court	2007-1250-3O	4/12/2007
34. Plymouth Superior Court	2006-1122-3O	9/21/2006
35. Salem District Court	2006-1151-3O	8/24/2006
36. South Boston Division of the Boston Municipal Court	2007-1137-4T	5/2/2007
37. Southeast Housing Court	2007-1366-3O	5/30/2007
38. Suffolk Juvenile Court	2007-1241-3O	5/25/2007
39. Technical Assistance Provided to the Berkshire District Attorney's Office - Town of Hinsdale Investigation	2004-6035-9O	11/20/2006
40. Technical Assistance Provided to the Worcester District Attorney's Office - Fitchburg Municipal Airport	2005-6038-9O	7/25/2006
41. Technical Assistance Provided to the Worcester District Attorney's Office - Quaboag Booster Club Investigation	2006-6039-9O	8/16/2006
42. Uxbridge District Court	2006-1187-3O	8/8/2006
43. Waltham District Court	2007-1147-7T	12/18/2006
44. Wareham District Court	2006-1200-3O	11/30/2006
45. Woburn District Court	2007-1148-3O	2/13/2007
46. Worcester Juvenile Court	2006-1246-3O	3/20/2007
47. Wrentham District Court	2006-1162-3O	7/6/2006

## OTHER AUDITS

<i>Audit</i>	<i>Audit Number</i>	<i>Issue Date</i>
1. Agency Compliance with the State Comptroller's Policies and Massachusetts General Laws and Regulations: Selected Transaction Testing and Internal Control Review: Fiscal Year 2006 (12 Entities)	2007-5007-16S	1/26/2007
2. Agency Compliance with the State Comptroller's Year-End Closing Instructions for Encumbrance and Advance Fund Management - Fiscal Year 2006 (88 Entities)	2006-5001-16S	4/10/2007
3. Agency Compliance with the State Comptroller's Year-End Closing Instructions for Cash & Revenue Management - Fiscal Year 2006 (50 Entities)	2006-5002-16S	6/22/2007
4. Board of Registration in Medicine	2006-0117-4T	9/22/2006
5. Chapter 555 Review- Determination of Whether Net State Tax Revenues Exceeded Allowable State Tax Revenues: Fiscal Year 2006 (7 Entities) <i>Department of Revenue</i> <i>Division of Insurance</i> <i>Division of Unemployment Assistance</i> <i>Office of the Secretary of State</i> <i>State Boxing Commission</i> <i>State Racing Commission</i> <i>State Lottery Commission</i>	2007-5555-16S	9/19/2006
6. Department of Agricultural Resources - Review of Legal Service Expenditures	2007-5126-3O1	12/28/2006
7. Department of Fish and Game	2007-0432-4T	5/25/2007
8. Department of Fish and Game - Review of Legal Service Expenditures	2007-5126-3O3	12/28/2006
9. Department of Industrial Accidents	2003-0222-7S	9/26/2006
10. Department of Workforce Development - Review of Legal Service Expenditures	2006-5126-3O6	12/28/2006
11. Division of Banks - Review of Out-of-State Travel	2006-0100-3O	2/21/2007
12. Division of Insurance - Review of Legal Service Expenditures	2007-5126-3O7	12/28/2006
13. Division of Insurance	2005-0101-7T	1/30/2007
14. Executive Office of Environmental Affairs - Review of Out-of-State Travel	2006-0005-3O	9/20/2006
15. Foxborough Industrial Development Financing Authority	2007-1466-5O	12/27/2006

## OTHER AUDITS

<i><b>Audit</b></i>	<i><b>Audit Number</b></i>	<i><b>Issue Date</b></i>
16. Massachusetts Highway Department	2004-0506-4T	7/6/2006
17. Massachusetts Highway Department - Review of Legal Service Expenditures	2007-5126-3O8	12/28/2006
18. Massachusetts State Lottery Commission	2005-0089-3S	7/27/2006
19. Massachusetts Teachers' Retirement Board	2004-0163-3A	3/30/2007
20. State Racing Commission	2006-0068-7T	9/25/2006
21. Statewide Review of FY 2006 Legal Service Expenditures (8 Entities) <i>Department of Agricultural Resources</i> <i>Department of Education</i> <i>Department of Fish &amp; Game</i> <i>Department of Housing &amp; Community Development</i> <i>Department of Public Health</i> <i>Department of Workforce Development</i> <i>Division of Insurance</i> <i>Massachusetts Highway Department</i>	2007-5126-3O	12/28/2006
22. Voluntary Contributions Collected through State Income Tax Returns (9 Entities) <i>Department of Public Health</i> <i>Department of Revenue</i> <i>Division of Fisheries &amp; Wildlife</i> <i>Friends of the Massachusetts National Guard</i> <i>Organ Transplant Fund</i> <i>Natural Heritage &amp; Endangered Species Fund</i> <i>Massachusetts AIDS Fund</i> <i>Massachusetts U.S. Olympic Fund</i> <i>Massachusetts Military Family Relief Fund</i>	2007-5127-3A	3/8/2007