



COMMONWEALTH OF MASSACHUSETTS

OMB Circular A-133 Report

June 30, 2007

COMMONWEALTH OF MASSACHUSETTS

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Report on Supplementary Schedule of Expenditures of Federal Awards

Mr. Martin Benson, Comptroller
Commonwealth of Massachusetts:

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Massachusetts (the Commonwealth), as of and for the year ended June 30, 2007, which collectively comprise the Commonwealth's basic financial statements and have issued our report thereon dated December 24, 2007. These financial statements are the responsibility of the Commonwealth's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the University of Massachusetts, the State Colleges and certain of the Community Colleges all of which are major enterprise funds and represent 71% and 62%, respectively, of the assets and revenues of the business-type activities. We did not audit 45% and 49%, respectively, of the assets and revenues of the Community Colleges major enterprise fund. We did not audit the financial statements of the Massachusetts Municipal Depository Trust which represent 5% and 30% of the total assets and total revenues (including additions and other financing sources) of the aggregate remaining fund information. Additionally, we did not audit the financial statements of certain nonmajor component units, which represent 15% and 21%, respectively, of the total assets and total revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for those entities, is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Massachusetts Development Finance Agency, Massachusetts Technology Park Corporation, Massachusetts Community Economic Development Assistance Corporation, Massachusetts Housing Partnership Fund, and the Commonwealth Zoological Corporation, all of which are nonmajor component units, were not audited in accordance with *Government Auditing Standards*. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commonwealth's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.



Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commonwealth of Massachusetts's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion is fairly stated, in all material respects, in relation to the basic financial statements.

KPMG LLP

December 24, 2007

COMMONWEALTH OF MASSACHUSETTS

Schedule of Expenditures of Federal Awards

Year ended June 30, 2007

CFDA number	Federal Agency/Program or Cluster Title	2007 Expenditures
U.S. Department of Agriculture:		
10.025	Plant and Animal Disease, Pest Control, and Animal Care	\$ 559,881
10.028	Wildlife Services	13,392
10.054	Emergency Conservation Program	14,533
10.072	Wetlands Reserve Program	5,583
10.156	Federal-state Marketing Improvement Program	20,275
10.163	Market Protection and Promotion	16,791
10.199	Federal Operating Reimbursement-Egg Grading	6,181
10.457	Chesapeake Bay Studies	1,799
10.550	Food Donation	15,638,864
<i>Food Stamp Cluster:</i>		
10.551	Food Stamps	454,963,057
10.561	State Administrative Matching Grants for Food Stamp Program	47,665,809
<i>Total Food Stamp Cluster</i>		502,628,866
<i>Child Nutrition Cluster:</i>		
10.555	National School Lunch Program	148,215,382
10.559	Summer Food Service Program for Children	4,593,286
<i>Total Child Nutrition Cluster</i>		152,808,668
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	97,191,072
10.558	Child and Adult Care Food Program	43,548,668
10.560	State Administrative Expenses for Child Nutrition	3,408,766
10.568	Emergency Food Assistance Program Administrative Costs	997,244
10.572	WIC Farmers' Market Nutrition Program (FMNP)	424,904
10.574	Team Nutrition Grants	125,748
10.576	Senior Farmers Market Nutrition Program	54,878
10.663	Forest Land Enhancement Grant	74,262
10.664	Cooperative Forestry Assistance	1,071,125
10.672	Rural Development, Forestry, and Communities	5,897
10.676	Forest Legacy Program	1,321,893
10.678	Forest Stewardship Program	977
10.913	Farm and Ranch Lands Protection Program	2,267,164
10.914	Wildlife Habitat Incentive Program	10,000
10.999	Department of Agriculture – Miscellaneous	36,141
		822,253,572
U.S. Department of Commerce:		
11.405	Anadromous Fish Conservation Act Program	7,265
11.407	Interjurisdictional Fisheries Act of 1986	146,672
11.419	Coastal Zone Management Administration Awards	2,496,490
11.420	Coastal Zone Management Estuarine Research Reserves	1,476,209
11.427	Fisheries Development and Utilization Research and Development	130,340
11.452	Unallied Industry Projects Grants and Cooperative Agreements Program	1,920,058
11.463	Habitat Conservation	882,777
11.472	Unallied Science Program	54,757
11.474	Atlantic Coastal Fisheries Cooperative Management Act	211,371
11.499	Right Whale Conservation Program	419,041
		7,744,980

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Year ended June 30, 2007

CFDA number	Federal Agency/Program or Cluster Title	2007 Expenditures
U.S. Department of Defense:		
12.113	State Memorandum of Agreement Program for the Reimbursement of Technical Services	\$ 1,300,406
12.400	Military Construction, National Guard	12,177,194
12.401	National Guard Military Operations and Maintenance (O&M) Projects	104,644
		<hr/> 13,582,244 <hr/>
U.S. Department of Housing and Urban Development:		
<i>Section 8 Project-Based Cluster:</i>		
14.182	Section 8 New Construction Program	7,122,108
14.856	Section 8 Moderate Rehabilitation	16,441,211
	<i>Total Section 8 Project-Based Cluster</i>	<hr/> 23,563,319 <hr/>
14.228	Community Development Block Grants / State's Program	37,034,560
14.231	Emergency Shelter Grants Program	2,313,301
14.235	Supportive Housing Program	7,496,733
14.238	Shelter Plus Care	453,736
14.239	Home Investment Partnerships Program	11,529,899
14.241	Housing Opportunities for Persons with Aids	190,847
14.401	Fair Housing Assistance Program State and Local	707,740
14.855	Section 8 Rental Voucher Program	1,301,552
14.871	Section 8 Housing Choice Vouchers	204,926,325
14.900	Lead-based Paint Hazard Control in Privately owned Housing	1,131,487
		<hr/> 290,649,499 <hr/>
U.S. Department of the Interior:		
<i>Fish and Wildlife Cluster:</i>		
15.605	Sport Fish Restoration	3,575,438
15.611	Wildlife Restoration	1,200,660
	<i>Total Fish and Wildlife Cluster</i>	<hr/> 4,776,098 <hr/>
15.614	Coastal Wetlands Planning, Protection and Restoration Act	891,000
15.622	Sportfishing and Boating Safety Act	891,909
15.633	Landowner Incentive	639,201
15.644	Federal Junior Duck Stamp Conservation and Design	1,378
15.808	U.S. Geological Survey Research and Data Collection	44,643
15.904	Historic Preservation Fund Grants-In-Aid	625,515
15.916	Outdoor Recreation Acquisition, Development and Planning	1,084,563
15.999	Department of Interior – Miscellaneous	77,082
		<hr/> 9,031,389 <hr/>
U.S. Department of Justice:		
16.202	Offender Reentry Program	26,932
16.203	Sex Offender Management Discretionary Grant	49,004
16.393	Residential Substance Abuse Treatment For State Prisoners	246,765
16.523	Juvenile Accountability Incentive Block Grants	1,419,022
16.527	Supervised Visitation, Safe Havens for Children	(15,000)
16.540	Juvenile Justice and Delinquency Prevention Allocation to States	1,993,760
16.541	Part E – Developing, Testing and Demonstrating Promising New Programs	16,536
16.543	Missing Children's Assistance	333,206
16.550	State Justice Statistics Program for Statistical Analysis Centers	100
16.555	National Criminal History Implementation Program	675,560
16.560	National Institute of Justice Research, Evaluation, and Development Project Grants	507,581
16.575	Crime Victim Assistance	7,503,197

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Year ended June 30, 2007

CFDA number	Federal Agency/Program or Cluster Title	2007 Expenditures
U.S. Department of Justice (continued):		
16.576	Crime Victim Compensation	\$ 1,340,730
16.579	Byrne Formula Grant Program	4,900,669
16.580	Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	451,800
16.582	Crime Victim Assistance / Discretionary Grants	73,113
16.585	Drug Court Discretionary Grant Program	103,804
16.586	Violent Offender Incarceration and Truth in Sentencing Incentive Grants	2,237,283
16.588	Violence Against Women Formula Grants	2,341,223
16.589	Rural Domestic Violence and Child Victimization Enforcement Grant Program	435,776
16.592	Local Law Enforcement Block Grants Program	498,355
16.595	Community Capacity Development Office	554,498
16.609	Community Prosecution and Project Safe Neighborhoods	323,596
16.610	Regional Information Sharing Systems	3,992,115
16.631	DNA Capacity	665,895
16.710	Public Safety Partnership and Community Policing Grants	16,470
16.727	Enforcing Underage Drinking Laws Program	202,162
16.738	Edward Byrne Memorial Justice Assistance Grant Program	3,003,385
16.741	Forensic DNA Capacity Enhancement Progra	501,052
16.742	Paul Coverdell Forensic Sciences Improvement Grant Program	222,629
16.744	Anti-Gang Initiative	28,954
16.999	Department of Justice – Miscellaneous	7,911,033
		<hr/> 42,561,205
U.S. Department of Labor:		
17.002	Labor Force Statistics	2,435,291
17.005	Compensation and Working Conditions	144,364
	<i>Employment Service Cluster:</i>	
17.207	Employment Service	17,209,665
17.801	Disabled Veterans' Outreach Program (DVOP)	1,353,554
17.804	Local Veterans' Employment Representative Program	1,685,727
	<i>Total Employment Service Cluster</i>	<hr/> 20,248,946
17.225	Unemployment Insurance (note 9)	1,479,273,742
17.235	Senior Community Service Employment Program	1,835,244
17.245	Trade Adjustment Assistance Workers	19,623,827
17.246	Employment and Training Assistance-Dislocated Workers	228,039
	<i>WIA Cluster:</i>	
17.258	WIA Adult Program	11,541,514
17.259	WIA Youth Activities	18,112,018
17.260	WIA Dislocated Workers	24,248,677
	<i>Total WIA Cluster</i>	<hr/> 53,902,209
17.267	WIA Incentive Grants Section 503 Grants to States	83,665
17.266	Work Incentives Grant	929,272
17.504	Consultation Agreements	1,374,069
17.505	OSHA Data Initiative	81,129
17.600	Mine Health and Safety Grants	56,059
17.802	Veterans' Employment Program	534,998
17.805	Homeless Veterans Reintegration Project	200,000
17.999	Department of Labor – Miscellaneous	948
		<hr/> 1,580,951,802

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CFDA number	Federal Agency/Program or Cluster Title	2007 Expenditures
U.S. Department of Transportation:		
20.205	Highway Planning and Construction	\$ 463,754,617
20.217	Motor Carrier Safety	13,000
20.218	National Motor Carrier Safety	3,176,201
20.232	Commercial Driver License State Programs	1,220,522
20.234	Safety Data Improvement Program	9,325
20.505	Federal Transit Metropolitan Planning Grants	2,465,011
20.507	Federal Transit Formula Grants	810,559
20.509	Formula Grants for Other Than Urbanized Areas	2,871,855
20.513	Capital Assistance Program for Elderly Persons and Persons with Disabilities	1,780,142
20.600	State and Community Highway Safety	9,379,412
20.614	Safety Incentive Grants for Use of Seatbelts	25,331
20.700	Pipeline Safety	6,007
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants	247,082
		<hr/> 485,759,064 <hr/>
Equal Employment Opportunity Commission:		
30.002	Employment Discrimination State and Local Fair Employment Practices Agency Contracts	1,096,450
		<hr/> 1,096,450 <hr/>
National Endowment for the Arts:		
45.025	Promotion of the Arts Partnership Agreements	1,058,488
		<hr/> 1,058,488 <hr/>
Institute of Museum and Library Services:		
45.310	State Library Program	3,337,564
		<hr/> 3,337,564 <hr/>
National Science Foundation:		
47.050	Geosciences	4,662
47.074	Biological Sciences	44,387
47.076	Education and Human Resources	7,425
		<hr/> 56,474 <hr/>
U.S. Department of Veterans Affairs:		
64.014	Veterans State Domiciliary Care	3,474,197
64.015	Veterans State Nursing Home Care	12,768,334
64.203	State Cemetery Grants	1,902,133
		<hr/> 18,144,664 <hr/>
Environmental Protection Agency:		
66.032	State Indoor Radon Grants	140,994
66.034	Surveys, Studies, Investigations, Demonstrations and Special Purpose Activities Relating to the Clean Air Act	462,709
66.202	Congressionally Mandated Projects	38,668
66.439	Targeted Watershed Grants	253,943
66.454	Water Quality Management Planning	430,709
66.456	National Estuary Program	980,086
66.461	Regional Wetland Program Development Grants	62,999
66.463	Water Quality Cooperative Agreements	39,908
66.471	State Grants to Reimburse Operators of Small Water Systems for Training and Certification Costs	34,675
66.472	Beach Monitoring and Notification Program Implementation Grants	335,385

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CFDA number	Federal Agency/Program or Cluster Title	2007 Expenditures
Environmental Protection Agency (continued):		
66.474	Water Protection Grants to the States	\$ 54,081
66.500	Environmental Protection Consolidated Research	23,581
66.511	Office of Research and Development Consolidated Research/Training	92,671
66.605	Performance Partnership Grants	14,345,956
66.606	Surveys, Studies, Investigations and Special Purpose Grants	149,983
66.608	Environmental Information Exchange Network Grant Program	129,098
66.700	Consolidated Pesticide Enforcement Cooperative Agreements	270,075
66.701	Toxic Substances Compliance Monitoring Cooperative Agreements	167,126
66.707	TSCA Title IV State Lead Grants Certification of Lead-based Paint Professionals	327,417
66.802	Superfund State, Political Subdivision, and Indian Tribe Site Specific Cooperative Agreements	883,877
66.804	State and Tribal Underground Storage Tanks Program	200,444
66.805	Leaking Underground Storage Tank Trust Fund Program	916,014
66.808	Solid Waste Management Assistance Grants	10,770
66.817	State and Tribal Response Program Grants	1,412,923
66.940	Environmental Policy and State Innovation Grants	94,926
66.999	Environmental Protection Agency – Miscellaneous	9,307,585
		<u>31,166,603</u>
U.S. Department of Energy:		
81.041	State Energy Program	805,025
81.042	Weatherization Assistance for Low-income Persons	6,343,539
81.079	Regional Biomass Energy Programs	51,699
81.087	Renewable Energy Research and Development	44,632
81.090	State Heating Oil and Propane Programs	23,643
81.119	State Energy Program Special Projects	531,464
		<u>7,800,002</u>
Federal Emergency Management Administration:		
83.550	FEMA National Dam Safety Program	16,114
		<u>16,114</u>
U.S. Department of Education:		
84.002	Adult Education State Grant Program	10,370,866
84.010	Title I Grants to Local Educational Agencies	205,464,385
84.011	Migrant Education State Grant Program	1,629,489
84.013	Title I Program for Neglected and Delinquent Children	1,571,619
<i>Special Education Cluster:</i>		
84.027	Special Education Grants to States	267,841,750
84.173	Special Education Preschool Grants	9,839,125
	<i>Total Special Education Cluster</i>	<u>277,680,875</u>
84.031	Higher Education Institutional Aid	286,547
<i>TRIO Cluster:</i>		
84.042	TRIO Student Support Services	1,032,783
84.044	TRIO Talent Search	442,049
84.047	TRIO Upward Bound	508,549
84.066	TRIO Educational Opportunity Centers	135,765
	<i>Total TRIO Cluster</i>	<u>2,119,146</u>

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Schedule of Expenditures of Federal Awards

Year ended June 30, 2007

CFDA number	Federal Agency/Program or Cluster Title	2007 Expenditures
U.S. Department of Education (continued):		
84.048	Vocational Education Basic Grants to States	\$ 17,301,455
84.069	Leveraging Educational Assistance Partnership	966,753
84.126	Rehabilitation Services Vocational Rehabilitation Grants to States	47,227,421
84.128	Rehabilitation Services Service Projects	49,803
84.132	Centers for Independent Living	1,607,187
84.161	Rehabilitation Services Client Assistance Program	206,546
84.169	Independent Living State Grants	56,237
84.177	Rehabilitation Services Independent Living Services for Older Individuals Who are Blind	692,106
84.181	Special Education Grants for Infants and Families with Disabilities	7,378,454
84.185	Byrd Honors Scholarships	763,500
84.186	Safe and Drug-free Schools and Communities State Grants	5,879,618
84.187	Supported Employment Services for Individuals with Severe Disabilities	426,825
84.190	Christa McAuliffe Fellowships	9,108
84.196	Education for Homeless Children and Youth	994,782
84.206	Javits Gifted and Talented Students Education Grant Program	263,347
84.213	Even Start State Educational Agencies	3,659,430
84.215	Fund for the Improvement of Education	769
84.224	Assistive Technology	677,521
84.243	Tech-prep Education	1,580,196
84.255	Literacy Programs for Prisoners	173,768
84.265	Rehabilitation Training State Vocational Rehabilitation Unit In-service Training	125,678
84.282	Charter Schools	1,904,648
84.287	Twenty-First Century Community Learning Centers	16,730,137
84.298	State Grants for Innovative Programs	1,967,380
84.318	Education Technology State Grants	5,026,954
84.323	Special Education – State Personnel Development	835,793
84.325	Special Education – Personnel Development to Improve Services And Results for Children with Disabilities	70,267
84.330	Advanced Placement Program	535,490
84.331	Grants to States for Incarcerated Youth Offenders	104,353
84.332	Comprehensive School Reform Demonstration	2,286,513
84.334	Gaining Early Awareness and Readiness for Undergraduate Programs	4,246,558
84.336	Teacher Quality Enhancement Grants	3,022
84.346	Vocational Education Occupational and Employment Information State Grants	198,521
84.350	Transition to Teaching	310,453
84.352	School Renovation Grants	2,308,363
84.357	Reading First State Grants	14,990,470
84.358	Rural Education	58,059
84.365	English Language Acquisition Grants	10,214,855
84.366	Mathematics and Science Partnerships	2,050,533
84.367	Improving Teacher Quality State Grants	50,683,362
84.369	Grants for State Assessments and Related Activities	6,668,939
84.928	National Writing Project	7,702
84.938	Hurricane Education Recovery	475,428
84.999	Department of Education – Miscellaneous	113,265
		<hr/>
		710,954,496
National Archives and Records Administration:		
89.003	National Historical Publications and Records Grants	4,950
		<hr/>
		4,950

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Schedule of Expenditures of Federal Awards

Year ended June 30, 2007

CFDA number	Federal Agency/Program or Cluster Title	2007 Expenditures
U.S. Department of Health and Human Services:		
93.003	Public Health and Social Services Emergency Fund	\$ 10,402,197
93.006	State and Territorial and Technical Assistance Capacity Development Minority HIV/AIDS Demonstration Program	98,095
93.041	Special Programs for the Aging Title VII, Chapter 3-Programs for Prevention of Elder Abuse, Neglect, and Exploitation	189,980
93.042	Special Programs for the Aging Title VII, Chapter 2-Long Term Care Ombudsman Services for Older Individuals	1,410,300
93.043	Special Programs for the Aging Title III, Part D Disease Prevention and Health Promotion Services	439,470
<i>Aging Cluster:</i>		
93.044	Special Programs for the Aging Title III, Part B Grants for Supportive Services and Senior Centers	7,185,409
93.045	Special Programs for the Aging Title III, Part C Nutrition Services	12,188,282
93.053	Nutrition Service Incentive Program	3,472,882
	<i>Total Aging Cluster</i>	<hr/> 22,846,573 <hr/>
93.048	Special Programs for the Aging Title IV and Title II Discretionary Projects	161,555
93.052	National Family Caregiver Support	3,579,416
93.069	Public Health Emergency Preparedness	22,003,423
93.103	Food and Drug Administration Research	326,143
93.104	Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	1,206,434
93.110	Maternal and Child Health Federal Consolidated Programs	781,757
93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	1,863,856
93.126	Mass Youth Violence Prevention Program	97,792
93.127	Emergency Medical Services for Children	80,117
93.130	Primary Care Services Resource Coordination and Development	88,941
93.136	Injury Prevention and Control Research and State and Community Based Programs	1,658,042
93.150	Projects for Assistance in Transition From Homelessness (PATH)	1,101,035
93.153	Coordinated Services and Access to Research for Women, Infants, Children, and Youth	887,677
93.165	Grants To States for Loan Repayment Program	176,130
93.184	Disabilities Prevention	489,433
93.197	Childhood Lead Poisoning Prevention Projects State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	1,198,427
93.226	Research on Healthcare Costs, Quality and Outcomes	40,727
93.234	Traumatic Brain Injury State Demonstration Grant Program	73,178
93.235	Abstinence Education Program	937,193
93.236	Grants for Dental Public Health Residency Training	19,550
93.240	State Capacity Building	412,434
93.241	State Rural Hospital Flexibility Program	237,850
93.243	Substance Abuse and Mental Health Services Projects of Regional and National Significance	2,201,246
93.251	Universal Newborn Hearing Screening	143,050
93.262	Occupational Safety and Health Program	696,496
93.268	Immunization Grants	53,383,780
93.276	Drug-Free Communities Support Program Grants	101,452

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CFDA number	Federal Agency/Program or Cluster Title	2007 Expenditures
U.S. Department of Health and Human Services (continued):		
93.283	Centers for Disease Control and Prevention Investigations and Technical Assistance	\$ 14,151,150
93.301	Small Rural Hospital Improvement Grant Program	89,340
93.551	Abandoned Infants	263,644
93.556	Promoting Safe and Stable Families	4,806,830
93.558	Temporary Assistance for Needy Families	332,666,960
93.563	Child Support Enforcement	61,338,065
93.564	Child Support Enforcement Research	50,181
93.568	Low-income Home Energy Assistance	101,639,592
93.569	Community Services Block Grant	15,732,797
<i>CCDF Cluster:</i>		
93.575	Child Care and Development Block Grant	112,872,977
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund	68,968,740
<i>Total CCDF Cluster</i>		<u>181,841,717</u>
93.576	Refugee and Entrant Assistance Discretionary Grants	3,149,797
93.583	Refugee and Entrant Assistance Wilson / Fish Program	6,565,917
93.586	State Court Improvement Program	278,987
93.590	Child Abuse Prevention Activities	508,687
93.597	Grants to States for Access and Visitation Programs	147,830
93.599	Chafee Education and Training Vouchers Program (ETV)	1,037,625
93.600	Head Start	122,409
93.603	Adoption Incentive Payments	37,502
93.608	Training of Child Welfare Agency Supervisors	249,655
93.623	Basic Center Grant	221,562
93.630	Developmental Disabilities Basic Support and Advocacy Grants	1,467,221
93.631	Developmental Disabilities Projects of National Significance	203,717
93.643	Children's Justice Grants to States	348,105
93.645	Child Welfare Services State Grants	3,669,112
93.652	Adoption Opportunities	386,381
93.658	Foster Care Title IV-E	59,240,935
93.659	Adoption Assistance	31,914,780
93.667	Social Services Block Grant	82,718,211
93.669	Child Abuse and Neglect State Grants	636,529
93.671	Family Violence Prevention and Services / Grants for Battered Women's Shelters Grants to States and Indian Tribes	1,868,705
93.674	Chafee Foster Care Independence Program	3,384,792
93.767	State Children's Health Insurance Program	189,332,148
93.773	Medicare Hospital Insurance	13,510,266
<i>Medicaid Cluster:</i>		
93.775	State Medicaid Fraud Control Units	3,149,487
93.777	State Survey and Certification of Health Care Providers and Suppliers	7,818,502
93.778	Medical Assistance Program	5,310,168,530
<i>Total Medicaid Cluster</i>		<u>5,321,136,519</u>

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CFDA number	Federal Agency/Program or Cluster Title	2007 Expenditures
U.S. Department of Health and Human Services (continued):		
93.779	Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	\$ 891,036
93.786	State Pharmaceutical Assistance Programs	1,142,349
93.913	Grants to States for Operation of Offices of Rural Health	110,892
93.917	HIV Care Formula Grants	20,453,721
93.926	Healthy Start Initiative	6,017,560
93.938	Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	947,327
93.940	HIV Prevention Activities Health Department Based	8,957,558
93.943	Epidemiologic Research Studies of Acquired Immunodeficiency Syndrome (AIDS) and Human Immunodeficiency Virus (HIV) Infection in Selected Population Groups	47,085
93.944	Human Immunodeficiency Virus (HIV) / Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	1,262,675
93.946	Cooperative Agreements to Support State-Based Safe Motherhood and Infant Health Initiative Programs	167,062
93.958	Block Grants for Community Mental Health Services	8,375,989
93.959	Block Grants for Prevention and Treatment of Substance Abuse	28,688,919
93.977	Preventive Health Services Sexually Transmitted Diseases Control Grants	1,386,732
93.978	Preventive Health Services Sexually Transmitted Diseases Research, Demonstrations, and Public Information and Education Grants	288,700
93.988	Cooperative Agreements for State-based Diabetes Control Programs and Evaluation of Surveillance Systems	1,098,981
93.991	Preventive Health and Health Services Block Grant	2,848,257
93.994	Maternal and Child Health Services Block Grant to the States	10,837,512
93.999	Department of Health and Human Services – Miscellaneous	1,246,425
		<hr/> 6,658,820,197
Corporation for National and Community Services:		
94.004	Learn and Serve America School and Community Based Programs	996,795
		<hr/> 996,795
Social Security Administration:		
96.001	Social Security Disability Insurance (Note 5)	36,707,685
96.008	Social Security Benefits Planning, Assistance, and Outreach Program	319,060
96.999	Social Security Administration – Miscellaneous	368,600
		<hr/> 37,395,345
U.S. Department of Homeland Security:		
<i>Homeland Security Cluster:</i>		
97.004	State Domestic Preparedness Equipment Support Program	1,154,930
97.067	Homeland Security Grant Program	26,000,551
	<i>Total Homeland Security Cluster</i>	<hr/> 27,155,481
97.005	State and Local Homeland Security Training Program	230,698
97.008	Urban Areas Security Initiative	6,685,333
97.012	Boating Safety Financial Assistance	1,193,326
97.017	Pre-disaster Mitigation (PDM) Competitive Grants	681,580
97.023	Community Assistance Program State Support Services Element (CAPSSSE)	148,620
97.029	Flood Mitigation Assistance	863,009
97.036	Public Assistance Grants	17,695,383
97.039	Hazard Mitigation Grant	303,606

COMMONWEALTH OF MASSACHUSETTS

Schedule of Expenditures of Federal Awards

Year ended June 30, 2007

CFDA number	Federal Agency/Program or Cluster Title	2007 Expenditures
U.S. Department of Homeland Security (continued):		
97.043	State Fire Training Systems Grants	\$ 29,513
97.056	Port Security Grant Program	176,474
97.063	Pre-Disaster Mitigation Disaster Resistant Universities	219,185
97.070	Map Modernization Management Support	80,477
97.075	Rail and Transit Security Grant Program	3,735,649
97.078	Buffer Zone Protection Plan (BZPP)	531,835
97.091	Homeland Security Biowatch Program	649,682
		<hr/>
		60,379,851
		<hr/>
99.999	Federal Expenditures – Miscellaneous	1,156,931
		<hr/>
		1,156,931
		<hr/>
	<i>Student Financial Assistance Cluster:</i>	
U.S. Department of Education:		
84.007	Federal Supplemental Educational Opportunity Grants	3,810,809
84.033	Federal Work Study Program	4,772,058
84.063	Federal Pell Grant Program	69,419,436
84.999	Federal Student Services Grant	1,615,234
Various	Other Federal Grant Programs	13,251,412
		<hr/>
	Total U.S. Department of Education	92,868,949
		<hr/>
U.S. Department of Health and Human Services:		
93.364	Nursing Student Loans	1,043,568
		<hr/>
	Total U.S. Department of Health and Human Services	1,043,568
		<hr/>
	<i>Total Student Financial Aid Cluster</i>	93,912,517
		<hr/>
	Total Federal Expenditures	\$ 10,878,831,196
		<hr/> <hr/>

See accompanying notes to schedule of expenditures of federal awards.

COMMONWEALTH OF MASSACHUSETTS

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2007

(1) **Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards is presented on the Commonwealth's statutory basis of accounting. It is drawn primarily from the Massachusetts Management Accounting and Reporting System (MMARS), the centralized accounting system.

In addition to amounts drawn from MMARS, the Schedule of Expenditures of Federal Awards includes certain federal programs administered by the Commonwealth's public institutions of higher education, except for the University of Massachusetts, which issues its own OMB Circular A-133 Report, and the activity of certain noncash programs. The higher education institutions and responsible administrative departments maintain the detail of such program activity.

Except for the Unemployment Insurance Program, statutory basis federal expenditures are recorded when the related cash disbursement occurs and at year-end, payroll is accrued and federal payables are recognized for goods or services received by June 30, to the extent of approved encumbrances. The Unemployment Insurance Program expenditures are recorded on a cash basis of accounting.

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

(2) **Single Audit Reporting Entity**

For purposes of complying with The Single Audit Act of 1984, as amended in 1996, the Commonwealth of Massachusetts' reporting entity is defined in note 1A to its June 30, 2007 basic financial statements; except that the Massachusetts School Building Authority, the Pension Reserves Investment Trust Fund, the Massachusetts Municipal Depository Trust, the Massachusetts State Lottery Commission, the Health Care Security Trust Fund, the Commonwealth of Massachusetts Owner Controlled Workers' Compensation and General Liability Insurance Program, the University of Massachusetts and all of the discretely presented component units are excluded. Accordingly, the accompanying Schedule of Expenditures of Federal Awards (Schedule) presents the federal award programs administered by the Commonwealth of Massachusetts (the Commonwealth), as defined above, for the year ended June 30, 2007.

(3) **Matching Costs**

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

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

The regulations and guidelines governing the preparation of federal financial reports vary by federal agency and among programs administered by the same agency. Accordingly, the amounts reported in the federal financial reports do not necessarily agree with the amounts reported in the accompanying Schedule which is prepared on the bases explained in note 1.

COMMONWEALTH OF MASSACHUSETTS

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2007

(5) Social Security Disability Insurance Program

The Massachusetts Rehabilitation Commission operates the Social Security-Disability Insurance Program (CFDA 96.001) and the Supplemental Security Income Disability Program (CFDA 96.006) under a single state appropriation and departmental program account. On an operating basis, expenditures are allocated between the programs based on medical expenses incurred; personnel and overhead costs are determined by the Social Security Central Office. For the fiscal year ended June 30, 2007 expenditures of \$17,253,147 were attributed to the Supplemental Security Income Disability Program.

(6) Noncash Awards

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

<u>CFDA Number</u>	<u>Program title</u>	<u>Noncash awards</u>
10.550	Food Donation	\$ 15,638,864
10.551	Food Stamps	454,963,057
93.268	Immunization Grants	47,793,534
	Total	<u>\$ 518,395,455</u>

Commodity inventories for the Food Donation Program at June 30, 2007 totaled approximately \$2,125,717.

(7) Federal Family Education (FFEL) and Federal Direct Student Loans (FDL)

The Schedule of Expenditures of Federal Awards does not include FFEL (CFDA 84.032) nor FDL (CFDA 84.268) which are made directly to individual students. For Massachusetts residents, FFEL loans are guaranteed by the American Student Assistance Corporation, which is not part of the reporting entity of the Commonwealth. FDL loans are made directly by the U.S. Department of Education. FFEL loans made to students enrolled in the Commonwealth's public institutions of higher education during fiscal year 2007 totaled \$97,545,197; FDL Loans totaled \$29,034,979.

(8) Federal Perkins Loan Program

The Federal Perkins Loan Program (CFDA 84.038) is administered by the Commonwealth's public institutions of higher education. Fiscal year 2007 activity, excluding the University of Massachusetts included federal revenues of \$35,243, loan repayments of \$2,739,727 and loan funds disbursed of \$2,285,716. Loans outstanding at June 30, 2007 totaled \$16,460,631.

COMMONWEALTH OF MASSACHUSETTS

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2007

(9) Unemployment Insurance Program (UI) CFDA 17.225

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

Commonwealth UI Funds	\$ 1,388,973,412
Federal UI Funds	<u>90,300,330</u>
Total expenditures	<u><u>\$ 1,479,273,742</u></u>

(10) Subrecipients

In OMB Circular A-133 § __.105 subrecipients are defined as nonfederal entities that expend federal awards received from a pass through entity to carry out a federal program, but do not benefit from that program. In fiscal year 2007, the Commonwealth passed through the following amounts to subrecipients:

<u>CFDA #</u>	<u>Federal program description</u>	<u>Expenditures</u>
10.025	Plant and Animal Disease, Pest Control, and Animal Care	\$ 5,990
10.156	Federal-State Marketing Improvement Program	20,275
10.163	Market Protection and Promotion	16,791
10.555	National School Lunch Program	147,268,180
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	66,334,216
10.558	Child and Adult Care Food Program	43,152,015
10.559	Summer Food Service Program for Children	4,530,845
10.560	State Administrative Expenses for Child Nutrition	234,327
10.561	State Administrative Matching Grants for Food Stamp Program	1,805,434
10.568	Emergency Food Assistance Program administrative costs	997,244
10.574	Team Nutrition Grants	64,417
10.664	Cooperative Forestry Assistance	410,357
10.676	Forest Legacy Program	398,281
10.913	Farm and Ranch Lands Protection Program	457,958
11.419	Coastal Zone Management Administration Awards	46,000
11.420	Coastal Zone Management Estuarine Research Reserves	24,424
11.452	Unallied Industry Projects	1,891,890
11.472	Unallied Science Program	14,223
11.499	Right Whale Conservation Program	397,140
14.182	Section 8 New Construction Program	4,158,692
14.228	Community Development Block Grants / State's Program	35,928,055
14.231	Emergency Shelter Grants Program	2,030,808

COMMONWEALTH OF MASSACHUSETTS

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2007

CFDA #	Federal program description	Expenditures
14.235	Supportive Housing Program	\$ 7,424,440
14.238	Shelter Plus Care	453,600
14.239	HOME Investment Partnerships Program	10,550,659
14.241	Housing Opportunities for Persons with AIDS	26,938
14.856	Lower Income Housing Assistance Program Section 8 Moderate Rehabilitation	15,297,616
14.871	Section 8 Housing Choice Vouchers	204,480,303
14.900	Lead-Based Paint Hazard Control in Privately Owned Housing	952,212
15.622	Sport fishing and Boating Safety Act	775,519
15.904	Historic Preservation Fund Grants-In-Aid	68,039
15.916	Outdoor Recreation Acquisition, Development and Planning	607,732
15.999	Dept of Interior – Miscellaneous	45,915
16.393	Residential Substance Abuse Treatment For State Prisoners	55,419
16.523	Juvenile Accountability Incentive Block Grants	884,064
16.540	Juvenile Justice and Delinquency Prevention Allocation to States	1,632,213
16.543	Missing Children’s Assistance	10,000
16.575	Crime Victim Assistance	6,601,014
16.579	Byrne Formula Grant Program	2,160,136
16.585	Drug Court Discretionary Grant Program	95,587
16.586	Violent Offender Incarceration and Truth in Sentencing Incentive Grants	1,289,240
16.588	Violence Against Women Formula Grants	1,486,461
16.595	Community Capacity Development Office	157,930
16.609	Community Prosecution and Project Safe Neighborhoods	28,795
16.610	Regional Information Sharing Systems	3,992,115
16.631	DNA Capacity	25,552
16.727	Enforcing Underage Drinking Laws Program	202,162
16.738	Edward Byrne Memorial Justice Assistance Grant Program	2,171,282
16.744	Anti-Gang Initiative	10,000
17.207	Employment Service	4,669,134
17.225	Unemployment insurance	317,134
17.235	Senior Community Service Employment Program	1,724,894
17.246	Employment and Training Assistance-Dislocated Workers	228,039
17.258	WIA Adult Program	10,414,729
17.259	WIA Youth Activities	15,507,075
17.260	WIA Dislocated Workers	17,633,706
17.266	Work Incentives Grant	751,740
17.267	WIA Incentive Grants Section 503 Grants to States	83,665
17.801	Disabled Veterans’ Outreach Program (DVOP)	46,162
17.802	Veterans’ Employment Program	265,700
17.804	Local Veterans’ Employment representative Program	52,534
17.805	Homeless Veterans Reintegration Project	179,838
20.205	Highway Planning and Construction	9,430,417
20.234	Safety Data Improvement Program	9,325
20.505	Federal Transit Metropolitan Planning Grants	2,025,937
20.507	Federal Transit Formula Grants	130,588

COMMONWEALTH OF MASSACHUSETTS

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2007

CFDA #	Federal program description	Expenditures
20.509	Formula Grants for Other Than Urbanized Areas	\$ 2,441,984
20.513	Capital Assistance Program for Elderly Persons and Persons with Disabilities	38,757
20.600	State and Community Highway Safety	2,793,718
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants	34,250
45.025	Promotion of the Arts Partnership Agreements	962,900
45.310	State Library Program	1,510,720
66.439	Targeted Watershed Grants	252,543
66.454	Water Quality Management Planning	179,827
66.456	National Estuary Program	30,500
66.463	Water Quality Cooperative Agreements	39,908
66.511	Office of Research and Development Consolidated Research/Training	92,671
66.605	Performance Partnership Grants	2,216,696
66.700	Consolidated Pesticide Enforcement Cooperative Agreements	48,769
66.805	Leaking Underground Storage Tank Trust Fund Program	67,827
66.817	State and Tribal Response Program Grants	50,079
66.940	Environmental Policy and State Innovation Grants	94,926
81.042	Weatherization Assistance for Low-Income Persons	5,901,440
81.087	Renewable Energy Research and Development	44,339
81.119	State Energy Program Special Projects	443,072
84.002	Adult education State Grant Program	7,957,296
84.010	Title I Grants to Local Educational Agencies	196,394,645
84.011	Migrant education State Grant Program	1,619,880
84.013	Title I Program for Neglected and Delinquent Children	1,027,724
84.027	Special Education Grants to States	244,591,108
84.048	Vocational Education Basic Grants to States	15,588,315
84.069	Leveraging Educational Assistance Partnership	966,753
84.126	Rehabilitation Services Vocational Rehabilitation Grants to States	6,862,066
84.128	Rehabilitation Services Service Projects	19,300
84.132	Centers for Independent Living	1,476,357
84.169	Independent Living State Grants	6,492
84.173	Special Education Preschool Grants	8,007,124
84.177	Rehabilitation Services Independent Living Services for Older Individuals Who are Blind	33,744
84.181	Special Education Grants for Infants and Families with Disabilities	4,227,094
84.185	Byrd Honors Scholarships	763,500
84.186	Safe and Drug-Free Schools and Communities State Grants	5,319,782
84.187	Supported Employment Services for Individuals with Severe Disabilities	213,729
84.196	Education for Homeless Children and Youth	710,300
84.206	Javits Gifted and Talented Students Education Grant Program	169,728
84.213	Even Start State Educational Agencies	3,525,409
84.224	Assistive Technology	352,263
84.243	Tech-Prep Education	1,465,912

COMMONWEALTH OF MASSACHUSETTS

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2007

CFDA #	Federal program description	Expenditures
84.255	Literacy Programs for Prisoners	\$ 104,800
84.282	Charter Schools	1,741,882
84.287	Twenty-First Century Community Learning Centers	16,215,481
84.298	State Grants for Innovative Programs	1,538,777
84.318	Education Technology State Grants	4,714,912
84.323	Special Education – State Personnel Development	142,315
84.330	Advanced Placement Program	354,758
84.332	Comprehensive School Reform Demonstration	2,138,824
84.334	Gaining Early Awareness and Readiness for Undergraduate Programs	3,506,440
84.352	School Renovation Grants	2,308,363
84.357	Reading First State Grants	12,534,326
84.358	Rural Education	48,766
84.365	English Language Acquisition Grants	9,198,620
84.366	Mathematics and Science Partnerships	1,856,954
84.367	Improving Teacher Quality State Grants	47,330,531
84.938	Hurricane Education Recovery	475,428
89.003	National Historical Publications and Records Grants	4,950
93.003	Public Health and Social Services Emergency Fund	6,086,643
93.042	Special Programs for the Aging Title VII, Chapter 2_Long Term Care Ombudsman Services for Older Individuals	735,839
93.044	Special Programs for the Aging Title III, Part B Grants for Supportive Services and Senior Centers	7,185,409
93.045	Special Programs for the Aging Title III, Part Nutrition Services	12,013,213
93.048	Special Programs for the Aging Title IV and Title II Discretionary Projects	66,084
93.052	National Family Caregiver Support	3,420,009
93.056	Nutrition Service Incentive Program	2,332,059
93.069	Public Health Emergency Preparedness	6,452,773
93.104	Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	1,170,185
93.110	Maternal and Child Health Federal Consolidated Programs	81,200
93.136	Injury Prevention and Control Research and State and Community Based Programs	445,389
93.150	Projects for Assistance in Transition from Homelessness (PATH)	1,099,957
93.153	Coordinated Services and Access to Research for Women, Infants, Children, and Youth	621,881
93.197	Childhood Lead Poisoning Prevention Projects State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	329,197
93.235	Abstinence Education Program	661,933
93.236	Grants for Dental Public Health Residency Training	7,133
93.241	State Rural Hospital Flexibility Program	5,962
93.243	Substance Abuse and Mental Health Services Projects of Regional and National Significance	382,429

COMMONWEALTH OF MASSACHUSETTS

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2007

CFDA #	Federal program description	Expenditures
93.268	Immunization Grants	\$ 138,657
93.276	Drug-Free Communities Support Program Grants	500
93.283	Centers for Disease Control and Prevention Investigations and Technical Assistance	2,685,997
93.551	Abandoned Infants	74,465
93.556	Promoting Safe and Stable Families	3,617,532
93.568	Low-Income Home Energy Assistance	100,911,144
93.569	Community Services Block Grant	14,970,985
93.576	Refugee and Entrant Assistance Discretionary Grants	2,934,904
93.583	Refugee and Entrant Assistance Wilson / Fish Program	2,106,671
93.590	Child Abuse Prevention Activities	434,115
93.597	Grants to States for Access and Visitation Programs	19,132
93.623	Basic Center Grant	100,000
93.630	Developmental Disabilities Basic Support and Advocacy Grants	489,896
93.631	Developmental Disabilities Projects of National Significance	184,714
93.643	Children's Justice Grants to States	149,307
93.645	Child Welfare Services State Grants	2,900
93.652	Adoption Opportunities	303,808
93.669	Child Abuse and Neglect State Grants	102,771
93.671	Family Violence Prevention and Services / Grants for Battered Women's Shelters Grants to States and Indian Tribes	1,284,837
93.674	Chafee Foster Care Independence Program	122,153
93.779	Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	653,515
93.786	State Pharmaceutical Assistance Programs	380,688
93.917	HIV Care Formula Grants	4,802,484
93.938	Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	84,478
93.940	HIV Prevention Activities Health Department Based	4,307,975
93.944	Human Immunodeficiency Virus (HIV) / Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	208,432
93.958	Block Grants for Community Mental Health Services	8,167,882
93.959	Block Grants for Prevention and Treatment of Substance Abuse	13,569,259
93.978	Preventive Health Services Sexually Transmitted Diseases Research, Demonstrations, and Public Information and Education Grants	5,640
93.991	Preventive Health and Health Services Block Grant	565,588
93.994	Maternal and Child Health Services Block Grant to the States	2,616,646
94.004	Learn and Serve America School and Community Based Programs	735,230
96.008	Social Security Benefits Planning, Assistance, and Outreach Program	1,591
97.005	State and Local Homeland Security Training Program	49,808
97.008	Urban Areas Security Initiative	6,424,936
97.017	Pre-Disaster Mitigation (PDM) Competitive Grants	665,138
97.029	Flood Mitigation Assistance	860,929

COMMONWEALTH OF MASSACHUSETTS

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2007

CFDA #	Federal program description	Expenditures
97.036	Public Assistance Grants	\$ 13,304,808
97.039	Hazard Mitigation Grant	195,297
97.063	Pre-Disaster Mitigation Disaster Resistant Universities	199,749
97.067	Homeland Security Grant Program	12,194,814
97.075	Rail and Transit Security Grant Program	3,692,772
97.078	Buffer Zone Protection Plan (BZPP)	414,786



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

Mr. Martin Benson, Comptroller
Commonwealth of Massachusetts:

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Massachusetts (the Commonwealth), as of and for the year ended June 30, 2007, which collectively comprise the Commonwealth's basic financial statements and have issued our report thereon dated December 24, 2007. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the University of Massachusetts, the State Colleges, certain Community Colleges, the Massachusetts Convention Center, the Massachusetts Development Finance Agency, the Massachusetts Technology Park Corporation, the Massachusetts Community Development Finance Corporation, the Commonwealth Corporation, the Massachusetts Life Sciences Corporation, the Community Economic Development Assistance Corporation, the Massachusetts Housing Partnership, the Route 3 North Transportation Improvement Authority, the Commonwealth Zoological Corporation, except for the Brockton Area Transit Authority the Regional Transit Authorities, and the Massachusetts Municipal Depository Trust, as described in our report on the Commonwealth's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

For purposes of this report, our consideration of internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts and grants, and other matters did not include the Massachusetts School Building Authority, the Pension Reserves Investment Trust Fund, the Health Care Security Trust Account, the Massachusetts State Lottery Commission, certain Community Colleges audited by us and certain discretely presented component units audited by us. We have issued separate reports on our consideration of internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters for these entities. The findings, if any, included in those reports are not included herein.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Commonwealth's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commonwealth's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Commonwealth's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be



significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies described as 2007-01, 2007-02, 2007-03, 2007-04, 2007-05, 2007-06, 2007-07 and 2007-46 in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above are material weaknesses.

Compliance and Other Matters

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

We have also noted certain additional matters that we reported to management of the Commonwealth in a separate letter dated December 24, 2007.

The Commonwealth's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit The Commonwealth's response and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the members of the Comptroller's Advisory Committee, management of the Commonwealth of Massachusetts, the Honorable Members of the General Court and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

December 24, 2007



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**Report on Compliance with Requirements Applicable
to Each Major Program and Internal Control Over
Compliance in Accordance with OMB Circular A-133**

Mr. Martin Benson, Comptroller
Commonwealth of Massachusetts:

Compliance

We have audited the compliance of the Commonwealth of Massachusetts (the Commonwealth) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2007. The Commonwealth's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Commonwealth's management. Our responsibility is to express an opinion on the Commonwealth's compliance based on our audit.

As discussed in note (2) to the schedule of expenditures of Federal Awards, the Commonwealth's basic financial statements include the operations of certain entities whose federal awards are not included in the Schedule of Expenditures of Federal Awards for the year ended June 30, 2007. Our audit, described below, did not include the operations of the entities identified in note (2) as these entities conducted separate audits in accordance with OMB Circular A-133, if required.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Commonwealth's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Commonwealth's compliance with those requirements.

As described in item 2007-35 and 2007-37 in the accompanying schedule of findings and questioned costs, the Commonwealth did not comply with requirements regarding subrecipient monitoring and procurement that are applicable to its Child Care and Development Block Grant, Child Care Mandatory and Matching Funds of the Child Care and Development Fund, and Temporary Assistance to Needy Families programs. Compliance with such requirements is necessary, in our opinion, for the Commonwealth to comply with the requirements applicable to that program.



In our opinion, except for the noncompliance described in the preceding paragraph, the Commonwealth complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2007-08, 2007-09, 2007-11, 2007-12, 2007-13, 2007-14, 2007-15, 2007-16, 2007-17, 2007-18, 2007-19, 2007-20, 2007-21, 2007-22, 2007-23, 2007-24, 2007-25, 2007-26, 2007-31, 2007-32, 2007-33, 2007-34, 2007-35, 2007-36, 2007-37, 2007-38, 2007-40, 2007-44, 2007-45, 2007-47, 2007-48, 2007-49, 2007-50, and 2007-51.

Internal Control Over Compliance

The management of the Commonwealth is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Commonwealth's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Commonwealth's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and others that we consider to be material weaknesses.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2007-09, 2007-10, 2007-11, 2007-12, 2007-13, 2007-14, 2007-15, 2007-16, 2007-17, 2007-19, 2007-20, 2007-21, 2007-22, 2007-23, 2007-24, 2007-25, 2007-26, 2007-27, 2007-28, 2007-29, 2007-30, 2007-31, 2007-32, 2007-33, 2007-34, 2007-35, 2007-36, 2007-37, 2007-38, 2007-39, 2007-40, 2007-41, 2007-42, 2007-43, 2007-44, 2007-45, 2007-46, 2007-47, 2007-48, 2007-49, 2007-50, and 2007-51 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, we consider items 2007-27, 2007-35, and 2007-37 to be material weaknesses.



The Commonwealth's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Commonwealth's responses, and accordingly, we express no opinion on them.

This report is intended solely for the information and use of the members of the Comptroller's Advisory Committee, management of the Commonwealth of Massachusetts, the Honorable Members of the General Court and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

March 19, 2008

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

(1) Summary of Auditors' Results

Basic Financial Statements

- a) Unqualified opinions were issued on the basic financial statements of the Commonwealth of Massachusetts (Commonwealth) as of and for the year ended June 30, 2007.
- b) The audit reported significant deficiencies in internal control in connection with the basic financial statements of the Commonwealth as of and for the year ended June 30, 2007. The significant deficiencies were not considered material weaknesses.
- c) The audit disclosed no instances of noncompliance that would be material to the basic financial statements of the Commonwealth as of and for the year ended June 30, 2007.

Single Audit

- d) The audit disclosed significant deficiencies in connection with the major federal programs of the Commonwealth for the year ended June 30, 2007. Certain significant deficiencies were considered to be material weaknesses.
- e) An unqualified opinion was issued on the Commonwealth's compliance with its major federal programs for the year ended June 30, 2007 except for the Temporary Assistance for Needy Families, Child Care and Development Block Grant, and Child Care Mandatory and Matching Funds of the Child Care and Development Fund programs for which the opinion was qualified.
- f) There were audit findings required to be reported under Section 510(a) of OMB Circular A-133 for the year ended June 30, 2007.
- g) The dollar threshold to determine Type A programs was \$30 million. The major federal programs of the Commonwealth for the year ended June 30, 2007 are as follows:

U.S. Department of Agriculture

- Food Stamp Cluster
- Child Nutrition Cluster
- Special Supplemental Nutrition Program for Women, Infants, and Children
- Child and Adult Care Food Program

U.S. Department of Housing and Urban Development

- Community Development Block Grants/State's Program
- Section 8 Housing Choice Vouchers

U.S. Department of Labor

- Unemployment Insurance
- WIA Cluster

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

U.S. Department of Transportation

- Highway Planning and Construction

U.S. Department of Education

- Title I Grants to Local Educational Agencies
- Special Education Cluster
- Rehabilitation Services – Vocational Rehabilitation Grants to States
- Improving Teacher Quality State Grants
- Student Financial Assistance Cluster

U.S. Department of Health and Human Services

- Immunization Grants
- Temporary Assistance for Needy Families
- Child Support Enforcement
- Low-Income Home Energy Assistance
- Child Care Development Fund Cluster
- Foster Care – Title IV-E
- Adoption Assistance
- Social Services Block Grant
- State Children’s Insurance Program
- Medicaid Cluster

Social Security Administration

- Social Security – Disability Insurance

h) The Commonwealth qualified as a low-risk auditee for the year ended June 30, 2007.

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

See accompanying pages 28 through 34 and pages 118 and 119.

(3) Findings and Questioned Costs Relating to Federal Awards

See accompanying pages 35 through 130.

Findings Related to the Financial Statements
in Accordance with *Government Auditing Standards*

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Operational Services Division

Approval of Contracts

Reference: 2007-01

Finding

Commonwealth policy requires the prior review of contracts and other agreements for the procurement of goods and services. The internal business process is such that increasing levels of review are necessary for successively larger dollar value contracts. For those contracts in excess of \$100,000 the Commonwealth requires that the contract be reviewed by the Operational Services Division (OSD). In 4 out of 30 contracts tested, we found that contracts were not reviewed in accordance with this requirement.

Further inquiry indicated that each such instance of non-compliance was isolated to a single employee in OSD who failed to follow the procedures as documented in Commonwealth policy.

Recommendation

We recommend that the Commonwealth evaluate the sufficiency of its monitoring controls to ensure that all employees know, understand and apply policies and procedures. The quality assurance bureau in OSD can assist in determining the level of compliance with Commonwealth policy.

Views of Responsible Officials

OSD reviewed the 4 contracts identified by the auditor as out of compliance with OSD's written procedures.

The auditor was correct in finding that one procurement manager at OSD had not conducted PC reviews in accordance with the written procedure and, in four cases, approved PC transactions without the required documentation. To address this issue, OSD has already implemented the following corrective actions:

- 1) OSD has reviewed and updated the PC Approval Process and Internal PC Checklist to reflect changes to contract forms.
- 2) OSD has provided training to each Procurement Group on the required procedures and updated checklist. The auditor's finding was discussed at OSD's senior management meeting and OSD's required procedure and checklist was reviewed with senior managers on January 3, 2008. All procurement managers have been trained by Procurement Directors on the PC Approval requirements.

OSD will be implementing the following additional procedures within the next 60 days:

1. OSD Quality Assurance will be conducting regular monthly audits of selected procurement manager's PC approvals to ensure compliance with OSD's required procedures.
2. OSD will develop an additional checklist for use by departments when submitting their request for PC Approval. Once finalized, the checklist will be posted on OSD's web page.

Responsible Official: Ellen Phillips, Deputy State Purchasing Agent and Chief Fiscal Officer

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Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Office of the Comptroller

Executive Office of Human Services

Recording of Capital Assets

Reference: 2007-02

Finding

The Commonwealth routinely purchases items that are considered to be capital assets. The Commonwealth's capitalization policy is outlined in Note 2 in the *2007 Comprehensive Annual Financial Report*. Throughout the year, the Commonwealth relies on departments to record capital asset activity using specific commodity codes if commodity based payments result in a fixed asset. In the case of a large project, costs are accumulated by the department with capital assets generated annually and recorded on MMARS. In the case of assets funded through capital allocations from Administration and Finance, a program code may be used to facilitate the tracking of expenditures. In all cases, summarization occurs and an entry is made to capitalize the activity through a regular cycle and again at the end of a fiscal year. During 2007, we noted \$84 million of capital asset additions that were discovered by the Executive Office of Health and Human Services during an internal review process that were recorded as assets during 2006 and were adjusted in 2007 by the Executive Office.

Recommendation

We recommend that the Comptroller's Office work with departments to evaluate and enhance the controls over the recording of capital asset additions. This can be accomplished through enhanced training to department staff responsible for the coding of invoices; periodic testing of expenditures to ensure compliance with object code classification; redesigning the business process by which capital asset additions are captured and recorded.

Views of Responsible Officials

The Commonwealth has in place job aids, three e-learning modules and fixed assets policies and procedures. We are also in the process of updating these files. The Comptrollers' Office is also in the process of enhancing reconciliation procedures of fixed assets to capital spending.

Responsible Official: BJ Trivedi, Financial Reporting and Analysis Bureau Director

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Department of Workforce Development and Office of State the Comptroller

Unemployment Compensation Activity

Reference: 2007-03

Finding

The unemployment compensation fund is one of the major funds in the Commonwealth's financial statements and is under the management control of the Department of Workforce Development (EOL). This fund records the financial activity related to the assessment and collection of unemployment taxes from employers as well as the payment of benefits to recipients. A significant portion of the available cash of the unemployment fund is maintained in an account at the U.S. Treasury.

In prior years, the expenditure of benefit payments was recognized based on the date of presentment of checks at the bank.

While many of the benefit checks clear within a matter of days, proper GAAP treatment requires that an expenditure be recognized no later than the issuance of the check itself, regardless of ultimate presentment. During 2007, we identified this matter and requested EOL and CTR to determine the proper expenditures for the year ended June 30, 2007. This required an adjustment to the books and records supporting the financial statements.

Recommendation

We recommend that Comptroller's Office and EOL establish policies, procedures and controls to ensure that financial activity is properly recorded in accordance with Commonwealth policy and in accordance with GAAP.

Views of Responsible Officials

In order to maintain eligibility for Unemployment Insurance (UI) benefits, Massachusetts General Law requires that a person conduct an active search for work in each week in which s/he claims benefits. This policy requires that a person must be approved for the benefit on a weekly basis; therefore, a portion of the year-end accrual for claims approved but not paid is a maximum of one-week's worth of benefit payments at the end of a fiscal year.

The payments paid after end of a fiscal year, which pertain to the previous year, will continue to be a part of this GAAP accrual. As per current practice, EOL provides OSC two updates of these payments in the GAAP reporting cycle. Any claims approved and paid but not redeemed by the beneficiary will be identified and reported as part of the GAAP liability. Refunds and abatements payable will also be included as part of the GAAP liability. For payments paid by other states on behalf of the Commonwealth, the gross amount will be identified instead of the net amount against a receivable of the similar nature.

The Comptrollers Office and EOL have commenced work in achieving these goals of updated disclosure for FY08.

Responsible Officials: Eric Berman, Deputy Comptroller

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Information Technology Division

Physical Access to the Chelsea Data Center

Reference: 2007-04

Finding

The administration of key cards providing physical access rights to the Chelsea, MA building which houses the Information Technology Division (ITD) Data Center is the responsibility of Lincoln Property Management (LPM). ITD and LPM authorized employees have access to the card access security application to administer key cards. Adequate monitoring is not performed over the activities performed by LPM as it relates to the granting and revoking of physical access to this mission critical facility that houses several mission-critical applications and systems.

Upon review of the access list for the card access security application, it was noted that user accounts were not removed for three (3) former employees that included two (2) LPM employees and one (1) ITD employee. In addition, an account named "RIS" exists for which it was not clear who owns and knows the password.

Lack of adequate monitoring of the activities of the property management company, increases the risk that inappropriate physical access is granted to unauthorized individuals.

The existence of unnecessary accounts on the card access security application increases the risk that an account is used inappropriately and the activity cannot be traced to a specific individual, resulting in an individual being granted unauthorized physical access to the ITD production facilities.

Recommendation

Management should monitor LPM's administration of the card access security system by periodically reviewing the user account listing to verify that only appropriate individuals have the ability to grant physical access to the facilities.

In addition, due to the sensitive nature of equipment and data within the Chelsea facility, management should implement a control to periodically review system logs of activity related to the granting and revoking of physical access rights to the facilities.

Views of Responsible Officials

Starting in January 2008, ITD Security Office – Systems Security Administration (SSA) will conduct a quarterly review of Lincoln's Properties Managements administrative accounts. SSA will also conduct an annual review of access to ITD's space within the MITC facility.

Responsible Official: Dick Bianco, ITD

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Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Commonwealth of Massachusetts

User Access Controls and Internal Control

Reference: 2007-05

Finding

“Department Fiscal – All Functions” (DFISC) security role in the MMARS application is provided by CTR to individuals after obtaining documented approval by the authorized department security officer. DFISC provides the user with access rights that result in segregation of duties conflicts as the users can initiate, process, and record transactions without intervention by another user.

Manual approval and monitoring controls designed to prevent and/or detect inappropriate activity via these accounts are the responsibility of department management. The number of users with DFISC level access to MMARS appears excessive as there are approximately 500 DFISC user accounts across all departments.

Lack of adequate enforcement of segregation of duties via logical access restrictions within the MMARS application increases the risk that unauthorized and/or inappropriate transactions are processed. The lack of an effective process for monitoring the activity of users who have this level of access increases the risk that unauthorized and/or inappropriate transactions are not detected timely or at all.

Recommendation

CTR management should perform a recertification of all DFISC accounts within the MMARS application to ensure that access is commensurate with users’ job responsibilities and take timely action to remediate exceptions.

CTR management should work with the individual departments to ensure that adequate manual controls are in place and operating effectively to prevent and/or detect inappropriate use of DFISC accounts.

Views of Responsible Officials

The DFISC role was specifically developed during MMARS implementation with the advice of CTR management, Department Advisors and audit team input to meet the needs of department managers that have very few staff or are highly decentralized. To acknowledge the level of access contained in this role, the security unit has taken a number of steps to educate Department Heads as they assign this role. CTR security staff has updated security policy to highlight the powerful nature of the DFISC role. CTR staff initiated a project to review DFISC access at the department level. The security unit has met with a number of departments individually to provide guidance on segregation of duties as well as conducting an annual briefing for Security Officers. The Quality Assurance Bureau receives a report of department user profiles prior to any site visits and monitors the use of DFISC roles as part of its review of department activity.

Responsible Official: Joan Shea, Deputy Comptroller

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Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Information Technology Division

Change Management – HR/CMS

Reference: 2007-06

Finding

Developers for the HR/CMS system are not restricted via logical access control from migrating system changes to the production environment and there is not a process in place to monitor the production environment to detect potential unauthorized changes. We noted four instances where ITD development personnel have migration abilities.

Lack of adequate enforcement of segregation of duties between development of system changes and migration of changes to the production environment increases the risk that unauthorized and/or inappropriate modifications are made to the system.

In addition, lack of a monitoring process designed to identify unauthorized changes increases the risk that unauthorized modifications are not detected in a timely manner.

Recommendation

Management should modify the change management process to require system changes to be implemented by individual(s) who do not have development responsibilities and modify security settings to restrict development personnel from migrating changes.

Where this cannot be achieved, management should implement a process to log and review all changes made to the HR/CMS system periodically to ensure that all changes performed are authorized, tested and approved.

Views of Responsible Officials

Starting immediately, we will limit production migrations to only three technical resources (1-primary, and 2-back-ups) instead of the four resources we have today. We will also implement individual UAIDs for migrations instead of using the generic ID/password. Technical resources will be restricted from migrating their own changes.

Starting this mid month, for a six week effort, a new report will be developed which will display the object, object type, date of modification and computer name to track application and database updates. This report will be run on a weekly basis and loaded to ViewDirect for audit purposes. The report will be reviewed on a weekly basis by the ITD ESS technical manager and the Director of Enterprise Systems Services to determine if an unauthorized application or database change has been made.

Responsible Official: Jodi Dongoske, ITD, Application Services Group, HRCMS and CIW

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Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Information Technology Division

Logical Access – Development Staff

Reference: 2007-07

Finding

Development staff have access to make modifications to stored procedures on the CIW database via use of a generic administrator (dbo) level account.

Procedurally, modifications to the database follow the change management process and are migrated by one individual (CIW Operations Coordinator), however, database administrators and developers who know the password to the shared account could bypass existing change management controls and make direct changes to the production database.

Lack of adequate enforcement of segregation of duties between development of changes and migration of changes to the production environment increases the risk that unauthorized and/or inappropriate modifications are made to the system. In addition, lack of a monitoring process designed to identify unauthorized changes increases the risk that unauthorized modifications are not detected in a timely manner.

Recommendation

Management should modify security settings to restrict development personnel from migrating changes.

Where this cannot be achieved, management should implement a process to log and review all changes made to the CIW database periodically to ensure that all changes performed are authorized, tested and approved.

Views of Responsible Officials

Starting immediately analysis will be conducted and Individual accounts will be established for the primary and backup administrator who has responsibility for migrations and modifications to the database.

Starting this mid month, for a six week effort, a new report will be developed which will display the object, object type, date to production, and UAID. This report will be run on a weekly basis and loaded to ViewDirect for auditing purposes. The report will be reviewed on a weekly basis by the ITD ESS technical manager and the director of enterprise systems services.

Responsible Official: Jodi Dongoske, ITD, Application Services Group, HRCMS and CIW

Findings and Questioned Costs Relating to
Federal Awards

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Views of Responsible Officials and Corrective Actions

Corrective action is in place to ensure that the Massachusetts WIC Nutrition Program conducts compliance investigations and follow up activities for the required minimum of 5% of identified high risk vendors in each fiscal year.

Massachusetts WIC has assigned additional resources on a permanent basis to this requirement. As important, the Program has made compliance investigations of all vendors identified as high risk, a top priority.

Procedures are as follows:

1) Vendors are identified as high risk through the WIC Vendor Management System which comprises the following reports: Variance in Amount Paid for Check Type 003, Vendor Gross Redemption Level Variance, Vendor Totals by Average Amount, and Vendor Totals by Processed Amount. In addition, WIC staff review the WIC Banking Website daily for unusual activity.

2) If violations are found in the initial compliance investigation, WIC conducts at least three more investigations in order to establish patterns of misconduct. Such patterns are required by Federal Regulations for successful legal proceedings.

3) Depending on the severity of violations, WIC issues warnings or terminates the vendor's contract with the state.

As of July 30, 2007, the number of identified high risk vendors was 90 for the Federal Fiscal Year 2007 (10/1/06-9/30/07). Investigations have been conducted on all 90 high risk vendors. Results to date are:

30 terminations

0 warnings issued

39 with ongoing investigations

21 no violations found

The Massachusetts WIC Nutrition Program is committed to ensuring that compliance investigations and follow-up action of the required 5% - or more – of high risk vendors is maintained.

Contact: Bonnie Brathwaite

Implementation Date: Completed as of June, 2007

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Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Department of Education

Child and Adult Care Food Program (10.558)

National School Lunch Program (10.555)

Summer Food Service Program (10.559)

Federal Award Number:	IN109044	Federal Award Year:	2006
	IN109044		2007
	IN202044		2006
	IN202044		2007
	IN109844		2006
	IN109844		2007
	IN109744		2006
	IN109744		2007

U.S. Department of Agriculture

Reference: 2007-09

Requirement

OMB Circular A-133 states a pass-through entity is responsible for ensuring that subrecipients expending \$500,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of OMB Circular A-133 and that the required audits are completed within 9 months of the end of the subrecipient's audit period; (2) issuing a management decision on audit findings within 6 months after receipt of the subrecipient's audit report; and (3) ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.

Finding

During state fiscal year 2007, the Department received more than \$43 million in Child and Adult Care Food Program grant funds and more than \$132 million in Child Nutrition Cluster grant funds. The Department, acting as the pass-through entity disbursed a majority of these Federal funds to local education agencies (LEAs), Child-Care Centers, Adult-Day Care Centers, Outside-School-Hour Care Centers, After-School At-Risk Programs, Emergency Shelters, and Day-Care Homes (collectively referred to as subrecipients) to initiate and maintain non-profit food service programs for eligible children and adults in nonresidential day care settings and provide healthy, nutritious meals to eligible children and encouraging the domestic consumption of nutritious agricultural commodities.

The Department's policy is that subrecipients are required to submit their A-133 Single Audits to the Department for review and follow up within nine months of their year end. Findings related the programs are reviewed and follow up is done as appropriate. Any findings are monitored by the program director to assure non-compliance is addressed and corrective action plans and a timetable are developed. Technical assistance is provided to

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

subrecipients by the Department as required to assure the corrective action plan is followed and compliance is achieved by the subrecipient. Management decision letters are prepared and issued when appropriate.

During our testwork we selected 30 subrecipients receiving Child and Adult Care Food Program grant funds and noted that 20 subrecipient files reviewed did not have an indication that A-133 reports had been received and reviewed.

During our testwork we selected 30 subrecipients receiving program Child Nutrition Cluster grant funds and noted that ten subrecipient files reviewed did not have an indication that A-133 reports had been received and reviewed.

We noted that the Department does not follow up on delinquent non-LEA A-133 reports and the Department does not have a formal sanctioning policy for non-LEA subrecipients who are continually unable or unwilling to submit their reports on a timely basis.

Recommendation

We recommend that the Department improve existing policies and procedures to ensure that it is monitoring its subrecipients in accordance with Federal regulations.

Related Noncompliance

The Department was not fully in compliance with the above requirements.

Questioned Costs

None

Views of Responsible Officials and Corrective Action

While we have made great strides in the collection of A-133 reports for our LEA's (which account for the majority of our federal funding) we acknowledge that we could improve on the collection process of non LEA's.

We will identify the year end of those programs that we have identified that should supply an A-133 report and work with our Nutrition programs to develop a sanctioning policy.

Contact: David LeBlanc, Director of Audit and Compliance

Implementation Date: March 31, 2008

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Department of Education

Special Education – Grants to States (IDEA, Part B) (84.027)

Special Education – Preschool Grants (IDEA, Preschool) (84.173)

Federal Award Number:	H027A040076	Federal Award Year:	2005
	H027A040076A		2005
	H027A050076		2006
	H027A050076A		2006
	H027A060076		2007
	H027A060076A		2007
	H173A0500039		2006
	H173A0600039		2007

U.S. Department of Education

Reference: 2007-10

Requirement

OMB Circular A-133 states a pass-through entity is responsible for monitoring the subrecipient's use of Federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and those performance goals are achieved.

Finding

The Program Quality Assurance (PQA) group is responsible for during-the-award monitoring of the program's subrecipients. The process consists of conducting on-site program reviews at each of the approximately 390 subrecipients on a six year cycle. Onsite reviews of the programs are performed in conjunction with Title I and Title II reviews. The PQA issues a findings report based on the results of their reviews. The subrecipient is required to submit a corrective action plan when findings are noted. When findings are noted Program policy is to perform a second onsite review (mid-cycle review) in the third year of the six year cycle to ensure that findings have been resolved.

As part of our testwork, we selected 40 subrecipients and reviewed documentation supporting the most recent onsite review by the PQA. If the PQA onsite review identified findings requiring a corrective action plan, KPMG then verified whether the PQA performed a mid-cycle review in the third year of the six year cycle. KPMG identified two instances in 31 reviews that required a mid-cycle review whereby the PQA did not perform the necessary mid-cycle review to follow up on previously identified findings.

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Recommendation

We recommend that the Department improve existing policies and procedures to ensure mid-cycle reviews are performed as required by Department policy.

Views of Responsible Officials and Corrective Actions

While it is accurate that the Mid-Cycle Review (MCR) was not conducted as originally scheduled in the 6 Year Monitoring Cycle, there were other activities that had been conducted to ensure implementation of corrective action. After a Corrective Action Plan is submitted to this agency, a formal review of the CAP is issued to the district which outlines progress report requirements that are submitted for review during the period between the CPR and the MCR. Those progress reports would include evidence of the steps that are being taken to implement changes.

However, to better ensure that all MCRs are being conducted on schedule, we are designing and implementing new reporting systems to enable the PQA Supervisors and Managers to better maintain tracking systems so MCRs are not postponed without a definite future target date and therefore not missed in the monitoring cycle. We are purchasing new software which will assist us with that tracking activity.

Contact: Darlene Lynch, Administrator, Program Quality Assurance

Implementation Date: June 30, 2008

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Department of Education

Title I Grants to Local Education Agencies (84.010)

Special Education – Grants to States (IDEA, Part B) (84.027)

Special Education – Preschool Grants (IDEA, Preschool) (84.173)

Improving Teacher Quality State Grants (84.367)

Federal Award Number:		Federal Award Year:	
S010A050021		2006	
S010A050021A		2006	
S010A060021		2007	
S010A060021A		2007	
H027A040076		2005	
H027A040076A		2005	
H027A050076		2006	
H027A050076A		2006	
H027A060076		2007	
H027A060076A		2007	
H173A0500039		2006	
H173A0600039		2007	
S367A0500020		2006	
S367A0500020A		2006	
S367A0600020		2007	
S367A0600020A		2007	

U.S. Department of Education

Reference: 2007-11

Requirement

Grantees and subgrantees shall be paid in advance, provided they maintain or demonstrate the willingness and ability to maintain procedures to minimize the time elapsing between the transfer of the funds and their disbursement by the grantee or subgrantee (34 CFR 80.21 (c)).

Finding

The Department provides Local Education Agencies (LEA or subrecipient) with quarterly cash payments supported by the LEA's expenditures to date and projected expenditures. All unexpended grant funds must be returned as part of the LEA's Final Report of grant activity through August 31 each year. While there is a provision for grant carryover of up to 15% from year to year, this carryover provision is for the "period of availability" of grant funds and not a waiver from the cash management requirements.

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In our sample of 80 LEAs with Title I Grants to Local Education Agencies and Improving Teacher Quality State Grants we noted carryover cash balances on hand for 7 LEAs that ranged from \$6,584,250 to \$45,204 that represented 17% to 5 % of amounts allocated to the LEA. These amounts and percentages suggest that the procedures used by the Department do not minimize the time elapsing from the transfer of the funds by the Department to the disbursements by the LEA and the LEA have cash on hand at the levels that exceeded the immediate cash needs of the programs.

In July of 2007, the Department switched to a monthly online cash request system which they contend will provide the needed corrective action for this finding.

Recommendation

We recommend that the Department implement policies and procedures to ensure compliance with Federal cash management requirements.

Related Noncompliance

The Department was not fully in compliance with the above requirements.

Questioned Costs

None

Views of Responsible Officials and Corrective Actions

Just for clarification, the 15% carryover rule only applies to Title 1 grants of \$50,000 or more, there is no limit for Title II-A. The Department did demonstrate to the auditors that it has written policies and procedures that require that unexpended grant funds (for all grants) at the end of the grant duration, must be returned for reallocation. The issue has been that because of the previous "quarterly payment" process, many grantees did not plan appropriately and had large unexpended balances to be returned at grants end.

For the sake of greater clarity, this finding is essentially a repeat from the prior year. In response to the original finding, the Department spent the majority of the last year developing the monthly, on-line payment process that is currently being fully implemented, and shows every sign of eliminating or significantly reducing any cash management issues for grantees. The new system imposes more budgetary controls on recipients by requiring more frequent requests, for smaller allotments that will much more closely match actual spending needs. The new process was developed with the support and assistance of the Mass Association of School Business Officials (MASBO), which is a major constituent group for federal grants management issues.

Contact: Ronald Honesty, Administrator of Grants Management

Implementation Date: September 1, 2007

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Massachusetts Highway Department

Highway Planning and Construction (20.205)

Federal Award Number:	BR-001-S-151-000	Federal Award Year:	2005
	BR-001-S-307-X00		2005
	STP-001-S-272-X00		2004
	STP-001-S-424-X00		2005

U.S. Department of Transportation

Reference: 2007-12

Requirement

The contractor shall submit weekly for each week in which any contract work is performed a copy of all payrolls to the (write in name of appropriate Federal agency) if the agency is a party to the contract, but if the agency is not such a party, the contractor will submit the payrolls to the applicant, sponsor, or owner, as the case may be, for transmission to the (write in name of agency). The payrolls submitted shall set out accurately and completely all of the information required to be maintained under Sec. 5.5(a)(3)(i) of Regulations, 29 CFR part 5. This information may be submitted in any form desired. Optional Form WH-347 is available for this purpose and may be purchased from the Superintendent of Documents (Federal Stock Number 029-005-00014-1), U.S. Government Printing Office, Washington, DC 20402. The prime contractor is responsible for the submission of copies of payrolls by all subcontractors.

Each payroll submitted shall be accompanied by a "Statement of Compliance," signed by the contractor or subcontractor or his or her agent who pays or supervises the payment of the persons employed under the contract and shall certify the following:

- That the payroll for the payroll period contains the information required to be maintained under Sec. 5.5(a)(3)(i) of Regulations, 29 CFR part 5 and that such information is correct and complete;
- That each laborer or mechanic (including each helper, apprentice, and trainee) employed on the contract during the payroll period has been paid the full weekly wages earned, without rebate, either directly or indirectly, and that no deductions have been made either directly or indirectly from the full wages earned, other than permissible deductions as set forth in Regulations, 29 CFR part 3;
- That each laborer or mechanic has been paid not less than the applicable wage rates and fringe benefits or cash equivalents for the classification of work performed, as specified in the applicable wage determination incorporated into the contract. (29CFR5.5(a)(3)(ii) (A) and (B))

COMMONWEALTH OF MASSACHUSETTS

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Finding

The Department has established policies and procedures to ensure that the Statement of Compliance be received by the Department within seven days after the regular date of a payroll period, including a policy that the Department will not process and approve payment for work completed until the certified payrolls were submitted and reviewed.

In four of 30 invoices tested involving 66 pay weeks, it was noted that in nine (9) instances the prime contractors had not submitted both the Weekly Statement and the Statement of Compliance to the Department by the time the Construction Quantity Estimate was approved for payment by the Director of Construction. In eight (8) instances, the certified payrolls were not submitted, while in one (1) instance the package was submitted a month late.

A similar finding was included in the prior year Single Audit report as finding number 28 on page 117.

Recommendation

We recommend that the Department strengthen its policies, procedures and contract provisions to ensure that all contractors and subcontractors submit their certified payrolls within seven days after the pay date of a payroll period.

Related Noncompliance

The Department was not fully in compliance with this requirement.

Questioned Costs

None

Views of Responsible Officials and Corrective Actions

The Construction Division processes thousands of Contractor Quantity Estimates (CQEs) every year. The requirement that Certified Payrolls be received from the contractor prior to payment is reviewed periodically with the field staff and, we believe, well understood.

The Construction Division uses a computerized system (the Site Access Module, SAM) to create the pay estimates in the field office. IT will be requested to add a feature to the SAM application that requires the Resident Engineer to record that the certified payrolls have been received before the CQE can be processed.

Contact: Michael McGrath, Director of Construction

Implementation Date: Programming should be complete by the end of February. Full implementation by March 31, 2008.

COMMONWEALTH OF MASSACHUSETTS

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Year ended June 30, 2007

Massachusetts Highway Department

Highway Planning and Construction (20.205)

Federal Award Number:	BRK-447-6-001-000	Federal Award Year:	1999
	BRO-000-S-505-000		1996
	BRZ-000-S-566-X00		1999
	STP-000-S-099-X00		1997
	STP-311-5-001-AC		2001

U.S. Department of Transportation

Reference: 2007-13

Requirement

Grantees and subgrantees must not make any award or permit any award (subgrant or contract) at any tier to any party which is debarred or suspended or is otherwise excluded from or ineligible for participation in Federal assistance programs under Executive Order 12549, "Debarment and Suspension." (49CFR 18.39)

Except as otherwise provided, records must be retained for three years from the starting date specified in paragraph (c) of this section. (49CFR18.42 (b))

When grant support is continued or renewed at annual or other intervals, the retention period for the records of each funding period starts on the day the grantee or subgrantee submits to the awarding agency its single or last expenditure report for that period. However, if grant support is continued or renewed quarterly, the retention period for each year's records starts on the day the grantee submits its expenditure report for the last quarter of the Federal fiscal year. In all other cases, the retention period starts on the day the grantee submits its final expenditure report. If an expenditure report has been waived, the retention period starts on the day the report would have been due. (49CFR18.42 (c))

Finding

During the pre-qualification process for a consultant or contractor to become eligible to submit a proposal, the Department required its potential contractors to submit a signed statement that indicates the organization is not debarred from performing work of any kind by any federal agency or authority. The Department does not have to comply with Title 801 Part 21.00, *Code of Massachusetts Regulation* and the "Procurement Policies and Procedures Handbook," since they exempt horizontal construction, e.g. roads, bridges, tunnels. As a result, those participating in horizontal construction activities do not complete the Commonwealth's Terms and Conditions, which requires the contractor to certify that it is not suspended or debarred from federal procurements.

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Of the 20 contracts selected for testing, eight contracts related to consultants and 12 to construction. The Department did not have adequate evidence of monitoring suspension and debarment for six of the 20 selections. Three (3) of the debarment certificates were not available since the records had been purged. Two of those three related to construction, while one related to consulting services. For three (3) additional consultant contracts, the signed statements on file were dated earlier than 2 years before the contract was executed. The Department's prequalification policies require that a debarment and suspension statement be obtained from consultants biennially.

Recommendation

The Department should strengthen policies and procedures over record retention and suspension and debarment.

Related Noncompliance

The Department was not fully in compliance with the requirements above

Questioned Costs

None

Views of Responsible Officials and Corrective Actions

The Departmental policy regarding records retention in the Construction Prequalification Section was changed in 2004. Prior to 2004, the Department discarded Suspension and Debarment certificates after recording them on their Database. Since 2004, original prequalification applications (which are prepared and signed by the contractor on a yearly basis) are retained in separate files for the period as outlined in the records retention policies and recorded on the Database. The two certificates noted above relating to Construction were for contracts dated 1997 and 2001.

The Design/Consultant Prequalification section currently has proper procedures in place regarding records retention and suspension and debarment. This section follows 801 CMR 21.00 and requires the Standard Contract Form and the Terms and Conditions for all contracts. The contracts in question date back to 1995 and 1997. The contracts in question were completed and accepted by FHWA. Additionally a consultant could not be chosen unless listed in database as prequalified.

Contact: Carol Hebb, Acting Director of Research and Materials

Implementation Date: In process. Target Date June 30, 2008 for revised direction to the field.

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Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Massachusetts Highway Department

Highway Planning and Construction (20.205)

Federal Award Number:	PL-001-S-630-000	Federal Award Year:	2006
	SOS-001-S-562-000		2006
	PL -001-S-746-000		2007
	SPR-001-S-540-000		2005

U.S. Department of Transportation

Reference: 2007-14

Requirement

In accordance with Office and Management and Budget Circular A-133, "Audits of States, local Governments and Non-Profit Organizations," a pass-through entity is responsible for ensuring that required audits are completed within nine months of the end of the subrecipient's fiscal year end. In cases on the continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.

Finding

The fiscal year end for all of the Department's Planning Organizations who are considered subrecipients of the Department is June 30th. Two of the Department's 13 Planning Organizations have not submitted their A-133 reports for fiscal year 2006 which were due by March 31, 2007. One of the two subrecipients had not submitted an audit report for fiscal years 2004 through 2006. Beginning in June 2006, the Department began a sanctioning process in order to get the subrecipient to submit their delinquent reports. The status of the other subrecipient's 2006 audit has been documented in the file but no action has been taken to obtain the report.

Recommendation

The Department should strengthen its policies and procedures to ensure all OMB Circular A-133 reports are received on a timely basis and to timely implement sanctions for those subrecipients who are delinquent in submitting their reports.

Related Noncompliance

The Department was not fully in compliance with this requirement.

Questioned Costs

None

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Year ended June 30, 2007

Views of Responsible Officials and Corrective Actions

The Department has notified Nantucket (1) that additional sanctions will be implemented if their single audit reports are not received by December 31, 2007. Audit Operations and Highway Planning will continue to monitor the subrecipient closely until all reports are received. Pioneer Valley's (2) 2006 audit report has since been received by the Department. Highway Planning and Audit Operations will continue to improve the communications between the two units to ensure complete documentation of the status of all subrecipient audit reports and more timely action regarding late reports.

Contact: David Mohler, Acting Deputy Secretary for Transportation and Planning

Implementation Date: Currently in process

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Year ended June 30, 2007

Massachusetts Highway Department

Highway Planning and Construction (20.205)

Federal Award Number: RCA-56 (001)X **Federal Award Year:** 2001

U.S. Department of Transportation

Reference: 2007-15

Requirement

A State DOT or LPA must have a sampling and testing program for construction projects to ensure that materials and workmanship generally conform to approved plans and specifications (23 CFR section 637.205).

Finding

The Massachusetts Highway Department has established an independent assurance program that requires all materials used in construction projects to be sampled and tested in accordance with the Department's Guide Schedule for Sampling and Testing Materials contained in the 1987 Materials Manual. The one exception to that policy is when the material delivered is of a "small amount," which is not further defined.

Of the 30 materials selected from Department projects completed in fiscal year 2007, it was noted that tests were not made for one line item of temporary materials. The bituminous concrete materials for that line item were received from vendors on eight different occasions. Department personnel noted that the practice is to allow the resident engineer to perform a visual inspection of temporary materials at his/her discretion. The Department's Quick Reference to Sampling, Testing and Certification Requirements (Revised February 1995) indicates that plant inspections are required for bituminous concrete used for patching, depending on the quantity.

Recommendation

The Department should strengthen its policies and procedures to clarify the definition of small for each type of material, and the requirements for testing temporary materials to ensure all materials are sampled as required.

Related Noncompliance

The Department was not fully in compliance with this requirement.

Questioned Costs

None

COMMONWEALTH OF MASSACHUSETTS

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Year ended June 30, 2007

Views of Responsible Officials and Corrective Actions

The Department acknowledges that the term “Small Quantity” is not defined. It is intended to allow the field staff some latitude for judgment on a case-by-case basis. However, the Research and Materials Section will review the various uses of Small Quantity, particularly as it relates to temporary paving, and establish some parameters to define appropriate use of the category.

Contact: Tom DiPaolo, Assistant Chief Engineer,
Michael Schwartz, Construction Contract Engineer

Implementation Date: Currently in process

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Schedule of Findings and Questioned Costs

Year ended June 30, 2007

North Shore Community College

Federal Family Education Loans (84.032)

Federal Award Number: None **Federal Award Year:** None

U.S. Department of Education

Reference: 2007-16

Requirement

A school shall unless it expects to submit its next student status confirmation report to the Secretary within the next 60 days, notify the Secretary or the guaranty agency, as appropriate; within 30 days if it discovers that a Stafford, SLS, or PLUS loan has been made to or on behalf of a student who has enrolled at that school but has ceased to be enrolled on at least a half-time basis; has been accepted for enrollment at that school but failed to enroll on at least a half-time basis for the period for which the loan was intended; has ceased to be enrolled on a full-time basis, or has changed his or her permanent address (34 CFR 682.610(c)(2)).

Finding

NSCC's policy is to report student enrollment to NSLDS three times each semester. During our audit we noted that for three of the six students sampled, who received Stafford Loans, NSCC did not notify the National Student Loan Data System (NSLDS) of student status changes as required by regulations. We noted that the students in question had unofficially withdrawn (walk-away) from NSCC at approximately midpoint during the semester, however, their status was not communicated to the registrar. As a result, the subsequent Student Status Confirmation Report incorrectly listed the students as being full-time, rather than withdrawn. In two of the three cases, the students were still listed as being full-time as of October of 2007.

Timely reporting of enrollment data for federal student loan borrowers is critical because student enrollment status determines the date a federal loan borrower enters a grace or repayment period, the timing of the government's payment of interest subsidies, and whether a borrower is eligible for in-school deferment privileges.

The delays in notifying the NSLDS were caused by the department responsible for reporting this information being in transition at the time and has acknowledged the oversight. They have since communicated with NSLDS regarding their reporting requirements and will be implementing a better reporting procedure effective immediately.

Recommendation

We recommend that NSCC implement procedures to ensure the timely reporting of enrollment data to NSLDS in accordance with federal regulations requirements.

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Related Noncompliance

NSCC was not fully in compliance with the above stated requirement.

Questioned Costs

None

Views of Responsible Officials and Corrective Actions

During fiscal year 2007, the responsibility for the reporting of student status changes has been transitioned to the Director of Enrollment and Student Records office. Policies and procedures are being reviewed, revised and documented. A reporting schedule has been established and implemented with the National Student Loan Data System. The College expects that the transition and appropriate reporting structures will be in place and that the College will be in full compliance by December, 2007.

Contact: Donna Richemond, Vice President of Student & Enrollment Services

Implementation Date: December 2007

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Schedule of Findings and Questioned Costs

Year ended June 30, 2007

North Shore Community College

Federal Work Study Program (84.033)

Federal Award Number: PO33A061917 Federal Award Year: 2006 to 2007

U.S. Department of Education

Reference: 2007-17

Requirement

The institution may use FWS funds only for awards to students, a Job Location and Development (JLD) Program, Work-Colleges Program, administrative costs, and transfers to FSEOG (34 CFR sections 675.18 and 675.33).

The students' wages are earned when the work is performed. The institution shall pay the student at least once per month. The Federal share must be paid by check or similar instrument the student can cash on his or her endorsement, or as authorized by the student, by crediting FWS funds to a student's account or by EFT to a bank account designated by the student. The institution may only credit the account for tuition, fees, institutional room and board, and other school-provided goods and services (34 CFR section 675.16).

The institution must also establish and maintain program and fiscal records that include a certification by the student's supervisor, an official of the institution or off-campus agency that each student has worked and earned the amount being paid. The certification must include or be supported by, for students paid on an hourly basis, a time record showing the hours each student worked in clock time sequence, or the total hours worked per day;(34 CFR 675.19 (b)(2)(i))

Finding

North Shore Community College (NSCC) has established policies and procedures for maintaining, monitoring and controlling NSCC's student Federal Work Study (FWS) payroll records and files in accordance with both Federal and State regulations.

Our audit procedures included tests for proper authorization, supporting documentation, accuracy, completeness, timeliness, and adherence to award specifications. In our sample of 17 students, which involved a review of 374 timesheets taken from payrolls in the fall 2006 and the spring 2007 semesters, we noted the following:

- Timesheet preparation in general tended to be done haphazardly and incompletely. We noted dates were missing, incorrect, or did not correspond to the pay period.
- Timesheets used by various departments were inconsistent in format.
- There is no procedure for tracking ongoing individual student expenditures to ensure that students are not earning beyond their stipulated contract amount.

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- FWS disbursements were incorrectly posted within the Financial Aid Module of the NSCC's information system (Banner).
- Timesheets are prepared and submitted to payroll in advance resulting in estimating hours that may be worked during the week.
- 9 timesheets totaling \$732 could not be located for pay periods for which students were paid.
- 30 timesheets were calculated incorrectly, resulting in both overpayments and underpayments totaling \$1,774. (In 15 instances, students were paid more than actual hours worked during a pay period totaling \$867. In another 15 instances, students were paid less than actual hours worked during a pay period totaling \$907).
- 31 timesheets totaling \$2,874 did not include the signature/initials of the student.
- 59 timesheets totaling \$5,961 did not include the signature of a supervisor.
- One timesheet totaling \$164 was signed by the supervisor before the student signed.
- One timesheet totaling \$128 appeared to be completed by someone other than the work-study student.
- 9 students worked during periods for which they had no contract, covering 27 weeks totaling \$3,456.
- Work-study payments exceeded amount authorized in 19 students' contracts totaling \$6,276. These payments ranged from \$14 to \$768.
- We noted 53 instances totaling \$1,860 where students worked more than the 15 hours per week stipulated in NSCC's work-study policy. The range of hours exceeding 15 hours per week was between .25 and 14 hours.

When apprised of the weaknesses noted in our audit, NSCC personnel immediately began development of a system that included monitoring mechanisms with required supporting documentation in a consistent format, to ensure FWS compliance with federal guidelines and internal policies and procedures.

Questioned costs were determined by adding the above noted amounts.

Recommendation

We recommend that NSCC establish and/or strengthen existing policies and procedures to ensure that federal regulations related to the Federal Work Study program are complied with.

Related Noncompliance

NSCC was not fully in compliance with the above stated requirements.

Questioned Costs

\$23,225

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Views of Responsible Officials and Corrective Actions

North Shore Community College has taken immediate steps to review, revise and document its Policies and Procedures related to Federal Work Study. The following actions have been implemented:

1. In November of 2007, the HR/Payroll supervisor and FWS Coordinator conducted mandatory training to FWS supervisors and time keepers. A training packet was disseminated providing an overview of the FWS procedural processes, process improvement changes, and an overview of the responsibilities of the individuals who maintain time and attendance records.
2. HR/Payroll changed the time reporting day for Federal Work study to Friday at 12:00pm each week to eliminate prediction of hours. If a student works beyond the 12:00 cut off for reporting time, those hours will be recorded in the next pay period. This change will facilitate the reporting and payment of actual FWS hours worked.
3. The Payroll Office created a new standardized time slip and reporting template for work-study students requiring the use of clock hours, and reported time in and out. Additionally, specific reporting requirements have been detailed on the time slip as a continuous reminder of the reporting requirements:
 - Time slips must be submitted in actual pay period being paid.
 - Hours will be actual hours worked.
 - All breaks and lunches must be recorded
 - Hours worked are not to exceed the 15 hour limit per week
 - Supervisors will check addition on time slips for accuracy prior to signing
 - Signatures must be full name of student and supervisor (no initials)
4. HR/Payroll supervisor will conduct audits with attendance timekeepers to check on departmental compliance with attendance reporting procedures.
5. Overpayments of FWS funds were reviewed by HR/Payroll Office and all disbursements verified as overpayments were reimbursed to US Department of Education in November, 2007. Underpayments due respective FWS students have been paid from College funds during the month of November, 2007.
6. The Payroll Office, FWS Coordinator and Information Systems are working in concert to implement a sub-module within Banner financial aid called Student Employment for both on-campus and off-campus FWS employment. On a bi-weekly basis the FWS paid through HRCMS will be extracted from the Commonwealth's Information Warehouse, the exact hours worked and gross pay. This data will be used to update the RPAAWRD form by aid year and by semester. In addition, a work history will reside within the Student employment module. This data will provide timely and accurate data to monitor and reconcile individual student expenditures to ensure that students are not earning beyond their stipulated contract amount. The implementation is scheduled to go live in December, 2007.
7. The FWS Coordinator and HR/ Payroll supervisor will ensure that contracts and amended contracts are in place prior to FWS payroll disbursements. FWS awards for each student will be entered in the Earning Cap screen in HRCMS. Payroll will monitor students who are approaching their total award

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

amount and notify FWS Coordinator. If an adjustment is needed, the FWS Coordinator will send a revised contract with new contract amount to HR/Payroll.

Contact: Donna Richemond, Vice President of Student & Enrollment Services

Madeline Wallis, Vice President Human Resources

Implementation Date: December 2007

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Schedule of Findings and Questioned Costs

Year ended June 30, 2007

North Shore Community College

Federal Supplemental Educational Opportunity Grants (84.007)

Federal Family Education Loans (84.032)

Federal Pell Grant Program (84.063)

Federal Award Number: Various

Federal Award Year: Various

U.S. Department of Education

Reference: 2007-18

Requirement

The Department of Education's program review report with Program Review Control Number 20640725386 cites the following Federal Regulations: 34 CFR 668.8, 34 CFR 668.9, 34 CFR 668.16, 34 CFR 668.20, 34 CFR 668.32, 34 CFR 668.34, 34 CFR 668.42, 34 CFR 668.43, and 34 CFR 668.82.

Questioned Costs

On August 30, 2007, the Federal Department of Education (ED) issued a Final Determination Program Review report (the Report) containing two findings covering the administration of the College's Title IV programs related to federal aid awarded to students who received English as a Second language instruction. ED has asserted in the report that the College must repay approximately \$2.3 million in federal student financial aid awarded from 2003 to 2006. The College's management, in consultation with legal counsel and in accordance with the appeal process outlined in the Report, has appealed the findings and taken other appropriate actions in response to the Report. Management has determined that the findings identified in the Report will remain open until resolution of these actions.

Views of Responsible Officials

North Shore Community College disagrees with the questioned costs of approximately \$2.3 million and disputes the factual and legal conclusions in the findings concerning the administration of the Federal Student Financial Assistance Programs contained in the Final Determination Program Review Report (FDPR) dated August 30, 2007. College management, in consultation with legal counsel and in accordance with the appeal process outlined in the FDPR, has appealed the findings and taken other appropriate actions in response to the FDPR. The College understands that KPMG is identifying this item, neither agreeing nor disagreeing with the FDPR, and is reporting this item 2007-18 as required under *Government Auditing Standards*.

Contact: Janice M. Forsstrom, Vice President for Administration and Finance

Implementation Date: Ongoing

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Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Springfield Technical Community College

Federal Supplemental Educational Opportunity Grants (84.007)

Federal Work Study Program (84.033)

Federal Pell Grant Program (84.063)

Federal Direct Student Loans (84.268)

Federal Award Number: Multiple Federal Award Year: 2003 to 2007

U.S. Department of Education

Reference: 2007-19

Requirement

An institution must exercise the level of care and diligence required of a fiduciary with regard to maintaining and investing title IV, HEA program funds (34CFR Section 668.163(e)).

Finding

Springfield Technical Community College (STCC) maintained only one individual account for each student for billing and receiving of all students' funds and commingles Federal Student Aid (FSA) with other sources of funds. By co-mingling FSA funds in this manner STCC assumed a heightened fiscal responsibility over monitoring FSA funds within each individual student account to be able to determine the composition of charges and credits within this account at any point in time. It was noted that when a student has a credit balance in their account, STCC paid the credit balance by check to the student when the student leaves the college. It was noted that some of these checks are not cashed and remain outstanding.

A review of STCC's main bank account as of June 30, 2007 identified 390 student checks totaling \$58,224 that had been outstanding for 6 months to 3 years, 9 months. These checks represented student refunds, for Federal and State financial aid and non-financial aid.

An aging of these checks were as follows:

Outstanding	Number of Checks	Amount
6 months to 1 year	57	\$12,404
Over 1 year to 2 years	134	17,842
Over 2 years to 3 years	105	15,709
Over 3 years	<u>94</u>	<u>12,269</u>
Totals	<u>390</u>	<u>\$58,224</u>

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

It was noted that STCC does not have policies and procedures for the timely review and resolution of outstanding checks related to student charges to ensure that these outstanding checks were returned to the respective FSA program or escheated to the Commonwealth in accordance with Commonwealth regulations. By not resolving these outstanding checks in a timely manner STCC is not adhering to its fiscal responsibility to its students and its FSA programs under Title IV.

Questions costs cannot be determined as FSA funds are co-mingled with State and other funds.

Recommendation

We recommend that STCC establish policies and procedures to ensure that outstanding checks which include Federal funds are timely identified and returned to the respective program

Related Noncompliance

STCC was not fully in compliance with the above stated requirement.

Questioned Costs

Cannot be determined

Views of Responsible Officials and Corrective Actions

We concur with the recommendation and will establish policies and procedures for fiscal year 2008 to ensure that outstanding checks which include Federal funds are timely identified and returned to the respective program.

Contact: Catherine Olson

Implementation Date: December 1, 2007

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Springfield Technical Community College

Federal Work Study Program (84.033)

Federal Award Number: PO33A061944 **Federal Award Year:** 2006 to 2007

U.S. Department of Education

Reference: 2007-20

Requirement

The institution may use FWS funds only for awards to students, a Job Location and Development (JLD) Program, Work-Colleges Program, administrative costs, and transfers to FSEOG (34 CFR sections 675.18 and 675.33).

The student's wages are earned when the work is performed. The institution shall pay the student at least once per month. The Federal share must be paid by check or similar instrument the student can cash on his or her endorsement, or as authorized by the student, by crediting FWS funds to a student's account or by EFT to a bank account designated by the student. The institution may only credit the account for tuition, fees, institutional room and board, and other school-provided goods and services (34 CFR section 675.16).

The institution must also establish and maintain program and fiscal records that include a certification by the student's supervisor, an official of the institution or off-campus agency that each student has worked and earned the amount being paid. The certification must include or be supported by, for students paid on an hourly basis, a time record showing the hours each student worked in clock time sequence, or the total hours worked per day;(34 CFR 675.19 (b)(2)(i))

Finding

Springfield Technical Community College's (STCC) has established policies and procedures for maintaining, monitoring and controlling STCC's student Federal Work Study (FWS) payroll records and files in accordance with both Federal and State regulations.

Our audit procedures included tests for proper authorization, supporting documentation, accuracy, completeness, timeliness, and adherence to award specifications. In our sample of 24 students, which involved a review of 315 timesheets taken from payrolls in the fall 2006 and the spring 2007 semesters, we noted the following:

- 10 students were paid more than their FWS award amount. These over payments totaling \$13,208 ranged from \$400 to \$3,000. STCC officials stated that award adjustments were made during the semester to redistribute FWS amounts to eligible students. However, our review of the individual student file folders for these 10 students showed there was no official Amended Award Letter from STCC in their files notifying these students of an increase in their awards as required by Federal regulation.

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

- 16 students were awarded federal work study amounts totaling \$16,975 in excess of the \$2,400 allowed maximum stated in the STCC's policies and procedures. Students are allowed to exceed the \$2,400 limit if determined eligible by the Financial Aid Office. However, we found that students were allowed to work and exceed initial award limits prior to a determination being made and an amended award notification made to the FWS student.
- 16 students had 80 timesheets indicating that they exceeded 20 hours of employment, which is contrary to the STCC policy that prohibits a student from working over 20 hours per week without prior Financial Aid Office approval. The wages paid exceeded the 20 hour policy limit by \$3,644 for these students.
- 5 students worked on a holiday in violation of STCC policy with no indication of allowability and supervisory approval. This resulted in \$127 in additional wages to these students. Three of these timesheets were later adjusted by the payroll clerk, whereby the students were not paid for these days.
- 10 students worked during spring semester break in violation of STCC's policies without consulting and receiving approval from the Financial Aid Office. This resulted in \$1,123 in additional wages to these students.
- 4 students who earned \$12,241 in FWS wages did not have a written work study contract on file as required by STCC's policies.
- 3 students had 30 timesheets totaling \$6,232 which were signed by a person not listed as a supervisor or alternative approved signature. STCC is required by 34 CFR 675.19 (2)(i) to establish fiscal procedures in order to have safeguards in place over the certification of student's FWS program work prior to making a payment to the student.
- 4 students worked numerous hours during scheduled classroom hours in violation of STCC's policies. Three of these students had academic warning letters in their file folders indicating they had not completed some of their courses, while the other student was notified of unsatisfactory progress.
- 2 timesheets submitted by students working over 6 consecutive hours in a day and did not have a half hour deducted for lunch as required by STCC policy and Massachusetts State Laws
- Students' supervisors at work study sites were not initialing daily entries to timesheets as required by STCC's policies and procedures

STCC officials stated that the many of the policies and corresponding numbers for hours worked and FWS award limitation of \$2,400 cited in the STCC's student financial aid procedures manual were general guidelines. STCC officials stated that they would have to review these policies and update the wording and numbers cited in their procedures manual. Further they stated there were problems in getting adjusted award amounts onto its Datatel electronic system on a timely basis. STCC cited staffing shortages and workload distribution as contributing factors.

Questioned costs were determined by adding the above noted amounts.

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Recommendation

We recommend that STCC follow establish policies and procedures to ensure that federal regulations related to the Federal Work Study program are complied with.

Related Noncompliance

STCC was not fully in compliance with the above stated requirements.

Questioned Costs

\$53,550

Views of Responsible Officials and Corrective Actions

We concur with the recommendation and will revise the existing policies and procedures to ensure that federal regulations related to the Federal Work Study program are complied with. We disagree with questioned costs of \$53,550 because we believe that payments were properly made to students during the audit period. The observations noted in this finding resulted from deviation from the college's own policies and procedures, not the Federal Work Study program regulations.

Contact: Mary Forni

Implementation Date: Ongoing, currently reviewing policies

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Springfield Technical Community College

Federal Direct Student Loans (84.268)

Federal Award Number: P268K070543 Federal Award Year: 2006 to 2007

U.S. Department of Education

Reference: 2007-21

Requirement

A school shall unless it expects to submit its next student status confirmation report to the Secretary within the next 60 days, notify the Secretary within 30 days if it discovers that a Direct Subsidized, Direct Unsubsidized, or Direct PLUS Loan has been made to or on behalf of a student who has enrolled at that school but has ceased to be enrolled on at least a half-time basis; has been accepted for enrollment at that school but failed to enroll on at least a half-time basis for the period for which the loan was intended; or has changed his or her permanent address (34 CFR 685.309(b)(2)).

Finding

STCC's policy is to report student enrollment to NSLDS three times each semester. During our audit we noted that in nine of the 10 students sampled STCC did not notify the National Student Loan Data System (NSLDS) of student status changes as required by regulations. We noted that the 9 students had unofficially withdrawn (walk-away) or ceased to be enrolled on a half-time basis from the college prior to or at approximately midpoint during the semester. Further, two Roster Reports prepared subsequent to these students ceasing to be enrolled on at least a half-time basis, incorrectly listed the students as being full-time, rather than withdrawn or below half-time enrollment. Additionally, seven of the nine students had also received exit interviews and in the case of eight of the nine students the Financial Aid Office had already initiated and completed Return of Title IV Funds on students who had left the college or ceased to be enrolled on a half-time basis.

Timely reporting of enrollment data for federal student loan borrowers is critical because student enrollment status determines the date a federal loan borrower enters a grace or repayment period, the timing of the government's payment of interest subsidies, and whether a borrower is eligible for in-school deferment privileges.

The delays in notifying the NSLDS were caused because of conflicting practices and inadequate coordination procedures in place between the Registrar's Office and Financial Aid Office personnel in resolving and reporting student enrollment status to NSLDS.

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Recommendation

We recommend that STCC implement procedures to ensure the timely reporting of enrollment data to NSLDS in accordance with federal regulations requirements.

Related Noncompliance

STCC was not fully in compliance with the above stated requirement.

Questioned Costs

None

Views of Responsible Officials and Corrective Actions

We concur with the recommendation to implement procedures to ensure the timely reporting of enrollment data to NSLDS in accordance with federal regulations requirements. Further, STCC will resolve internal conflicting practices and inadequate coordination.

Contact: Matthew Gravel

Implementation Date: Ongoing, currently reviewing procedures.

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Massachusetts Rehabilitation Commission

Rehabilitation Services – Vocational Rehabilitation Grants to States (84.126)

Federal Award Number:	H126A070028E	Federal Award Year:	2006-2008
	H126A060028D		2005-2007
	H126A050028D		2004-2006

U.S. Department of Education

Reference: 2007-22

Requirement

Procedures for managing equipment (including replacement equipment), whether acquired in whole or in part with grant funds, until disposition takes place will, as a minimum, meet the following requirements:

(1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property. (2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years. (3) A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft shall be investigated. (4) Adequate maintenance procedures must be developed to keep the property in good condition. (5) If the grantee or subgrantee is authorized or required to sell the property, proper sales procedures must be established to ensure the highest possible return (34CFR 80.32(d)).

Finding

The Commonwealth has established policies and procedures relative to equipment acquisition, maintenance, and disposition that allow Commonwealth Departments to be in compliance with Federal regulations.

Our testwork disclosed that MRC was not in compliance with the Commonwealth’s policies and procedures and its own internal policies and procedures for the recording and reconciling of capital assets maintained by the program. MRC maintained two inventory lists for Non-GAAP capital assets consisting of furniture and equipment and EDP equipment purchased with program funds. A physical inventory of program capital assets was attempted from September 2006 to April 2007; however the physical inventory was not completed.

Our audit procedures disclosed that the inventory lists were not completely or accurately maintained and capital assets were not properly inventoried in all instances as follows:

- The inventory listing had not been updated on a timely basis. For example, we noted that fiscal year 2007 purchases, amounting to \$23,662 have not been recorded.

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

- The inventory listing, totaling \$2,408,051 consisting of 7,224 individual items as of June 30, 2007 was not accurately and completely maintained. Our review noted:
 - 1,513 out of 7,224 (21%) items had no location recorded.
 - 1,537 out of 7,224 (21%) items had no acquisition date
 - 566 out of 7,224 (8%) items had no unique identification tag.
 - 1,462 out of 7,224 (20%) items did not indicate a dollar value.

Our review of the EDP equipment inventory records and the results of the incomplete physical inventory taken in September, 2006 disclosed the following:

- 77 items could not be found, however, only four were removed from the inventory listing. The four that were removed were not reported to the Office of the State Auditor (OSA) as required by the Commonwealth's policies and procedures. The four items confirmed missing consisted of two computer laptops and two monitors.
- 50 items, consisting of nine computer desktops, one computer laptop, three servers, 18 monitors, 18 printers and one computer router, were found but not recorded on the inventory listing. The inventory record did not indicate the dollar value of these items.
- 37 instances were disclosed where the same identification tag number was recorded in multiple instances either for the same item or different items.

As a result, the total value of the assets reported on its EDP inventory listing totaling \$1,324,580 and consisting of 2,106 items as of June 30, 2007 was not accurate. MRC stated that, due to a hiring freeze in administrative operations, staff had to be reassigned to and focused on, ongoing daily operations. Consequently, inventory management was not given a high priority. During the audit, MRC began the process of updating and correcting its records to ensure that they are complete and accurate. Commission personnel informed us that a complete physical inventory would be conducted starting in September 2007.

Recommendation

We recommend that the Department follow Commonwealth and Department policies and procedures relative to equipment in order to comply with Federal regulations.

Related Noncompliance

The Department was not fully in compliance with the requirement above

Questioned Costs

None.

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Views of Responsible Officials and Corrective Actions

The agency is in full agreement that there are improvements that need to be made in its equipment and EDP inventory as noted in the audit. The criteria information that has been provided is helpful as we go forward and for the most part is available or is part of our inventory procedures, but it is unlikely that we would be able to tie most of our equipment to an acquisition date. Most of our equipment is over 10 years old.

This is the first audit finding that indicated we were subject to all of these criteria areas for maintaining equipment records.

The agency will continue to work on its inventory reconciliation in order to comply with the state guidelines on equipment inventory. The agency recognizes that maintaining and reconciling an inventory of over 7,000 items in our equipment inventory alone requires a significant effort, is subject to error and the personnel costs to maintain the inventory can be significant. We will review our current inventory procedures as to the value of the equipment that we include in our inventory in order to determine if it is feasible to utilize the state Non-GAAP fixed asset standard of (1) a useful life of more than one year and (2) an original cost between \$1,000 and \$49,999. We would request consultation and guidance prior to a change in our inventory accounting, but would expect that our inventory would be in full compliance by the next audit review if this change were implemented.

We have developed a work plan to address the EDP inventory deficiencies and are continuing to work through other equipment reconciliation items. We feel that we will continue to have this type of finding unless we address the question as to what is included in the agency inventory to meet the requirement. We will plan for another inventory in January or February in order to determine the impact of our reconciliation.

Agency downsizing, loss of key staff in our administration office, and other high priority ongoing required activities have stretched our abilities to keep up with this requirement to the extent necessary for full compliance.

Contact: John Kepple, CFO

Implementation Date: On or about June 30, 2008

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Department of Transitional Assistance

State Administrative Matching Grants for Food Stamp Program (10.561)

Temporary Assistance for Needy Families (93.558)

Medical Assistance Program (93.778)

Federal Award Number:	4MA400402	Federal Award Year:	2005	to	2007
	4MA420409		2005	to	2007
	0401MATANF		2004		
	0501MATANF		2005		
	0602MATANF		2006		
	0702MATANF		2007		
	05-0605MA5148		2006		
	05-0705MA5148		2007		

U.S. Department of Health and Human Services

U.S. Department of Agriculture

Reference: 2007-23

Requirement

The State shall promptly amend the cost allocation plan and submit the amended plan to the Director, Division of Cost Allocation (DCA) if any of the following events occur: (1) The procedures shown in the existing cost allocation plan become outdated because of organizational changes, changes in Federal law or regulations, or significant changes in program levels, affecting the validity of the approved cost allocation procedures. (2) A material defect is discovered in the cost allocation plan by the Director, DCA or the State. (3) The State plan for public assistance programs is amended so as to affect the allocation of costs. (4) Other changes occur which make the allocation basis or procedures in the approval cost allocation plan invalid. (b) If a State has not submitted a plan or plan amendment during a given State fiscal year, an annual statement shall be submitted to the Director, DCA certifying that its approved cost allocation plan is not outdated. This statement shall be submitted within 60 days after the end of that fiscal year. (45 CFR 509 (a) (b))

Finding

The Department using a Public Assistance Cost Allocation Plan (PACAP) annually distributes approximately \$150 million direct and indirect costs to benefiting federal and non-federal programs using approximately 18 methodologies. The Department's last approved PACAP and Random Moment Study was effective in fiscal year 2000. Since 2000 organizational changes have been made which effected the allocations in the PCAP. In addition, changes have been made to the Random Moment Study allocations in prior years, such as additions to programs and activities that require plan amendments. We also noted that Department did not submit a plan or plan amendments for State fiscal year 2007, or the required annual statement for state fiscal year 2006.

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Based on our audit procedures, organizational changes have not been reflected in the Department's PACAP and consequently certain direct and indirect costs may not be allocated to federal and non-federal program appropriately. As the proper amendments have not been made to the PACAP, it is not possible to determine the amount of questioned costs.

Recommendation

The Department should establish policies and procedures to ensure that organizational and other changes that effect cost allocation are timely and properly reflected in the Department's PACAP.

Related Noncompliance

The Department was not fully in compliance with the above requirement.

Questioned Costs

Cannot be determined

Views of Responsible Officials and Corrective Actions

The Department concurs with this finding, and appreciates the Auditor bringing this issue to our attention.

Effective July 1, 2007, Federal Revenue and DTA staff implemented a new Random Moment Time Study (RMTS) system which replaced the prior, out-dated RMTS system. Federal Revenue and DTA are in the process of updating and implementing new Cost Allocation Plan (CAP) software which will reflect organizational changes. Federal Revenue staff will ensure that an annual statement of changes is provided to the Federal Division of Cost Allocation (DCA). Policies and procedures will be updated to reflect these items.

Contact: Janice Axelrod, EOHHS Director of Federal Revenue
Easton Hill, EOHHS Assistant Director of Federal Revenue for TANF and Food Stamps

Implementation Date: May 30, 2008 for QE March 31, 2008

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Department of Transitional Assistance

State Administrative Matching Grants for Food Stamp Program (10.561)

Temporary Assistance for Needy Families (93.558)

Medical Assistance Program (93.778)

Federal Award Number:	4MA400402	Federal Award Year:	2005	to	2007
	4MA420409		2005	to	2007
	0401MATANF		2004		
	0501MATANF		2005		
	0602MATANF		2006		
	0702MATANF		2007		
	05-0605MA5148		2006		
	05-0705MA5148		2007		

U.S. Department of Health and Human Services

U.S. Department of Agriculture

Reference: 2007-24

Requirement

A State must claim FFP for costs associated with a program only in accordance with its approved cost allocation plan. However, if a State has submitted a plan or plan amendment for a State agency, it may, at its option claim FFP based on the proposed plan or plan amendment, unless otherwise advised by the DCA. However, where a State has claimed costs based on a proposed plan or plan amendment the State, if necessary, shall retroactively adjust its claims in accordance with the plan or amendment as subsequently approved by the Director, DCA. The State may also continue to claim FFP under its existing approved cost allocation plan for all costs not affected by the proposed amendment (45 CFR 95.517).

Finding

The Department using a Public Assistance Cost Allocation Plan (PACAP) annually distributes approximately \$150 million direct and indirect costs to benefiting federal and non-federal programs using approximately 18 methodologies. One methodology, the Random Moment Study (RMS), allocates approximately \$36 million or 24% of the costs in the PACAP. The RMS was last approved by the U.S. Department of Health and Human Services effective in State fiscal year 2000.

Since the approval of the RMS we noted that coding changes have been made to the cost allocation system, which affects the way the observations are summarized and allocated to federal and state programs administered by the Department.

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

We tested the RMS for the quarter ending March 31, 2007, and noted that certain activities and final cost objectives currently included in the study were not in the approved PACAP from 2000. As a result, we noted that \$53,869 was allocated for the quarter on an unapproved basis.

As the allocations to benefiting programs are dependent on Federal approval and the appropriateness of the allocation methodologies, questioned costs cannot be determined.

Recommendation

We recommend that the Department develop policies and procedures to ensure that all changes made to the Random Moment Study are sent to the U.S. Department of Health and Human Services for approval.

Related Noncompliance

Based on the above, the Department was not fully in compliance with the above requirement.

Questioned Costs

Cannot be determined

Views of Responsible Officials and Corrective Actions

It appears that one or two codes in the supporting schedules were not in the approved CAP. Only a very small percentage of the data was not included in the CAP, however; and no ineligible costs were claimed. The Department contends that the changes were minor, but agrees that the changes should have been updated in the CAP and a letter of change sent to DCA.

Federal Revenue and DTA staff completed implementation of a new RMTS effective July 1, 2007. The new system has addressed this concern. Federal Revenue is currently working on developing a new CAP that will be implemented for the quarter ending March, 2008. Additionally, Federal Revenue staff will communicate future changes in the CAP to DCA in a timely fashion.

Contact : Janice Axelrod, EOHHS Director of Federal Revenue
Easton Hill, EOHHS Assistant Director of Federal Revenue for TANF and Food Stamps

Implementation Date: May 30, 2008 for QE March 31, 2008

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Department of Transitional Assistance

State Administrative Matching Grants for Food Stamp Program (10.561)

Temporary Assistance for Needy Families (93.558)

Medical Assistance Program (93.778)

Federal Award Number:	4MA400402	Federal Award Year:	2005	to	2007
	4MA420409		2005	to	2007
	0401MATANF		2004		
	0501MATANF		2005		
	0602MATANF		2006		
	0702MATANF		2007		
	05-0605MA5148		2006		
	05-0705MA5148		2007		

U.S. Department of Health and Human Services

U.S. Department of Agriculture

Reference: 2007-25

Requirement

The State shall submit a cost allocation plan for the State agency as required below to the Director, Division of Cost Allocation (DCA), in the appropriate HHS Regional Office. The plan shall: (1) Describe the procedures used to identify, measure, and allocate all costs to each of the programs operated by the State agency; (2) Conform to the accounting principles and standards prescribed in Office of Management and Budget Circular A-87, and other pertinent Department regulations and instructions; (3) Be compatible with the State plan for public assistance programs described in 45 CFR Chapter II, III and XIII, and 42 CFR Chapter IV Subchapters C and D; and (4) Contain sufficient information in such detail to permit the Director, Division of Cost Allocation, after consulting with the Operating Divisions, to make an informed judgment on the correctness and fairness of the State's procedures for identifying, measuring, and allocating all costs to each of the programs operated by the State agency (45 CFR 95.507 (a)).

Finding

The Department using a Public Assistance Cost Allocation Plan (PACAP) annually distributes approximately \$150 million direct and indirect costs to benefiting federal and non-federal programs using approximately 18 methodologies. During our audit we noted that on behalf of the Department of Transitional Assistance, the Executive Office of Health and Human Services' Federal Reporting Unit has the responsibility for preparing and maintaining the PACAP, which identifies certain direct and indirect costs to be charged to federal and non-federal programs. The approved PACAP requires a system of internal control activities to be established and operating effectively. During our audit we noted that certain internal control activities outlined in the PACAP are not operating effectively.

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Specifically, during our audit we noted that:

- A monitoring system has not been established to determine whether the population of individuals to be included in the random moment study is current, and
- There are no procedures in place to determine whether certain formulas required by the PACAP to be used in initially identifying the number of observations to be selected for the Random Moment Study and then re-determining whether the interim results necessitate selecting additional items are being used.

In addition, there is no formal review of the changes made to and calculations made by the cost allocation system or the final Administrative Expense Reports prepared in accordance with the PACAP, which are used for billing federal programs.

Recommendation

The Department should establish policies and procedures to ensure that requirements outlined in the PCAP are being complied with and the results generated from the PACAP are reviewed for appropriateness.

Related Noncompliance

Based on the above, the Department was not fully in compliance with the above requirement.

Questioned Costs

None

Views of Responsible Officials and Corrective Actions

Federal Revenue staff have always reviewed the CAP for soundness and reasonableness, but lacked a formal monitoring procedure.

Additionally, Federal Revenue and DTA staff completed implementation of a new RMTS system on July 1, 2007. This new system addresses the concern related to monitoring and updating sampling of the population. Federal Revenue policies and procedures will be updated to ensure that the sampling population and the moments will be sufficient for the entire population on an annual basis.

Contact : Janice Axelrod, EOHHS Director of Federal Revenue
Easton Hill, EOHHS Assistant Director of Federal Revenue for TANF and Food Stamps

Implementation Date: May 30, 2008 for QE March 31, 2008

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Department of Transitional Assistance

State Administrative Matching Grants for Food Stamp Program (10.561)

Temporary Assistance for Needy Families (93.558)

Medical Assistance Program (93.778)

Federal Award Number:	4MA400402	Federal Award Year:	2005	to	2007
	4MA420409		2005	to	2007
	0401MATANF		2004		
	0501MATANF		2005		
	0602MATANF		2006		
	0702MATANF		2007		
	05-0605MA5148		2006		
	05-0705MA5148		2007		

U.S. Department of Health and Human Services

U.S. Department of Agriculture

Reference: 2007-26

Requirement

To be allowable under Federal awards, costs must meet the following general criteria:

- Be accorded consistent treatment. A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost (OMB Circular A-87).

Finding

During our audit we noted that the Department is permitted to charge the State-wide fringe benefit rate negotiated with the Division of Cost Allocation as an allowable cost to Federal programs. Beginning in July of 2001, the State-wide fringe benefit rate began including termination costs for vacation and sick leave buy back. In reviewing the Department's Public Assistance Cost Allocation Plan (PACAP), we noted that the Department had included \$783,038 in termination costs for vacation and sick leave buy back in the PACAP. These costs were also charged to the benefiting programs by using the State-wide fringe benefit rate. Staff preparing the plan were not aware of the change in the fringe benefit rate components.

Due to other adjustments that may be needed to the PCAP question costs cannot be determined.

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Recommendation

We recommend that the Department establish policies and procedures to alert staff preparing the PACAP of changes that would impact the preparation of the Department's plan.

Related Noncompliance

Based on the above, the Department was not fully in compliance with this requirement.

Questioned Costs

Cannot be determined

Views of Responsible Officials and Corrective Actions

Comptroller Memo #316, issued on October 4, 2001, instructed agencies to omit object codes A12 and A13 from the federal claim. Federal Revenue misunderstood the instructions and omitted expenditures related to A12 & A13 codes only from fringe calculation. Federal Revenue did not omit expenditures related to A12 and A13 codes from the Cost Allocation Plan. Since these calculations were imbedded in the CAP software, management was not aware that they were being included. Federal Revenue staff are currently working on developing a new Cost Allocation Plan that will be implemented for the quarter ending March, 2008. This new plan would have identified the A12 and A13 coding problem.

Federal Revenue staff have reviewed all affected claims and determined that the FFP total from SFY 2002 to SFY 2007 is \$2.7 million. Federal Revenue and DTA will reimburse the total amount to the benefiting programs by February 29, 2008, on the QE 12/07 claim.

Also, Federal Revenue has discontinued adding the A12 and A13 expenditures into the CAP beginning in QE 09/07.

Contact: Janice Axelrod, EOHHS Director of Federal Revenue
Easton Hill, EOHHS Assistant Director of Federal Revenue for TANF and Food Stamps

Implementation Date: February 29, 2008 for QE December 31, 2007

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Department of Transitional Assistance

Temporary Assistance for Needy Families (93.558)

Federal Award Number:	0401MATANF	Federal Award Year:	2004
	0501MATANF		2005
	0602MATANF		2006
	0702MATANF		2007

U.S. Department of Health and Human Services

Reference: 2007-27

Requirement

The TANF program has the following four purposes: (a) Provide assistance to needy families so that children may be cared for in their own homes or in the homes of relatives; (b) End the dependence of needy parents on government benefits by promoting job preparation, work, and marriage; (c) Prevent and reduce the incidence of out-of-wedlock pregnancies and establish annual numerical goals for preventing and reducing the incidence of these pregnancies; and (d) Encourage the formation and maintenance of two-parent families (45 CFR 260.20).

Finding

In order to carry out the purpose of the TANF program, the Department sub-allocated approximately \$136 million to the Department of Early Education and Care (EEC) to provide TANF eligible families child care services. During our testwork we noted that the Department did not monitor the activities of EEC to ensure that EEC provided TANF funds to eligible families for allowable activities.

Reference is made to a related finding 2007-35.

Recommendation

The Department should implement policies and procedures to monitor the activities of sub-allocated agencies.

Views of Responsible Officials and Corrective Actions

At the beginning of each year, Federal Revenue staff meets with the Department of Early Education and Care (EEC) to review their annual budget and to discuss which programs will be claimed as TANF or designated as TANF/Maintenance of Effort (MOE). All programs are discussed in regard to TANF eligibility and which programs DTA will be able to claim for the year. DTA/Federal Revenue and EEC periodically meet throughout the year to discuss any changes in expenditures or reporting. An ISA had been in place, but has not been renewed since 2005.

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

An ISA will be put in place in the first quarter of calendar 2008. EOHHS, DTA, and EEC will be parties to the ISA. The ISA will address the issue of how DTA staff will monitor EEC's processes to ensure that EEC provided TANF funds to eligible families for allowable activities.

Contact: Janice Axelrod, EOHHS Director of Federal Revenue
Easton Hill, EOHHS Assistant Director of Federal Revenue for TANF and Food Stamps
Todd Chapman, DTA Director of Financial Program Management

Implementation Date: March 31, 2008

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Department of Transitional Assistance

Temporary Assistance for Needy Families (93.558)

Federal Award Number:	0401MATANF	Federal Award Year:	2004
	0501MATANF		2005
	0602MATANF		2006
	0702MATANF		2007

U.S. Department of Health and Human Services

Reference: 2007-28

Requirement

For the TANF Financial Report (or, as applicable, the Territorial Financial Report), “a complete and accurate report” means (1) The reported data accurately reflect information available to the State in case records, financial records, and automated data systems; (2) The data are free from computational errors and are internally consistent (e.g., items that should add to totals do so); (3) The State reports data on all applicable elements; and (4) All expenditures have been made in accordance with Sec. 92.20(a) of this title (45 CFR 265.7(d)).

States must maintain records to adequately support any report, in accordance with Sec. 92.42 of this title (45 CFR 265.7(f)).

Finding

During our audit procedures we noted that the Department reported \$7,746,024 of Federal unobligated balances on the September 30, 2005 ACF-196 line 10. On the September 30, 2006 ACF-196 we noted that the Department had transferred \$6,913,867 of Federal fiscal year 2006 assistance expenditures and \$832,157 of Federal fiscal year 2005 administrative cost towards the unobligated balances of the Federal fiscal year 2005 grant.

Due to adjustments made to the Department’s cost allocation plan after September 30, 2005, \$832,157 in previously obligated administrative cost were identified which the Department retroactively applied towards the Federal fiscal year 2005 grant. On the September 30, 2006 ACF-196 report the Department reported these costs with the Federal unobligated balances even though the balance had been previously been obligated.

We noted during our audit that the Department did not file an amended ACF-196 report to reflect the above adjustments made to the September 30, 2005 ACF-196 obligated balance.

Recommendation

We recommend that the Department implement policies and procedures to file amended reports to reflect adjustments made to previously submitted reports.

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Views of Responsible Officials and Corrective Actions

DTA and Federal Revenue contend that there is no requirement to “reflect adjustments made to previously submitted reports” for the cumulative report (ACF 196). DTA and Federal Revenue, therefore, do not agree that this should be a finding.

At the end of QE 3/31/06, there was a balance of \$7,746,024 remaining on the 2005 grant. Federal Revenue staff reported this figure on Line 10 (Unobligated Balance) of the ACF 196 form. Federal Revenue staff planned to include \$832,457 of FFY05 administrative spending (obtained from the EOHHS CAP). When Federal Revenue claimed the funds on the ACF 196 for QE 3/06, Federal Revenue realized that the \$832,457 in FFY05 administrative expenditures had been placed on Line 9 instead of Line 10. The remaining amount of \$6,913,867 had been carried forward on the correct line, Line 10. However, since the ACF 196 report is cumulative, Federal Revenue staff did not think it necessary to adjust the report before claiming the funds. Ultimately, all carry forward funding was claimed using eligible expenditures.

At the end of the Federal Fiscal Year, Federal Revenue staff will perform an analysis on the remaining grant amount which will be carried forward. Federal Revenue will determine how much of the remaining dollars should be reported on Line 9 and how much should be reported on Line 10. When Federal Revenue staff report dollars on Line 9, we will provide the necessary documents (MMARS query) to satisfy our audit requirements. When we report on Line 10, we will ensure that the funds are only spent on assistance and the administrative costs to generate that assistance. In the future, if changes need to be made to Line 9 or Line 10, Federal Revenue staff will file an adjustment before claiming.

Contact: Janice Axelrod, EOHHS Director of Federal Revenue

Easton Hill, EOHHS Assistant Director of Federal Revenue for TANF and Food Stamps

Implementation Date: December 21, 2007 for QE 9/07 ACF 196

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Department of Transitional Assistance

Temporary Assistance for Needy Families (93.558)

Federal Award Number:	0401MATANF	Federal Award Year:	2004
	0501MATANF		2005
	0602MATANF		2006
	0702MATANF		2007

U.S. Department of Health and Human Services

Reference: 2007-29

Requirement

For the TANF Financial Report (or, as applicable, the Territorial Financial Report), “a complete and accurate report” means (1) The reported data accurately reflect information available to the State in case records, financial records, and automated data systems; (2) The data are free from computational errors and are internally consistent (e.g., items that should add to totals do so); (3) The State reports data on all applicable elements; and (4) All expenditures have been made in accordance with Sec. 92.20(a) of this title (45 CFR 265.7(d)).

States must maintain records to adequately support any report, in accordance with Sec. 92.42 of this title (45 CFR 265.7(f)).

Finding

During our test work of the Department’s ACF-196 report for the period ended June 30, 2007 the Department reported \$7,053,457 of Federal Unliquidated Obligations on line item 9. We requested the Department to provide us with documentation to support this balance. We noted that the Department had to recreate the documentation supporting the amount reported on line item 9.

Recommendation

We recommend that the Department establish policies and procedures in order to maintain records to adequate support amounts reported in the ACF-196 report.

Views of Responsible Officials and Corrective Actions

It should be noted that the proper analysis was performed to determine the correct amount to be entered on line 9, and that this finding relates to a lack of documentation of that analysis.

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

At the end of the Federal Fiscal Year, Federal Revenue staff will analyze the remaining grant amount which will be carried forward on lines 9 and 10. Documentation of the analysis will be maintained with other claim back-up materials.

Contact: Janice Axelrod, EOHHS Director of Federal Revenue
Easton Hill, EOHHS Assistant Director of Federal Revenue for TANF and Food Stamps

Implementation Date: December 21, 2007 for QE September 30, 2007

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Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Department of Transitional Assistance

Temporary Assistance for Needy Families (93.558)

Federal Award Number:	0401MATANF	Federal Award Year:	2004
	0501MATANF		2005
	0602MATANF		2006
	0702MATANF		2007

U.S. Department of Health and Human Services

Reference: 2007-30

Requirement

For the TANF Financial Report (or, as applicable, the Territorial Financial Report), “a complete and accurate report” means (1) The reported data accurately reflect information available to the State in case records, financial records, and automated data systems; (2) The data are free from computational errors and are internally consistent (e.g., items that should add to totals do so); (3) The State reports data on all applicable elements; and (4) All expenditures have been made in accordance with Sec. 92.20(a) of this title (45 CFR 265.7(d)).

States must maintain records to adequately support any report, in accordance with Sec. 92.42 of this title (45 CFR 265.7(f)).

Finding

During our testwork of the Department’s process to prepare the ACF-196 we noted that the Department does not reconcile amounts reported in the ACF-196 to the State’s accounting system, MMARS. Reconciliations are an essential procedure to ensure that amounts claimed by the Department agree with the State’s books and records.

After our inquire the Department reconciled the ACF-196 to the State’s accounting system with a minimal reconciling difference of \$69,494.

Recommendation

We recommend that the Department reconcile the ACF-196 reports to the State’s Accounting System, MMARS during their preparation and filing of the quarterly ACF-196.

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Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Views of Responsible Officials and Corrective Actions

As of QE 09/07 and going forward, Federal Revenue staff will perform a quarterly 196 reconciliation to MMARS. Federal Revenue staff were able to reconcile the variance to 69K. Federal Revenue believes it could further reconcile the variance to \$0, but did not because of the audit time constraints.

Federal Revenue staff will reconcile MMARS to the ACF 196 claim on a quarterly basis.

Contact: Janice Axelrod, EOHHS Director of Federal Revenue

Easton Hill, EOHHS Assistant Director of Federal Revenue for TANF and Food Stamps

Implementation Date: December 21, 2007 for QE September 30, 2007

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Department of Transitional Assistance

State Administrative Matching Grants for Food Stamp Programs (10.561)

Federal Award Number:	4MA400402	Federal Award Year:	2005 to 2007
	4MA420409		2005 to 2007

U.S. Department of Agriculture

Reference: 2007-31

Requirement

Compensation for personnel services includes all remuneration, paid currently or accrued, for services rendered during the period of performance under Federal awards, including but not necessarily limited to wages, salaries, and fringe benefits. The costs of such compensation are allowable to the extent that they satisfy the specific requirements of this Circular, and that the total compensation for individual employees: (1) Is reasonable for the services rendered and conforms to the established policy of the governmental unit consistently applied to both Federal and non Federal activities; (2) Follows an appointment made in accordance with a governmental unit's laws and rules and meets merit system or other requirements required by Federal law, where applicable; and (3) Is determined and supported as provided in subsection h.

Subsection h reads in part. Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on: (a) More than one Federal award, (b) A Federal award and a non Federal award, (c) An indirect cost activity and a direct cost activity, (d) Two or more indirect activities which are allocated using different allocation bases, or (e) An unallowable activity and a direct or indirect cost activity (OMB Circular A-87).

Finding

The Department charges salaries and related fringe benefits to benefiting programs directly as well as indirectly through a cost allocation plan using a random moment study. Employees working solely on one Federal program are required to submit a timesheet that is certified by a supervisory with first hand knowledge of the work performed

During our audit we took a sample of 30 employees who were charged directly to the Food Stamps program for 100 percent of their time. We noted that six employees in our sample with salaries and benefits of approximately \$359,400 for the year did not spend 100 percent of their time on the Food stamps program. For those six employees we noted the role code on the certification was for a general Department case worker and not the job code for those employees that solely work on the Food Stamps Program.

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Schedule of Findings and Questioned Costs

Year ended June 30, 2007

The proper allocation of the salaries and fringe benefits paid to the six employees above cannot be determined at this time; as such questioned costs cannot be determined.

Recommendation

We recommend that the Department strengthen existing procedures to ensure that all salary charges to Federal programs are in accordance with Federal regulations.

Related Noncompliance

Based on the above, the Department was not fully in compliance with the above requirement.

Questioned Costs

Cannot be determined

Views of Responsible Officials and Corrective Actions

The Department concurs with this finding, and appreciates the Auditor bringing this issue to our attention.

On November 1, 2007, the Department of Transitional Assistance (DTA) issued a procedural memo to all Transitional Assistance Office (TAO) managers. The purpose of this memo is to provide TAO management with a new form and associated procedures to report employee work function code, work activity and sub-activity code changes.

This form, the Personnel Intake Transaction form, will be completed on-line, saved and emailed as an attachment. TAO management has been directed to complete and to submit the form via email to the DTA Human Resources Unit as soon as the new employee assignment is known. DTA Human Resources will review the form, print and save a hard copy in a file created for that purpose and forward the form to the Children Youth and Family (CYF) Human Resources Payroll Unit for entry into the Human Resources Compensation Management System (HR/CMS).

TAO management is also required to report employee work function code, work activity and sub-activity code changes on a bimonthly staffing report that is submitted to the Division of Field Operations. This report is used to cross-check the accuracy of function, activity and sub-activity data that is entered into the HR/CMS by comparing applicable data fields for TAO staff. Mismatched data will be identified and reconciled through communication with TAO management and the submission of a Personnel Intake Transaction form.

Contact Person: Dennis C. Johnson, Human Resources Administrator

Implementation Date: November 1, 2007

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Department of Revenue

Child Support Enforcement (93.563)

Federal Award Number:	G0601MASAVP	Federal Award Year:	2007
	G0504MAHMHR		2007
	G0704MA4004		2007

U.S. Department of Health and Human Services

Reference: 2007-32

Requirement

The State IV-D agency must attempt to secure medical support information, and establish and enforce medical support obligations for all individuals eligible for services under 45 CFR section 302.33. Specifically, the State IV-D agency must determine whether the custodial parent and child have satisfactory health insurance other than Medicaid. If not, the agency must petition the court or administrative authority to include medical support in the form of health insurance coverage in all new or modified orders for support. The agency is also required to establish written criteria to identify cases not included above, where there is a high potential for obtaining medical support based on: (a) available evidence that health insurance may be available to the absent parent at reasonable cost, and (b) facts (as defined by the State) which are sufficient to warrant modification of an existing support order to include health insurance coverage for a dependent child(ren). For cases meeting the established criteria, the agency shall petition the court or administrative authority to modify support orders to include medical support in the form of health insurance coverage (45 CFR sections 303.31(b)(1)-(4)).

For non-TANF cases, the agency shall petition for medical support when the eligible individual is a Medicaid recipient or with consent of the individual if not a Medicaid recipient (45 CFR section 303.31(c)).

In cases where medical support is ordered, the agency is required to verify that it was obtained. If it was not obtained, the agency should take steps to enforce the health insurance coverage required by the support order, unless it determines that health insurance was not available to the absent parent at reasonable cost (45 CFR section 303.31(b)(7)).

The agency shall inform the Medicaid agency when a new or modified order for child support includes medical support and shall provide information to the custodial parent concerning the health insurance policy secured under any order (45 CFR sections 303.31(b)(5) and (6)).

Finding

During our testwork of the Department's compliance with securing and enforcing medical support obligations, we noted that the Department failed to take steps to secure a modification to two of the 30 orders tested. We noted that both cases were from Puerto Rican courts that did not include medical support in the orders and the children in both cases were enrolled in Medicaid. The lack of an order modification prevented the cases from

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Schedule of Findings and Questioned Costs

Year ended June 30, 2007

participation in the automatic search of employer databases for non-custodial parent employer available medical insurance.

Recommendation

We recommend that the Department strengthen existing policies and procedures in order to ensure compliance with securing and enforcing all medical support obligations.

Related Noncompliance

Based on the above, the Department was not fully in compliance with the requirement above.

Questioned Costs

None

Views of Responsible Officials and Corrective Actions

The errors cited in Finding 2007-32 relate to the Child Support Enforcement Division's (CSE) taking appropriate actions on cases within federally mandated timeframes. CSE does have policies and procedures directing that cases be processed in accordance with the timeframes, but processing of new cases is less automated and relies heavily on manual intervention by staff. Following is a summary of the steps CSE has taken to improve performance in this area:

CSE engaged a vendor to design and implement an automated workflow management system that includes imaging, document generation, and workflow management. (The requirements and design phase of the project have been completed. The development phase is on hold pending the completion of CSE's technology roadmap initiative.) With workflow management tools, CSE can ensure that all federal timeframes and regulations are met.

In 2007, CSE launched a training program that is mandatory for all staff and will be delivered on a regular basis. A portion of the program covers the mandated timeframes for case processing in order to ensure that all staff are aware of the timeframes.

CSE plans to utilize data warehousing technology to provide management reports and data to allow staff to proactively and effectively manage caseloads with the goals of improving performance and service to customers and meeting case processing timeframes. The requirements definition and general system design phases of the project have been completed. CSE is in the process of procuring a vendor to complete the development and implementation of the warehouse.

Contact Person: Paul Cronin, Associate Deputy Commissioner

Implementation Date: See above

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Year ended June 30, 2007

Department of Revenue

Child Support Enforcement (93.563)

Federal Award Number:	G0601MASAVP	Federal Award Year:	2007
	G0504MAHMR		2007
	G0704MA4004		2007

U.S. Department of Health and Human Services

Reference: 2007-33

Requirement

For all cases referred to the IV-D agency or applying for services under Section 302.33 of this chapter, the IV-D agency must, within no more than 20 calendar days of receipt of referral of a case or filing of an application for services under Section 302.33, open a case by establishing a case record and, based on an assessment of the case to determine necessary action: (1) Solicit necessary and relevant information from the custodial parent and other relevant sources and initiate verification of information, if appropriate; and (2) If there is inadequate location information to proceed with the case, request additional information or refer the case for further location attempts, as specified in Section 303.3. (45 CFR 303.2 (b))

Finding

During our testwork of the Department's compliance with the requirement above, we noted that the Department failed to open a case by establishing a case record within the required time frame for 12 of the 60 cases selected for testwork. The 12 cases were not opened within 20 days as required by Federal regulation.

Recommendation

We recommend that the Department strengthen existing policies and procedures in order to comply with required time frames for establishing a case record.

Related Noncompliance

Based on the above, the Department was not fully in compliance with the requirement above.

Questioned Costs

None.

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Views of Responsible Officials and Corrective Actions

The errors cited in finding 2007-33 relate to the CSE's taking appropriate actions on cases within federally mandated timeframes. CSE does have policies and procedures directing that cases be processed in accordance with the timeframes, but processing of new cases is less automated and relies heavily on manual intervention by staff. Following is a summary of the steps CSE has taken to improve performance in this area:

CSE engaged a vendor to design and implement an automated workflow management system that includes imaging, document generation, and workflow management. (The requirements and design phase of the project have been completed. The development phase is on hold pending the completion of CSE's technology roadmap initiative.) With workflow management tools, CSE can ensure that all federal timeframes and regulations are met.

CSE plans to utilize data warehousing technology to provide management reports and data to allow staff to proactively and effectively manage caseloads with the goals of improving performance and service to customers and meeting case processing timeframes. The requirements definition and general system design phases of the project have been completed. CSE is in the process of procuring a vendor to complete the development and implementation of the warehouse.

In 2007, CSE launched a training program that is mandatory for all staff and will be delivered on a regular basis. A portion of the program covers the mandated timeframes for case processing in order to ensure that all staff are aware of the timeframes

Contact Person: Paul Cronin, Associate Deputy Commissioner

Implementation Date: See above

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Department of Revenue

Child Support Enforcement (93.563)

Federal Award Number:	G0601MASAVP	Federal Award Year:	2007
	G0504MAHMHR		2007
	G0704MA4004		2007

U.S. Department of Health and Human Services

Reference: 2007-34

Requirement

Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on: (a) more than one Federal award, (b) a Federal award and a non Federal award, (c) an indirect cost activity and a direct cost activity, (d) two or more indirect activities which are allocated using different allocation bases, or (e) an unallowable activity and a direct or indirect cost activity.

Personnel activity reports or equivalent documentation must meet the following standards: (a) they must reflect an after the fact distribution of the actual activity of each employee, (b) they must account for the total activity for which each employee is compensated, (c) they must be prepared at least monthly and must coincide with one or more pay periods, and (d) they must be signed by the employee. (e) budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards but may be used for interim accounting purposes, provided that: (i) the governmental unit's system for establishing the estimates produces reasonable approximations of the activity actually performed; (ii) at least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to Federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and (iii) the budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances.

Substitute systems for allocating salaries and wages to Federal awards may be used in place of activity reports. These systems are subject to approval if required by the cognizant agency. Such systems may include, but are not limited to, random moment sampling, case counts, or other quantifiable measures of employee effort (OMB Circular A-87)

Finding

During our testwork it was brought to our attention that the Administration for Children and Families conducted an audit of the Department's Child Support Enforcement Program, audit report number MA-05-LC. The report

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questioned the Federal reimbursement received under the Cooperative Agreement between the Massachusetts Courts and the Department. The report found that the salaries and fringe benefit costs claimed for the Massachusetts Courts did not meet the requirements outlined in OMB Circular A-87, Attachment B, Section 8(h)(5). The Department has responded to the audit and is in the process of developing a substitute system that would need approval of the Administration for Children and Families.

During our testwork we noted, due to the timing of the release of the audit report that the Department continued to claim and receive reimbursement of these Massachusetts Courts salaries and fringe benefits. We noted that the Department claimed \$3,988,022 with the Federal share being \$2,632,095 during the State fiscal year 2006-2007.

Recommendation

We recommend that the Department continue with its efforts to developed an approved substitute system and adjust prior amounts claimed accordingly.

Related Noncompliance

Based on the above, the Department was not fully in compliance with the above requirement.

Questioned Costs

\$2,632,095

Views of Responsible Officials and Corrective Actions

The Department has submitted a substitute system for costs incurred by the Massachusetts Trial Court under a Cooperative Agreement to provide services eligible for federal cost reimbursement. The substitute system was submitted to the federal regional Office of Child Support Enforcement in May 2007. We are communicating with appropriate officials regarding the various data elements used in the methodology to determine what adjustments are necessary and expect approval in the next few months.

With respect to the recommendation that we adjust the claim submitted in state fiscal year ending June 2007, we note that the federal audit did not recommend that these costs be disallowed but rather that the costs were "questioned." We expect that upon approval of the substitute cost methodology the state fiscal year 2007 claim will be adjusted accordingly.

Contact Person: Marilyn Ray Smith, Deputy Commissioner

Implementation Date: See above

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Department of Early Education and Care

Child Care and Development Block Grant (93.575)

Child Care Mandatory and Matching Funds of the Child Care and Development Fund (93.596)

Temporary Assistance for Needy Families (93.558)

Federal Award Number:	G-0601MACCDF	Federal Award Year:	2005	to	2008
	G-0701MACCDF		2006	to	2009
	0401MATANF		2004		
	0501MATANF		2005		
	0602MATANF		2006		
	0702MATANF		2007		

U.S. Department of Health and Human Services

Reference: 2007-35

Requirement

OMB Circular A-133 states a pass-through entity is responsible for:

- Monitoring the subrecipient's use of Federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and those performance goals are achieved.
- Ensuring that subrecipients expending \$500,000 or more in Federal awards during the subrecipient's fiscal year as provided in OMB Circular A-133 have met the audit requirements of OMB Circular A-133 and that the required audits are completed within 9 months of the end of the subrecipient's audit period; (2) issuing a management decision on audit findings within 6 months after receipt of the subrecipient's audit report; and (3) ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.

Finding

During state fiscal year 2007, the Department received more than \$195 million of Child Care Development Fund grant funds. The EEC, acting as the pass-through entity disbursed a majority of these federal funds to contracted child care providers and Child Care Resource and Referral Agencies (CCR&R) (subrecipients) for early education and child care services. We noted that the Department had contracts with 237 child care providers and 13 CCR&Rs.

In addition, the Department received approximately \$136 million in a suballocation from the Department of Transitional Assistance, \$122 million to be used by the CCR&Rs to provide daycare services for Temporary Assistance for Needy Families (TANF) eligible families.

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From July 2006 through January 2007, the Department's contract monitoring coordinators (CMC) conducted 31 on-site monitoring visits of contracted child care providers in addition to desk reviews which were limited to review of claims submitted. The Department's contract monitoring procedures allow providers the opportunity to address initial findings identified during on-site visits. The provider is required to respond to all findings, in the form of a corrective action plan (CAP), within 30 days of receipt of the site visit report. In many instances, the provider remedies questionable costs by obtaining the necessary documentation to verify client eligibility. After receipt of the provider's CAP, the CMC may accept, partially accept, or reject the provider's response. Ultimately, when required eligibility documentation cannot be obtained, or fee miscalculations or other program non-compliances occurred, the provider (subrecipient) is required to reimburse the EEC for the resultant ineligible costs. The Department's on-site monitoring visits from July 2006 through January 2007 identified numerous instances of noncompliance with eligibility as well as other programmatic areas including significant questioned costs.

During our testwork we noted the following regarding the Department's monitoring of its subrecipients:

- The Department did not conduct any on-site monitoring of the CCR&Rs which received approximately \$11 million in Child Care Development Funds and \$122 million in TANF funds.
- The Department discontinued its on-site monitoring visits in January of 2007 despite the fact that on-site monitoring visits indicated significant non-compliance with program regulations.
- We noted in one on-site monitoring report that the Department did not request repayment of funds for four recipients found to be ineligible as the services provided had already been terminated. Subsequent follow up noted that two of the four recipients continued to receive child care services. Total payments made during the fiscal year for the four recipients totaled \$19,796.

In addition, we reviewed 18 of the 31 on-site visits performed during the fiscal year and noted that five of the provider's on-site review files did not have supporting documentation regarding follow up on provider findings and two provider's on-site review files which had identified ineligible costs and/or other non-compliance issues had not timely calculated amounts due back to the Department.

Further, we noted that 18 provider's files reviewed did not have an indication that the providers A-133 report had been received, reviewed, and follow up was done to request the delinquent reports.

Department officials indicated that the suspension of on-site monitoring and other matters described above were caused by the re-assignment of monitoring staff due to lack of resources in other high priority areas, to regroup to restructure the monitoring process and contract monitoring coordinator turnover.

Recommendation

We recommend that the Department improve existing and implement new policies and procedures to ensure that it is monitoring its subrecipients in accordance with Federal regulations.

Related Noncompliance

Based on the above, the Department was not in compliance with the above requirements.

Questioned Costs

None

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Views of Responsible Officials and Corrective Actions

In January 2007, EEC issued a Request for Response to award grants related to the Universal Prekindergarten (UPK) pilot program as mandated by Chapter 139 of the Acts of 2006. This legislation provided \$4.6 M in new funding to EEC for pilot implementation grants to provide preschool programs for families and children in the Commonwealth. The Contract and Monitoring Coordinators (CMC) were tasked with the responsibility for fiscal review of these grants over several months. Due to time constraints, site monitoring visits for other contracts were suspended, and expanded desk reviews of Child Care Resource & Referral agencies (CCR&Rs) were to be performed, with the process commencing on July 16, 2007, in order to insure timely completion of the UPK grant review process within the prescribed legislative timeline and other requirements. Due to extensive subsequent staff turnover within the monitoring unit, site visits were further delayed in order to rehire and restructure the monitoring process to include the UPK grants as well as oversight of approximately \$100M in additional grant funding that was merged into the agency in FY 2007.

As of October 15, 2007, the Department has filled the Director of Audit Resolution position, extended an offer of employment for one of the CMC positions, and is in the process of interviewing candidates for another CMC. The Director of Audit Resolution will be developing a comprehensive system of internal controls to ensure compliance with the mandated monitoring and reporting requirements relative to sub-grantees as the lead agency in grants and /or contracts for the approximately 300 contracted social service providers receiving these funds. These controls will ensure that federal and state funds are used only for their authorized purposes and in compliance with relevant laws and regulations. EEC appreciates your audit determination that EEC's on-site visits to contracted providers have been very effective at identifying questionable costs. EEC intends to build upon the strengths of its current on-site monitoring procedures in developing future policies and controls.

Included in these controls will be policies and procedures to specifically address the auditors' concerns regarding the timeframes for on-site monitoring and follow-up, eligibility, financial review, recoupment, and case management.

Finally, I am pleased to share the news that EEC recently achieved a critical milestone toward accomplishing our mission, one that will have broad implications across the Department, and will be pivotal for us to be most responsive to our audit findings. After contracting with CSC, an internationally known consulting firm, at the beginning of this year, we conducted a thorough audit of our information technology needs, and applied to the Commonwealth's Information Technology Division (ITD) for a \$10 million three-year overhaul of our outdated and disconnected payment, monitoring, and information systems. Just last week, we were thrilled to learn that ITD was very impressed by our application and awarded EEC \$1.8 million to begin work immediately. They have also committed to the remainder of the funding over the next two fiscal years.

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This is a tremendously important step for the Department as we develop a new way of thinking about how to coordinate information and services for children and families, and for the agencies, providers and educators who work with them. For the first time, EEC will be able to track and report real-time information regarding spending, contract utilization, and quality. This project will have an enormous positive influence on our ability to award, pay, and monitor our appropriations in a way that not only meets the needs of the state and federal audit requirements, but also the needs of children, families, providers, and policymakers.

Contact: Alda Rego-Weathers, Deputy Commissioner for Administration

Implementation Date: June 2008

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Department of Early Education and Care

Child Care and Development Block Grant (93.575)

Child Care Mandatory and Matching Funds of the Child Care and Development Fund (93.596)

Federal Award Number: G-0601MACCDF Federal Award Year: 2005 to 2008
G-0701MACCDF 2006 to 2009

U.S. Department of Health and Human Services

Reference: 2007-36

Requirement

Applicable credits refer to those receipts or reduction of expenditure type transactions that offset or reduce expense items allocable to Federal awards as direct or indirect costs. Examples of such transactions are: purchase discounts, rebates or allowances, recoveries or indemnities on losses, insurance refunds or rebates, and adjustments of overpayments or erroneous charges. To the extent that such credits accruing to or received by the governmental unit relate to allowable costs, they shall be credited to the Federal award either as a cost reduction or cash refund, as appropriate (OMB Circular A-87).

Finding

According to regulations promulgated by the Office of the State Comptroller (OSC), departments are required to follow certain procedures relative to the collection of outstanding debt. In that regard, each agency is responsible for accounting for, recording, reporting, and depositing funds for all services. Departmental revenues that are not collected at the point of service are generated through the initiation of billings by departments. As part of the accounting cycle, once bills are generated, departments must maintain accurate records for all payments made to the Commonwealth as well as all unpaid bills. These unpaid bills represent an accounts receivable balance on the Commonwealth's Billing and Accounts Receivable Subsystem (BARS) or an agency's accounting system. Accounts receivable balances must be managed, monitored, and "aged", a process by which all unpaid bills are categorized by the number of days each billing has been outstanding or unpaid. All long-outstanding accounts receivable that are past due should be aggressively pursued by departments so that the accounts do not become uncollectible and have to be written off, since the older a receivable gets, the less likely it will be collected.

During our testwork, we noted that the Department neither utilizes BARS for its detailed accounts receivable system or an acceptable independent accounts receivable system, but rather maintains an Excel spreadsheet used primarily to record total repayments made by contractors, however, this spreadsheet does not provide comprehensive accounts receivable information. Based upon data appearing on the spreadsheet, EEC has identified approximately \$32,000 as possible accounts receivable. This amount combined with the \$334,000 of ineligible costs identified in its on-site monitoring during the first seven months of the fiscal year, less \$58,457 in offsets attributable to the \$334,000, the Department's accounts receivable balance attributable to the child care programs is at least \$307,958. Additionally, per the Excel spreadsheet, for fiscal year 2007, the Department

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collected \$110,736 from contractors (repayments) and offset (reduced) other contractor payments by about \$6,000 for a total recoupment of approximately \$117,000.

For the Department's current practice, the reimbursement of all owed funds to the Commonwealth general fund presumes all recouped funds were only state funds and does not consider the reimbursement of federal funds awarded to the Department. The Department's process to review information related to collected revenue does not consider the review and appropriate credit distribution of recouped funds to all funding streams, including Federal grants.

Maintenance of a detailed or approved independent accounts receivable system provides a department with assurance that accounts receivable are accounted for, recorded, reported, monitored, and efficiently and effectively collected, and whether it is in compliance with applicable laws, rules, and regulations.

Question costs cannot be determined on the potential accounts receivable balance of \$307,958 as the collectibility, participating federal programs and federal participation percentages are not readily determinable and the amounts previously recouped during the fiscal year related to these Federal programs is unknown.

Recommendation

We recommend that the Department implement new policies and procedures to ensure that amounts due to the Department are properly accounted for and credits to benefiting programs are properly made.

Related Noncompliance

Based on the above, the Department was not fully in compliance with the above requirements.

Questioned Costs

Cannot be determined

Views of Responsible Officials and Corrective Actions

As a result of the recommendations of the auditors, EEC has already begun implementing the Commonwealth's Billing Accounts Receivable Subsystem (BARS) to collect all outstanding debt. By doing this, EEC can utilize the functionality of BARS and will accurately reflect recoupments as accounts receivable for Commonwealth financial reports. This will enable EEC to better monitor, track and ensure all funds owed to the Commonwealth (EEC) are collected. Dunning notices will be issued as required. Collection agencies and Intercept will be utilized if needed. EEC will also continue utilizing our internal tracking system that records all revenue collected and include the recommendations by the state auditors to improve EEC's internal record keeping along with BARS to ensure the regulations of the State Comptroller's Office are being met. EEC will also update our Internal Control Plan (ICP) to include the procedure EEC has already implemented for maintaining, monitoring and reconciling accounts receivables and to ensure that contractor recoupment is distributed in compliance with state and federal regulations.

CCDF regulations state that grantees must re-obligate certain unliquidated or recouped funds within the year the award is made *or within the succeeding fiscal year*. See 45 CFR § 98.60. EEC will use the Commonwealth

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Year ended June 30, 2007

Information Warehouse to track recoupments entered in BARS. Any recoupments that are recorded in BARS that are not within the allowable federal timeframe will be returned to the Federal Government.

Contact: Alda Rego-Weathers, Deputy Commissioner for Administration

Implementation Date: March 2008

COMMONWEALTH OF MASSACHUSETTS

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Recommendation

We recommend that the Department implement policies and procedures to ensure that procurements are done in accordance with State regulations.

Related Noncompliance

Based on the above, the Department was not in compliance with the above requirements.

Questioned Costs

None

Views of Responsible Officials and Corrective Actions

In May 2007, the Department formed a procurement management team to re-procure child care services for approximately 15,000 income eligible children through contracts with center based child care providers and family child care systems for an anticipated total of more than \$100 million statewide. EEC's new procurement is using current data and research to generate best quality and economic value while serving families in locations where the greatest need exists. We will be bringing the Request for Response criteria to our Board for a vote in early 2008 and anticipates releasing the RFR shortly thereafter, with awards expected in the summer of 2008.

New payment, quality, and reimbursement policies established through this procurement will provide the key foundation for the re-procurement of all of EEC's other contracted services over the next two years. These other contracted services include the Child Care Resource and Referral Services (subsidized voucher care management), Supportive Child Care Services, Homeless Child Care Services, and Non-Traditional Hours Child Care Services. These new bids will be informed by the audit findings, as well as by the mission and goals of our new Department, the first of its kind in the country to establish a coordinated, comprehensive system of early education and care services. This groundbreaking work requires EEC to find solutions that put children and families first. It requires us to deftly balance the need to hold families and providers accountable for the funding they receive with the flexibility to ensure that all children, regardless of income or circumstance, have the best learning opportunities available to them.

Contact: Alda Rego-Weathers, Deputy Commissioner for Administration

Implementation Date: January 2009

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Department of Social Services

Foster Care Title IV-E (93.658)

Adoption Assistance (93.659)

Social Services Block Grant (93.667)

Federal Award Number:	0601MA1401	Federal Award Year:	2006
	0601MA1401		2007
	0701MA1401		2007
	G-0601MASOSR		2006
	G-0601MASOS2		2006
	G-0701MASOSR		2007
	0601MA1407		2006
	0601MA1407		2007
	0701MA1407		2007

U.S. Department of Health and Human Services

Reference: 2007-38

Requirement

A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received (OMB Circular A-87, Attachment A, Subpart C (3) (a)).

Finding

The Department of Social Services uses a Public Assistance Cost Allocation Plan (PACAP) which annually distributes approximately \$858 million in direct and indirect costs to benefiting federal and non-federal programs using approximately 66 methodologies. One methodology, the Random Moment Study (RMS), allocates approximately \$123.5 million or 14% of the costs in the PACAP.

During the audit, we tested the RMS for the quarter ending March 31, 2007 and noted errors in the summarization of the observation forms for some area offices in eight of 60 random moments sampled. The summarization of the observation forms establish the basis for the statistics used to distribute payroll and fringe benefit costs to benefiting programs.

Questioned costs could not be determined as the actual amounts allocable to each program, after adjustments for the eight exceptions noted above, could not be easily calculated.

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Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Recommendation

We recommend that the Department improve existing policies and procedures to ensure that all observation forms are summarized accurately.

Related Noncompliance

Based on the above, the Department is not fully in compliance with the above requirement.

Questioned Costs

Cannot be determined

Views of Responsible Officials and Corrective Actions

Due to the error rate noted during the review, we conducted an internal review of data entry to determine whether we needed to correct federal claims as a result of data entry errors. We did not duplicate the error rate noted above. First, we reviewed 397 data-entered moments without generating a random sample and found 15 errors (3.8% error rate). We then created a random sample of 87 data entered moments and found 2 errors (2.3% error rate). Our findings suggest that the 60 moments selected do not appear to be representative of the approximately 8,000 moments entered in FY07.

It is also important to note that DSS transitioned to an automated RMTS in July 2007, in part to eliminate the need for manual data entry. There is no more manual data entry of RMTS responses.

DSS transitioned to an automated RMTS in July 2007, in part to eliminate the need for manual data entry. There is no more manual data entry of RMTS responses.

Contact: Janice Axelrod, EOHHS Director of Federal Revenue Claiming

Implementation Date: July 2007

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Year ended June 30, 2007

Department of Social Services

Foster Care Title IV-E (93.658)

Adoption Assistance (93.659)

Social Services Block Grant (93.667)

Federal Award Number:	0601MA1401	Federal Award Year:	2006
	0601MA1401		2007
	0701MA1401		2007
	G-0601MASOSR		2006
	G-0601MASOS2		2006
	G-0701MASOSR		2007
	0601MA1407		2006
	0601MA1407		2007
	0701MA1407		2007

U.S. Department of Health and Human Services

Reference: 2007-39

Requirement

The State shall submit a cost allocation plan for the State agency as required below to the Director, Division of Cost Allocation (DCA), in the appropriate HHS Regional Office. The plan shall: (1) Describe the procedures used to identify, measure, and allocate all costs to each of the programs operated by the State agency; (2) Conform to the accounting principles and standards prescribed in Office of Management and Budget Circular A-87, and other pertinent Department regulations and instructions; (3) Be compatible with the State plan for public assistance programs described in 45 CFR Chapter II, III and XIII, and 42 CFR Chapter IV Subchapters C and D; and (4) Contain sufficient information in such detail to permit the Director, Division of Cost Allocation, after consulting with the Operating Divisions, to make an informed judgment on the correctness and fairness of the State's procedures for identifying, measuring, and allocating all costs to each of the programs operated by the State agency (45 CFR 95.507 (a)).

Finding

The Department of Social Services using a Public Assistance Cost Allocation Plan (PACAP) annually distributes approximately \$858 million in direct and indirect costs to benefiting federal and non-federal programs using approximately 66 methodologies. During our audit we noted that the Department has contracted with a third-party to act as its Federal Revenue Unit (FRU). The FRU has been assigned the responsibility for preparing and maintaining the PACAP, which identifies direct and indirect costs to be charged to federal and non-federal programs. The following was noted during the audit regarding the Department's policies and procedures relating to the PACAP:

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- The Department does not formally document its periodic assessment to determine whether the population of individuals to be included in the random moment study is current;
- Periodic reconciliations are not performed between the Labor Distribution Report used to charge payroll to federal programs and the Commonwealth's accounting system, the Massachusetts Management and Reporting System (MMARS). Payroll charged through the PACAP in fiscal year 2007 was approximately \$188 million;

Recommendation

The Department should review existing and as needed establish new policies and procedures to ensure that the Department's PACAP is complete and accurate and conforms to Federal regulations.

Views of Responsible Officials and Corrective Actions

The Department has not formally documented this assessment/work in the past but will be doing so by the implementation date.

DSS will implement a process change to perform periodic reconciliations between the Labor Distribution Report used to charge payroll to federal programs and the Commonwealth's accounting system, MMARS., However, it should be noted that no claiming errors were found related to this finding.

Update standard operating procedures to include activities that will document the review of list and number of individuals to be included in the random moment time study.

Update standard operating procedures to include a quarterly reconciliation of labor distribution report with MMARS.

Contact: Janice Axelrod, EOHHS Director of Federal Revenue Claiming

Implementation Date: June 30, 2008

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Year ended June 30, 2007

Executive Office of Health and Human Services

Medical Assistance Program (93.778)

Federal Award Number:	05-0605MA5148	Federal Award Year:	2006
	05-0705MA5148		2007

U.S. Department of Health and Human Services

Reference: 2007-40

Requirement

State agencies shall review the ADP system security of installations involved in the administration of HHS programs on a biennial basis. At a minimum, the reviews shall include an evaluation of physical and data security operating procedures, and personnel practices (45 CFR 95.621 (f) (3)).

Finding

During our testwork regarding the requirement above, we noted that the Executive Office has not had a review of the ADP system security for the Executive Office's Medicaid Management Information System in the last two years.

Recommendation

We recommend that the executive office establish policies on procedures to ensure that a ADP system security review is completed biennial.

Related Noncompliance

Based on the above, the Executive Office was not fully in compliance with the stated requirements.

Questioned Costs

None

Views of Responsible Officials and Corrective Actions

As part of a recently commenced HIPAA Security Rule Evaluation, a MMIS security review is scheduled for January 2008. The review will be based on the administrative, physical, and technical security controls required under HIPAA's Security Rule (45 C.F.R. § 164.302 et seq.), and will be documented using the System Security Plan template. Thereafter, EOHHS will conduct a security review of MMIS, and its successor, NewMMIS, during the month of January, 2008 on an annual basis.

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Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Contact: Jennings Aske, EOHHS Acting Chief Security Officer

Implementation Date: January 2008

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Year ended June 30, 2007

Executive Office of Health and Human Services

Medical Assistance Program (93.778)

Federal Award Number: 05-0605MA5148 **Federal Award Year:** 2006
05-0705MA5148 2007

U.S. Department of Health and Human Services

Reference: 2007-41

Requirement

A State plan must provide that the Medicaid agency and, where applicable, local agencies administering the plan will maintain an accounting system and supporting fiscal records to assure that claims for Federal funds are in accordance with applicable Federal requirements (42 CFR 433.32 (a)).

Finding

The Executive Office is responsible of the quarterly preparation of the CMS-64 report. The Executive Office prepares the quarterly report from information primarily retained in the Medicaid Management Information System (MMIS) as well as from the Commonwealth's accounting system, MMARS, and information received in spreadsheets and memorandum from other agencies which is derived from MMARS.

During our testwork of the Executive Office's process to prepare the CMS-64 report we noted that the Executive Office did not reconcile amounts reported in the CMS-64 to the Commonwealth's accounting system, MMARS and information received from other agencies. Reconciliations are an essential procedure to ensure that amounts claimed by the Executive Office agree with the Commonwealth's books and records.

Subsequent to our inquires the Executive Office reconciled the CMS-64 to the Commonwealth's accounting system and information received from other agencies with a minimal reconciling difference of \$17,179. We also noted that there was approximately a \$408,267 variance between claims paid from the Medicaid Management Information System and the same claims subsequently recorded in the Commonwealth's accounting system MMARS.

Recommendation

We recommend that the Executive Office strengthen existing polices to regularly ensure that amounts claimed on the CMS-64 report agree with the Commonwealth's books and records.

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Views of Responsible Officials and Corrective Actions

Prior to this audit, EOHHS has reconciled, on a quarterly basis, the federal Medicaid claim, the CMS 64, with the Medicaid internal accounting system, MMIS, and with MMARS for expenditures which were not paid through MMIS. Reconciliations of over \$1B per quarter have historically been reconciled to an immaterial amount of variance. EOHHS, however, did not reconcile all CMS 64 expenditures which are paid through MMIS to MMARS on a regular basis.

At the request of KPMG, EOHHS reconciled the CMS 64 for SFY07 to MMARS. Although KPMG notes a variance of \$1M for SFY07, EOHHS was further able to reduce the variance to \$400,000 for SFY07 on gross expenditures of approximately \$10B. This represents a variance of approximately .004% between expenditures tracked on MMIS and MMARS. Due to this reconciliation, EOHHS has confidence that the internal accounting systems are operating effectively and can reconcile to MMARS on a quarterly basis.

EOHHS agrees that it is reasonable to be required to reconcile the CMS 64 to MMARS for all expenditures including MMIS on a quarterly basis.

EOHHS will begin to reconcile quarterly Medicaid claims on the CMS 64 with MMARS. EOHHS has already drafted a written process as part of the Federal Revenue Unit's internal controls and developed an Excel spreadsheet to reconcile the amounts. EOHHS will work on an automated system, but in the absence of an automated system, will continue to reconcile through the Excel spreadsheet. EOHHS will attempt to reduce the SFY07 variance of \$400,000 further.

Contact: Janice Axelrod, Director of Federal Revenue Claiming
Dave Margas, Director of MassHealth Accounting

Implementation Date: March 31, 2008

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Schedule of Findings and Questioned Costs

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Executive Office of Health and Human Services

Medical Assistance Program (93.778)

Federal Award Number:	05-0605MA5148	Federal Award Year:	2006
	05-0705MA5148		2007

U.S. Department of Health and Human Services

Reference: 2007-42

Requirement

A State plan must provide for an agreement between the Medicaid agency and each provider or organization furnishing services under the plan in which the provider or organization agrees to: (1) Keep any records necessary to disclose the extent of services the provider furnishes to recipients; (2) On request, furnish to the Medicaid agency, the Secretary, or the State Medicaid fraud control unit (if such a unit has been approved by the Secretary under Sec. 455.300 of this chapter), any information maintained under paragraph (b)(1) of this section and any information regarding payments claimed by the provider for furnishing services under the plan; (3) Comply with the disclosure requirements specified in part 455, subpart B of this chapter; and (4) Comply with the advance directives requirements for hospitals, nursing facilities, providers of home health care and personal care services, hospices, and HMOs specified in part 489, subpart I, and Sec. 417.436(d) of this chapter (42 CFR 431.107 (b)).

A State plan must provide that the requirements of Sec. 455.104 through 455.106 are met.

The Medicaid agency must require each disclosing entity to disclose the following information in accordance with paragraph (b) of this section: (1) The name and address of each person with an ownership or control interest in the disclosing entity or in any subcontractor in which the disclosing entity has direct or indirect ownership of 5 percent or more; (2) Whether any of the persons named, in compliance with paragraph (a)(1) of this section, is related to another as spouse, parent, child, or sibling. (3) The name of any other disclosing entity in which a person with an ownership or control interest in the disclosing entity also has an ownership or control interest. This requirement applies to the extent that the disclosing entity can obtain this information by requesting it in writing from the person. The disclosing entity must-- (i) Keep copies of all these requests and the responses to them; (ii) Make them available to the Secretary or the Medicaid agency upon request; and (iii) Advise the Medicaid agency when there is no response to a request. (b) (1) Any disclosing entity that is subject to periodic survey and certification of its compliance with Medicaid standards must supply the information specified in paragraph (a) of this section to the State survey agency at the time it is surveyed. The survey agency must promptly furnish the information to the Secretary and the Medicaid agency. (2) Any disclosing entity that is not subject to periodic survey and certification and has not supplied the information specified in paragraph (a) of this section to the Secretary within the prior 12-month period, must submit the information to the Medicaid agency before entering into a contract or agreement to participate in the program. The Medicaid agency must promptly furnish the information to the Secretary. (3) Updated information must be furnished to the Secretary or the State survey or Medicaid agency at intervals between recertification or contract renewals, within 35 days of a written

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request. (c) A Medicaid agency shall not approve a provider agreement or a contract with a fiscal agent, and must terminate an existing agreement or contract, if the provider or fiscal agent fails to disclose ownership or control information as required by this section.(d) Federal financial participation (FFP)t available in payments made to a provider or fiscal agent that fails to disclose ownership or control information as required by this section (42 CFR 455.104).

A Medicaid agency must enter into an agreement with each provider under which the provider agrees to furnish to it or to the Secretary on request, information elated to business transactions in accordance with paragraph (b) of this section. (b) A provider must submit, within 35 days of the date on a request by the Secretary or the Medicaid agency, full and complete information about—(1) The ownership of any subcontractor with whom the provider has had business transactions totaling more than \$25,000 during the 12-month period ending on the date of the request; and (2) Any significant business transactions between the provider and any wholly owned supplier, or between the provider and any subcontractor, during the 5-year period ending on the date of the request. (c)(1) FFP is not available in expenditures for services furnished by providers who fail to comply with a request made by the Secretary or the Medicaid agency under paragraph (b) of this section or under Sec. 420.205 of this chapter (Medicare requirements for disclosure). (2) FFP will be denied in expenditures for services furnished during the period beginning on the day following the date the information was due to the Secretary or the Medicaid agency and ending on the day before the date on which the information was supplied (42 CFR 455.105).

Before the Medicaid agency enters into or renews a provider agreement, or at any time upon written request by the Medicaid agency, the provider must disclose to the Medicaid agency the identity of any person who: (1) Has ownership or control interest in the provider, or is an agent or managing employee of the provider; and (2) Has been convicted of a criminal offense related to that person's involvement in any program under Medicare, Medicaid, or the Title XX services program since the inception of those programs. (b) (1) The Medicaid agency must notify the Inspector General of the Department of any disclosures made under paragraph (a) of this section within 20 working days from the date it receives the information. (2) The agency must also promptly notify the Inspector General of the Department of any action it takes on the provider's application for participation in the program. (c) Denial or termination of provider participation. (1) The Medicaid agency may refuse to enter into or renew an agreement with a provider if any person who has an ownership or control interest in the provider, or who is an agent or managing employee of the provider, has been convicted of a criminal offense related to that person's involvement in any program established under Medicare, Medicaid or the Title XX Services Program.(2) The Medicaid agency may refuse to enter into or may terminate a provider agreement if it determines that the provider did not fully and accurately make any disclosure required under paragraph (a) of this section (42 CFR 455.106).

Finding

The Executive Office has established a Department, the Provider Enrollment and Credentialing Department (PEC), whose mission is to ensure that providers meet the required applicable credentialing criteria (including verifying provider licensing) to be a Medicaid provider and that their applications are complete.

PEC has developed written policies and procedures regarding the processing of new enrollment applications and ongoing provider file maintenance and integrity.

During our testwork we selected 30 providers who received approximately \$920 million in total payments during the Commonwealth's fiscal year 2007 to ensure the PEC followed their policies and procedures and the

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Schedule of Findings and Questioned Costs

Year ended June 30, 2007

participating practitioners were licensed, had agreements in place and made proper disclosures. 20 of the providers sampled were new providers during the State fiscal year under audit and the remaining 10 were previously enrolled in the program. We noted the following during our review:

- Five of the 30 providers did not have a completed checklist in their file in accordance with PEC's policies and procedures.
- One of the 30 providers' files did not contain evidence of program manager approval in the file in accordance with PEC's policies and procedures, however, evidence of approval was provided that resided outside of the file.
- One of the 30 providers' files did not contain the provider agreement and three of the provider's files did not contain a provider agreement signed by the Commonwealth in accordance with PEC's policies and procedures.

Additionally, in our sample of 30 provider's files, we selected one group practice organization that received \$45,224,590 in Medicaid payments during the year under audit. We noted that the group practice organization had an agreement in place with the Commonwealth and on file. We selected 30 participating primary care clinicians of the group practice organization to ensure the PEC followed their policies and procedures and the participating practitioners were licensed, had agreements in place and made the proper disclosures. We noted the following:

- 17 of the 30 participating practitioners' files did not contain evidence of licensure; however, evidence of licensure was provided that resided outside of the file.
- Nine of the 30 participating practitioners' files did not contain a provider agreement signed by the Commonwealth.
- 21 of the 30 participating practitioners' files did not contain a provider agreement, however documentation was provided to demonstrate an agreement was in place.

Recommendation

We recommend that the Executive Office adhere to their existing policies and procedures to ensure that Federal requirements are complied with.

Views of Responsible Officials and Corrective Actions

In order to ensure that the agency can document that we have the required information and documents, MassHealth is increasing our provider enrollment and file maintenance training and quality control process and resources. We are also enhancing our provider enrollment checklist and program manager approval form. CST PEC will ensure that all provider agreements will be counter-signed with a copy in the master file.

Contact: Janice Wadsworth, Director of Provider Operations CST, Director of Provider Relationships

Implementation Date: February 1, 2008

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Year ended June 30, 2007

Executive Office of Health and Human Services

Medical Assistance Program (93.778)

Federal Award Number: 05-0605MA5148 **Federal Award Year:** 2006
05-0705MA5148 2007

U.S. Department of Health and Human Services

Reference: 2007-43

Requirement

The State Medicaid agency or its designee is required to determine client eligibility in accordance with eligibility requirements defined in the approved State plan (42 CFR section 431.10).

Finding

The Executive Office has defined the eligibility requirements in the approved State Plan. During our audit we selected 100 cases of recipients who received benefits under the program and re-performed the recipient's eligibility.

We noted the following matters in three of the cases selected whose eligibility was determined by the Massachusetts Commission for the Blind:

- For one case file with medical payments made during the year under audit of \$221,739 the last re-determination was performed in May 2002 as such there is no documentation in the file that income verification was completed. We also noted that there was no documentation contain in the case file for verification of the recipient's social security number or verification of citizenship.
- For another case file with medical payments made during the year under audit of \$211,997 there was no documentation of income verification.
- Another case file with medical payments made during the year under audit of \$124,556 did not contain evidence of citizenship verification.

Subsequent to our audit procedures, the Massachusetts Commission of the Blind contacted the recipients and was able to produce the audit evidence to demonstrate these three recipients were eligible for the program.

Recommendation

We recommend that the Executive Office improve existing policies and procedures to ensure eligibility determinations are completed and documented in accordance with the State Plan.

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Views of Responsible Officials and Corrective Actions

MassHealth has been in communications with the Massachusetts Commission for the Blind (MCB) and we have been told that they will initiate a review of their active caseload on February 1, 2008. We have a meeting scheduled for February 1, 2008 with MCB to formally put together Corrective Action Plan (CAP) that will bring the agency into compliance. The CAP will be inclusive of the necessary control elements for MassHealth to monitor the caseload.

Contact: Joseph Sousa, Senior Policy Analyst, MassHealth Operations

Implementation Date: February 1, 2008

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Year ended June 30, 2007

Executive Office of Health and Human Services

Medical Assistance Program (93.778)

Federal Award Number:	05-0605MA5148	Federal Award Year:	2006
	05-0705MA5148		2007

U.S. Department of Health and Human Services

Reference: 2007-44

Requirement

The plan must provide that (1) The agency designated in paragraph (b) of this section, or another State agency responsible for licensing health institutions in the State, determines for the Medicaid agency whether institutions and agencies meet the requirements for participation in the Medicaid program; and (2) The agency staff making the determination under paragraph (e)(1) of this section is the same staff responsible for making similar determinations for institutions or agencies participating under Medicare; and (3) The agency designated in paragraph (e)(1) of this section makes recommendations regarding the effective dates of provider agreements, as determined under Sec. 431.108 (42 CFR 431.610 (e))

The plan must provide for a written agreement (or formal written intra-agency arrangement) between the Medicaid agency and the survey agency designated under paragraph (e) of this section, covering the activities of the survey agency in carrying out its responsibilities. The agreement must specify that (1) Federal requirements and the forms, methods and procedures that the Administrator designates will be used to determine provider eligibility and certification under Medicaid; (2) Inspectors surveying the premises of a provider will (i) Complete inspection reports; (ii) Note on completed reports whether or not each requirement for which an inspection is made is satisfied; and (iii) Document deficiencies in reports; (3) The survey agency will keep on file all information and reports used in determining whether participating facilities meet Federal requirements; and (4) The survey agency will make the information and reports required under paragraph (f)(3) of this section readily accessible to HHS and the Medicaid agency as necessary (i) For meeting other requirements under the plan; and (ii) For purposes consistent with the Medicaid agency's effective administration of the program(42 CFR 431.610 (F)).

Finding

Per the Medicaid State Plan, the Executive Office has designated the Department of Public Health (DPH) as the State agency responsible for licensing health institutions and agencies in the State and determines for the Medicaid agency whether institutions and agencies meet the requirements for participating in the Medicaid program.

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The Executive Office entered into an Interdepartmental Service Agreement (ISA) with the Department of Public Health dated April 1, 1994. Section IV of the agreement states that the agreement shall be effective July 1, 1993 and shall remain in effect until June 30, 1994, unless extended by a written memorandum of the parties hereto.

During our audit we were not provided with written memorandum that extended the ISA through June 30, 2007. Accordingly, the Executive Office does not have a written agreement between the Medicaid agency and the designated survey agency.

Recommendation

We recommend that the Executive Office implement policies and procedures to ensure that an ISA covering the activities of the survey agency in carrying out its responsibilities is entered into.

Related Noncompliance

Based on the above, the Executive Office was not fully in compliance with the stated requirement.

Questioned Costs

None

Views of Responsible Officials and Corrective Actions

The Office of Medicaid will enter into an ISA with DPH by the end of Q1 of CY 2008.

Contact: Rachel Richards, Director, MassHealth Office of Long Term Care

Implementation Date: March 31, 2008

COMMONWEALTH OF MASSACHUSETTS

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Year ended June 30, 2007

Executive Office of Health and Human Services

Medical Assistance Program (93.778)

Federal Award Number:	05-0605MA5148	Federal Award Year:	2006
	05-0705MA5148		2007

U.S. Department of Health and Human Services

Reference: 2007-45

Requirement

A State plan must provide that the Medicaid agency and, where applicable, local agencies administering the plan will maintain an accounting system and supporting fiscal records to assure that claims for Federal funds are in accordance with applicable Federal requirements (42 CFR 433.32 (a)).

Finding

The Executive Office is responsible of the quarterly preparation of the CMS-64 report. During our testwork over the CMS-64 report we noted that the Executive Office did not report expenditures on Line 27 – Emergency Services Undocumented Aliens for any of the quarterly reports submitted during the audit period. Further, we noted during our testwork that the Commonwealth’s Medicaid Program does incur costs related to emergency services for undocumented aliens which are reported in the line items corresponding to the type of service provided. The Executive Office cannot report expenditures for emergency services for undocumented aliens as the claims payment system cannot separate these payments from payments made for emergency services for documented immigrants who are eligible for federal funding of emergency services. Expenditures for emergency services for undocumented and documented aliens for the period July 1, 2006 to June 30, 2007 were \$36,237,808.

Recommendation

We recommend that the Executive Office revise existing policies and procedures to ensure that costs incurred for emergency services for undocumented aliens are reported on the correct line of the CMS-64 report.

Related Noncompliance

Based on the above the Executive Office was not fully in compliance with the requirement above.

Questioned Costs

None

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Views of Responsible Officials and Corrective Actions

EOHHS does claim for emergency services to undocumented aliens, but they are listed in the appropriate federal type of service (for example, inpatient hospital) as opposed to Line 27. This is because the coverage type through which we provide emergency services to undocumented immigrants, MassHealth Limited, is also used for emergency services to documented immigrants who are either not "Qualified Aliens" under federal law or are "Qualified Aliens" but are eligible only for federal funding of emergency services. . . ." We do not have the ability to separate these groups through our claims payment system.

EOHHS will research whether it is possible to separate emergency services payments for undocumented aliens from other eligibility groups in order to place the correct expenditures on Line 27.

Contact: Denise Patton, Director of Revenue

Janice Axelrod, Director of Federal Revenue Claiming

Implementation Date: By June 30, 2008

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Executive Office of Health and Human Services

State Children’s Health Insurance Program (93.767)

Medical Assistance Program (93.778)

Federal Award Number:	05-0605MA5021	Federal Award Year:	2006
	05-0705MA5021		2007
	05-0605MA5148		2006
	05-0705MA5148		2007

U.S. Department of Health and Human Services

Reference: 2007-46

Requirement

Funds can only be used for Medicaid benefit payments (as specified in the State plan, Federal regulations, or an approved waiver), expenditures for administration and training, expenditures for the State Survey and Certification Program, and expenditures for State Medicaid Fraud Control Units (42 CFR sections 435.10, 440.210, 440.220, and 440.180).

States have general flexibility in allocating their individual allotments toward activities needed to conduct the SCHIP (42 USC 1397ee(a)). In addition to expenditures for child health assistance under the plan for targeted low-income children, other allowable activities, to the extent permitted by 42 USC 1397ee(c), include payment of other child health assistance for targeted low-income children; expenditures for health services initiatives for improving the health of children (targeted and other low income) under the plan; expenditures for outreach activities; and other reasonable costs incurred by the State to administer the plan (42 USC 1397ee).

Finding

The Executive Office uses the Medicaid Management Information System (MMIS) to adjudicate claims for the State Children’s Health Insurance and the Medical Assistance Programs. MMIS processes over \$3 billion in claims a year for the two programs. During our audit we performed audit procedures over MMIS to ensure that the system has properly designed and effective information technology controls such that claims are appropriately authorized and completely and accurately processed. During the audit we noted the following:

- For changes to the production of the current version of the MMIS application that are performed for maintenance purposes and require modification of production source code and/or data, the current change management policies and procedures do not adequately enforce the requirement for documentation and sign-off to evidence that the following control processes are performed:
 - Business and IT authorization for changes;
 - User involvement in the analysis and testing of changes; and,
 - User acceptance/approval of changes prior to implementation into production.

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Change control policies and procedures provide a mechanism for management to verify that all changes are adequately analyzed to determine the impact of the change, authorized for development, tested and approved by both IT and users prior to being migrated to the production environment. The potential lack of adequate involvement of the user community in testing and the lack of adequate recording/retention of supporting documentation for change authorization, test procedures and final approval increases the risk that unauthorized, untested, and/or unapproved changes are made to the production environment.

Recommendation

Management should improve their change management process by increasing the enforcement of documentation requirements to evidence that all changes to the MMIS application, including those that result from daily maintenance of the system, are properly classified based on impact, authorized by appropriate owners in the user community, tested and approved by both IT and appropriate owners in EHS.

Views of Responsible Officials and Corrective Actions

Agree. Shortly prior to audit commencement, there was a change in MassHealth IT Executive Management. The CIO left and the Acting CIO assumed responsibility. This MMIS process and procedure deficiency was brought to the Acting CIOs attention. A new formal process and procedure was initiated in May '07 and fully implemented by July 1, 2007. During FY08, steps to remedy this deficiency have remained in place and are standard business procedure.

Management and staff will adhere to a formal and documented Systems Development Life Cycle process (SDLC) for tracking requests to change the MMIS, dispositions of those changes and documentation that includes sign-off.

Contact: Tom Kelliher, Director of MMIS Maintenance and Enhancement

Implementation Date: July 1, 2007

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Executive Office of Health and Human Services

State Children's Health Insurance Program (93.767)

Federal Award Number: 05-0605MA5021 **Federal Award Year:** 2006
05-0705MA5021 2007

U.S. Department of Health and Human Services

Reference: 2007-47

Requirement

States have flexibility in determining eligibility levels for individuals for whom the State will receive enhanced matching funds within the guidelines established under the Act. Generally, a State may not cover children with higher family income without covering children with a lower family income, nor deny eligibility based on a child having a preexisting medical condition. States are required to include in their State plans a description of the standards used to determine eligibility of targeted low-income children. State plans should be consulted for specific information concerning individual eligibility requirements (42 USC 1397bb(b)).

Qualified aliens, as defined at 8 USC 1641, who entered the United States on or after August 22, 1996, are not eligible for a separate child health program under Title XXI (SCHIP) for a period of five years, beginning on the date the alien became a qualified alien, unless the alien is exempt from this five year bar under the terms of 8 USC 1613. States must provide coverage under a separate child health program under Title XXI to all other otherwise eligible qualified aliens who are not barred from coverage under 8 USC 1613 (42 CFR section 457.320(b)(6)).

Finding

The Executive Office has defined the eligibility requirements in the approved State Plan. During our audit we selected 30 recipients who received benefits under the State Children's Health Insurance Program (SCHIP) and re-performed the recipient's eligibility.

We noted the following matters in two of the 30 recipients selected:

- For one recipient the incorrect household income was used to determine eligibility. The family was incorrectly determined to be 150% of the Federal poverty limit (FPL); however, the actual FPL was 231% and required the recipient to pay a \$20 a month premium for medical coverage. The recipient should have paid the premium for the entire 12 months under audit for a total of \$240 in premiums.
- For another recipient we determined that unallowable SCHIP payments of \$1,658 were made on the participant's behalf after she had left "protective status" from being pregnant and was required to transfer to the Medicaid program as she had turned nineteen years of age. As the recipient was Medicaid eligible these payments would be eligible for federal participation at 50% instead of the 65% afforded by SCHIP.

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Questioned costs for the SCHIP program were determined by adding the amounts noted above together and multiply by the federally participating percentage of 65%.

Recommendation

We recommend that the Executive Office reinforce existing policies and procedures and provide training to employees such that eligibility determinations are made in accordance with the State Plan.

Related Noncompliance

Based on the above the Executive Office was not fully in compliance with the requirement above.

Questioned Costs

\$1,234

Views of Responsible Officials and Corrective Actions

EOHHS acknowledges and accepts KPMG findings.

Instructions have been communicated to all eligibility staff to consult with a supervisor whenever they need assistance to interpret and apply income data to the eligibility system when a tax return is the verification source document. A refresher training will be provided to assist Eligibility staff to review protocols around tax returns with easy to use “desk guide” materials to be provided.

Contact: Joseph Sousa, Senior Policy Analyst, MassHealth Operations

Implementation Date: MassHealth Policy Unit communicates with Eligibility Operations field staff on a weekly basis. This communication is supported by a Training Liaison staff person assigned onsite in each eligibility office. Recent communications have alerted staff to be extra attentive to these issues. A refresher training is planned on these areas to be provided to all eligibility staff before June 30, 2008.

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Office of the State Comptroller

State Children's Health Insurance Program (93.767)

Medical Assistance Program (93.778)

Federal Award Number:	05-0605MA5021	Federal Award Year:	2006
	05-0705MA5021		2007
	05-0605MA5148		2006
	05-0705MA5148		2007

U.S. Department of Health and Human Services

Reference: 2007-48

Requirement

A Treasury-State agreement documents the accepted funding techniques and methods for calculating interest agreed upon by the Federal government and a State and identifies the Federal assistance programs governed by this subpart A. If anything in a Treasury-State agreement is inconsistent with this subpart A, that part of the Treasury-State agreement will not have any effect and this subpart A will govern. (31 CFR 205.6 (a))

Finding

For certain Federal programs the Commonwealth has implemented a non-central draw process where the Executive Office provides the amounts to the Commonwealth's Treasury for drawdown. The process consists of using the State's accounting system MMARS and the State's Medicaid Management Information System MMIS to identify the Federal disbursements. The disbursements are divided into four components; payments to service providers (MMARS Payments), payroll (MMIS claim payments), indirect administration (Cost Allocation Plan), and direct administration (direct payroll charges).

Each Monday, the weekly disbursements for MMARS payments are aggregated and reports are generated to identify amounts paid in the prior week. The amount is reported to Treasury on Monday and drawn on the following day. Each Friday, the amounts paid in MMIS for that week are identified through various reports. On the following Wednesday the amounts are reported to Treasury and checks are mailed to service providers on Friday. On the following Thursday Treasury draws the Federal funding 6 days (4 business days) after checks are mailed.

Every other week, the direct administration costs are identified through a MMARS query. The amounts are reported to Treasury for draw the next day. Each quarter, the Cost Allocation Plan (CAP) is generated and the amounts are reported to Treasury for draw.

During our audit we noted that the Commonwealth's Treasury-State Agreement (TSA) for the Medical Assistance program states for payments to service providers (MMARS Payments), payroll (MMIS claim payments) and direct administrative costs the State must drawdown funds from the United States Treasury using the average clearance technique as defined in the TSA and use the monthly draw (reallocated costs) technique for

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

indirect administrative costs (CAP costs) as defined in the TSA. For the State Children Health Insurance Program the TSA states that for benefit payments the State must drawdown funds from the United States Treasury using the average clearance technique as defined in the TSA.

The average clearance technique is defined such that the Commonwealth requests funds such that they are deposited by ACH on the dollar-weighted average day of clearance for the disbursement, in accordance with the clearance pattern specified in Exhibit II of the TSA. The dollar-weighted average day of clearance for each of the programs is 3 days.

The monthly draw (reallocated costs) technique is defined such that the Commonwealth shall draw down funds for relocated costs once a month on the 11th business day, in conjunction with its internal cost accounting system. The amount of the drawdown will be based on the actual costs of the prior month that have been allocated in accordance with the Department's approved cost plan. This funding technique is interest neutral.

Our audit procedures noted that the drawdown techniques used by the Executive Office does not replicate the average clearance or monthly draw (relocated costs) techniques defined in the TSA. However, we noted that the techniques used by the Executive Office do not draw down Federal funds in advance of disbursement or the dollar-weighted average day of clearance.

Recommendation

We recommend that the Executive Office working with the State Comptroller's Office should strengthen existing policies and procedures to ensure that the Treasury-State agreement drawdown techniques agree with the actual methods used to drawdown Federal funds.

Related Noncompliance

Based on the above, the Commonwealth was not fully in compliance with the stated requirement.

Questioned Costs

None

Views of Responsible Officials and Corrective Actions

Section 6.2.1 of the Treasury State Agreement describes the thirteen Standard Funding Techniques (listed below) that are to be implemented for all transfers of funds to which the funding technique are applied.

Section 6.2.4 of the TSA establishes the terms under which State Unique Funding Techniques shall be implemented for all transfers of funds to which the funding technique is applied in section 6.3.

The Commonwealth works with the US-Treasury – Financial Management Service (FMS,) annually in March to update the Treasury – State Agreement. As part of this process, we will describe our current business practice to FMS and see if there is a better technique prescribed under the general and permanent rules of Code of Federal Regulations (CFR), Section 31 and part 205.

Should a change be necessary, we will make the change for our FY09 filing due June 30, 2008 and any FY08 change needed before then.

Contact: Kevin Moran, Bureau Director, Office of the State Comptroller

Implementation Date: March – June 2008.

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Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Office of the State Comptroller

Temporary Assistance for Needy Families (93.558)

Federal Award Number:	0401MATANF	Federal Award Year:	2004
	0501MATANF		2005
	0602MATANF		2006
	0702MATANF		2007

U.S. Department of Health and Human Services

Finding Reference: 2007-49

Requirement

A Treasury-State agreement documents the accepted funding techniques and methods for calculating interest agreed upon by us and a State and identifies the Federal assistance programs governed by this subpart A. If anything in a Treasury-State agreement is inconsistent with this subpart A, that part of the Treasury-State agreement will not have any effect and this subpart A will govern. (31 CFR 205.6 (a))

The following requirements apply when we and a State negotiate a mutually agreed upon funds transfer procedure based on an estimate of the State's immediate cash needs: (a) The State must ensure that the estimate reasonably represents the flow of Federal funds under the Federal assistance program or program component to which the estimate applies. The estimate must take into account seasonal or other periodic variations in activity throughout the period for which the Federal funds are available. (b) As set forth in Sec. Sec. 205.9 and 205.10, a Treasury-State agreement must include the method a State uses to develop, maintain, and document the estimate (31 CFR 205.23).

Finding

The Department used a third-party to daily reimburse institutions for actual costs incurred on behalf of eligible program beneficiaries. On a daily basis the Department does not know the exact Federal share of these payments and in order to drawdown the Federal share of these payments the Department estimates the Federal share based on prior year actual payment history. On a quarterly basis, the Department reconciles the estimated amount of the Federal share drawn to the actual that should have been drawn and makes any adjustments needed to the amount previously drawn. On a quarterly basis the Department did not draw excessive Federal funds, however, on a daily basis it cannot be determined if Federal funds were drawn in excess of immediate cash needs.

During our audit we noted that the Commonwealth's Treasury-State Agreement (TSA) stated that for payments for TANF benefits the State must drawdown funds from the United States Treasury using the electronic benefits transfer (TANF) payment technique as defined in the TSA.

The electronic benefits transfer (TANF) technique is defined such that the Department requests funds via the ACH as a same day cash drawdown for electronic benefit transfers. The TSA further states that the drawdown of funds shall be the same day as retailers are paid for transactions made at electronic point of sale machines and

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

funds will always be drawn on the same day that settlement funds are paid put. Further, the Commonwealth will wire the full amount of the benefits to the account of the contractor bank on the same days as the ACH transfer. The TSA states that this funding technique is interest neutral.

Section 6.1.4 of the TSA states that when estimated expenditures are used to determine the amount of the drawdown, the Commonwealth will indicate in the terms of the Commonwealth's unique funding technique how the estimated amount is determined and when and how the Commonwealth will reconcile the difference between the estimate and the Commonwealth's actual expenditures.

Our audit procedures noted that the drawdown process used by the Department used estimated amounts to determine the amount to drawdown from the Federal government on a daily basis. Further, the Commonwealth's TSA does not indicate how the estimated amount is determined and when and how the Commonwealth will reconcile the difference between the estimate and the Commonwealth's actual expenditures.

Recommendation

We recommend that the Department working with the Office of the State Comptroller establish policies and procedures to ensure that the Treasury-State agreement drawdown techniques agree with the actual methods used to drawdown Federal funds.

Related Noncompliance

Based on the above, the Commonwealth was not fully in compliance with the stated requirement.

Questioned Costs

None

Views of Responsible Officials and Corrective Actions

Section 6.2.1 of the Treasury State Agreement describes the thirteen Standard Funding Techniques (listed below) that are to be implemented for all transfers of funds to which the funding technique are applied.

Section 6.2.4 of the TSA establishes the terms under which State Unique Funding Techniques shall be implemented for all transfers of funds to which the funding technique is applied in section 6.3.

The Commonwealth works with the US-Treasury – Financial Management Service (FMS,) annually in March to update the Treasury – State Agreement. As part of this process, we will describe our current business practice to FMS and see if there is a better technique prescribed under the general and permanent rules of Code of Federal Regulations (CFR), Section 31 and part 205.

Should a change be necessary, we will make the change for our FY09 filing due June 30, 2008 and any FY08 change needed before then.

Contact: Kevin Moran, Bureau Director, Office of the State Comptroller

Implementation Date: March – June 2008.

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Office of the State Comptroller

- Special Supplemental Nutrition Program for Women, Infants and Children (10.557)**
- Child and Adult Care Food Program (10.558)**
- National School Lunch Program (10.555)**
- Title 1 Grants to Local Educational Agencies (84.010)**
- Special Education Grants to States (84.027)**
- Rehabilitation Services – Vocational Rehabilitation Grants to States (84.126)**
- Improving Teacher Quality State Grants (84.367)**
- Highway Planning and Construction (20.205)**
- Immunization Grants (93.268)**
- Child Support Enforcement (93.563)**
- Low-Income Home Energy Assistance (93.568)**
- Social Security Disability Insurance (96.001)**

Federal Award Number:	Federal Award Year:
4MA700702	2007
4MA700702	2006
IN109044	2006
IN109044	2007
IN202044	2006
IN202044	2007
IN109844	2006
IN109844	2007
IN109744	2006
IN109744	2007
S010A050021	2006
S010A050021A	2006
S010A060021	2007
S010A060021A	2007
H027A040076	2005
H027A040076A	2005
H027A050076	2006
H027A050076A	2006
H027A060076	2007
H027A060076A	2007
H173A0500039	2006
H173A0600039	2007
S367A0500020	2006
S367A0500020A	2006
S367A0600020	2007
S367A0600020A	2007
H126A070028E	2006-2008
H126A060028D	2005-2007

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

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H126A050028D	2004-2006
G0601MASAVP	2007
G0504MAHMR	2007
G0704MA4004	2007

U.S. Department of Agriculture
U.S. Department of Education
U.S. Department of Transportation
U.S. Department of Health and Human Services
Social Security Administration

Reference: 2007-50

Requirement

A Treasury-State agreement documents the accepted funding techniques and methods for calculating interest agreed upon by us and a State and identifies the Federal assistance programs governed by this subpart A. If anything in a Treasury-State agreement is inconsistent with this subpart A, that part of the Treasury-State agreement will not have any effect and this subpart A will govern. (31 CFR 205.6 (a))

Finding

For certain Federal programs the Commonwealth has implemented a central draw process. The process, using the State's accounting system MMARS, identified Federal disbursements on a daily basis. Each Friday the weekly disbursements are aggregated and reports are generated to identify amounts by payment system, letter of credit and other pertinent information so funds can be draw the following Tuesday or Wednesday.

During our audit we noted that the Commonwealth's Treasury-State Agreement (TSA) for the programs above states for payments to vendors and employees (payroll) the State must drawdown funds from the United States Treasury using the average clearance technique as defined in the TSA except for the Special Supplemental Nutrition Program for Women, Infants and Children (WIC) which uses the actual clearance, zero balance accounting same day payment technique.

The average clearance technique is defined such that the Commonwealth requests funds such that they are deposited by ACH on the dollar-weighted average day of clearance for the disbursement, in accordance with the clearance pattern specified in Exhibit II of the TSA. The dollar-weighted average day of clearance for each of the programs is 3 days except for WIC which is zero days.

Our audit procedures noted that the central draw process used by the Commonwealth does not replicate the average clearance or actual clearance, zero balance accounting same day payment techniques defined in the TSA. However, we noted that the central draw technique used by the Commonwealth does not draw down Federal funds in advance of disbursement or the dollar-weighted average day of clearance.

Recommendation

We recommend that the Commonwealth should strengthen existing polices and procedures to ensure that the Treasury-State agreement drawdown techniques agree with the actual methods used to drawdown Federal funds.

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Related Noncompliance

Based on the above, the Commonwealth was not fully in compliance with the stated requirement.

Questioned Costs

None

Views of Responsible Officials and Corrective Actions

Section 6.2.1 of the Treasury State Agreement describes the thirteen Standard Funding Techniques (listed below) that are to be implemented for all transfers of funds to which the funding technique are applied.

Section 6.2.4 of the TSA establishes the terms under which State Unique Funding Techniques shall be implemented for all transfers of funds to which the funding technique is applied in section 6.3.

The Commonwealth works with the US-Treasury – Financial Management Service (FMS,) annually in March to update the Treasury – State Agreement. As part of this process, we will describe our current business practice to FMS and see if there is a better technique prescribed under the general and permanent rules of Code of Federal Regulations (CFR), Section 31 and part 205.

Should a change be necessary, we will make the change for our FY09 filing due June 30, 2008 and any FY08 change needed before then.

Contact: Kevin Moran, Bureau Director, Office of the State Comptroller

Implementation Date: March – June 2008.

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Office of the State Treasurer

Medical Assistance Program (93.778)

Federal Award Number:	05-0605MA5148	Federal Award Year:	2006
	05-0705MA5148		2007

U.S. Department of Health and Human Services

Reference: 2007-51

Requirement

If a check remains uncashed beyond a period of 180 days from the date it was issued; i.e., the date of the check, it will no longer be regarded as an allowable program expenditure. If the State has claimed and received Federal Financial Participation (FFP) for the amount of the uncashed check, it must refund the amount of FFP received. (2) At the end of each calendar quarter, the State must identify those checks which remain uncashed beyond a period of 180 days after issuance. The State agency must refund all FFP that it received for uncashed checks by adjusting the Quarterly Statement of Expenditures for that quarter. If an uncashed check is cashed after the refund is made, the State may file a claim. The claim will be considered to be an adjustment to the costs for the quarter in which the check was originally claimed. This claim will be paid if otherwise allowed by the Act and the regulations issued pursuant to the Act. (3) If the State does not refund the appropriate amount as specified in paragraph (c)(2) of this section, the amount will be disallowed. (d) (1) If the State has claimed and received FFP for the amount of a cancelled (voided) check, it must refund the amount of FFP received. (2) At the end of each calendar quarter, the State agency must identify those checks which were cancelled (voided). The State must refund all FFP that it received for cancelled (voided) checks by adjusting the Quarterly Statement of Expenditures for that quarter. (3) If the State does not refund the appropriate amount as specified in paragraph (d)(2) of this section, the amount will be disallowed (42 CFR 433.40 (c) and (d)).

Finding

The Executive Office relied on the Office of the State Treasurer to provide the value of uncashed and purged checks on a quarterly basis to be included on the CMS-64 report. During our testwork we reviewed two quarterly CMS-64 reports and noted the following:

- For the quarter ending September 30, 2006, the dates of the outstanding checks ranged from August 2, 2004 through June 29, 2005 and had a value of \$340,398.
- For the quarter ending June 30, 2007 there were no outstanding checks reported.

For the Federal fiscal third quarter ended June 30, 2007, total outstanding checks reported had a value of \$712,631.

COMMONWEALTH OF MASSACHUSETTS

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Based on our review, it does not appear that the Federal participation of uncashed checks with issuance dates greater than 180 days are refunded in accordance with Federal regulations.

Questioned costs cannot be determined as the value of checks outstanding beyond 180 days that should have been refunded but were not available.

Recommendation

We recommend that the Office of the State Treasurer modify their existing policies and procedures to ensure that the Executive office receives the appropriate information to ensure checks that remain uncashed beyond a period of 180 days are refunded as required by Federal requirements.

Related Noncompliance

Based on the above the Office of the State Treasurer was not fully in compliance with the requirement above.

Questioned Costs

Cannot be determined

Views of Responsible Officials and Corrective Actions

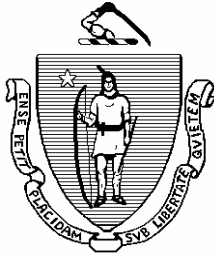
The Office of State Treasurer (Treasury) has updated our procedures to ensure that the list of checks purged from the 0398 and 1776 disbursement accounts into the Unpaid Check Fund (UPCF) is communicated on a monthly basis to the Executive Office of Health and Human Service (EOHHS). EOHHS has agreed to restate its requirements in a letter to the Treasury and is evaluating the process for purging checks after 180 days to ensure compliance with both the State Laws regarding the Unpaid Check Fund (General Law: Chapter 29 Section 32) and Federal Laws.

Contact: Catherine Moriarty, Director of Compliance, EOHHS

Implementation Date: February 2008

Summary of Prior Year's Findings
and Questioned Costs

(Not Covered by Auditors' Reports)



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Summary Schedule of Prior Year Audit Findings

The following schedule lists the finding number and title, together with the applicable Commonwealth department, for each of the findings included in the fiscal year 2006 (FY2006) Report. If the condition still exists as a result of the fiscal year 2007 (FY2007) audit, the current year finding is referenced after the FY2007 status of the FY2006 findings. The letter under the heading Corrective Action indicates the following:

- F Full - corrective action plan (CAP) for the prior year finding was fully implemented
P Partial - CAP for the prior year finding was partially implemented and the condition still exists

Department
Finding

Corrective
Action

Executive Office of Environmental Affairs – Office of Law Enforcement
Finding Number 1: Failure To Enter Fixed Asset in Proper Period

F

Massachusetts Rehabilitation Commission

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

P - *

The agency will continue to work on its inventory reconciliation in order to comply with the state guidelines on equipment inventory. The agency recognizes that maintaining and reconciling an inventory of over 7,000 items in our equipment inventory alone requires a significant effort, is subject to error and personnel costs to maintain the inventory can be significant. We will review our current inventory procedures as to the value of the equipment that we include in our inventory in order to determine if it is feasible to utilize the state Non-GAAP fixed asset standard of (1) a useful life of more than one year and (2) an original cost between \$1,000 and \$49,999. We would request consultation and guidance prior to a change in our inventory accounting, but would expect that our inventory would be full compliance by the next audit review if this change were implemented.

We have developed a work plan to address the EDP inventory deficiencies and are continuing to work through other equipment reconciliation items. We feel that we will continue to have this type of finding unless we address the question as to what is included in the agency inventory to meet the requirement. We will plan another inventory in January or February in order to determine the impact of our reconciliation.

Department <u>Finding</u>	<u>Corrective Action</u>
Registry of Motor Vehicles Finding Number 3: Recording of Adjustments and Uncollectibles Needs Enhancements	F
Bridgewater State College Finding Number 4: Internal Control Plan in Need of Improvement	F
Bridgewater State College Finding Number 5: Investigation and Audit of a Reported Possible Theft of Funds	F
Massachusetts College of Liberal Arts Finding Number 6: Non-Appropriated Funds Activity and Balances not Reconciled in a Timely Manner	F
Northern Essex Community College Finding Number 7: Internal Control Plan Needs Improvement	F
Department of Education Finding Number 8: Sub recipient Monitoring Could be Improved <i>We have taken all reasonable steps to collect reports. Reports that have continued to be late are those that have not been issued. On March 28, 2007 we estimated that there were 175 reports outstanding. As of June 1, 2007 we have since collected 68 with another 34 requesting of receiving extensions. The remaining 73 were sent direct dunning letters.</i> <i>Our opinion continues to be that this is a statewide issue. In last year's report there was a Management Letter item relating to this subject that was directed at the State Comptroller. We will be very willing participants in any group the Comptroller's Office sets up to work on this issue.</i>	P - *
Department of Education Finding Number 9: System to Distribute Grant Funds to Local Education Agencies Needs Improvement <i>Based on the carryover provisions that we put into place, we have worked with our LEAs and have eliminated excess carryover balances by the recipients in the Title I programs. All other grant programs that have carryover provisions also follow these provisions.</i> <i>We set out a time frame for completion of a new online payment system of grant funds in our corrective action plan for Finding #9. Our process is on target for the schedule that we set in the response. We have not missed any milestones and fully expect to begin the next fiscal year with implementation of the system.</i>	P - *
Department of Education Finding Number 10: Vocational Education Program Maintenance of Effort Requirements not Met	F

Department of Public Health

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

F

Department of Revenue/Division of Child Support Enforcement

Finding Number 12: Ineffective Case Tracking and Management System

P - *

CSE's ability to commence the development stage of its automated workflow management, imaging, and document generation and management system was contingent on continued bond funding. CSE has secured the bond funding for FY08 and will begin the process of restarting the project (Bond funding was not available for this project during FY07). As noted in the corrective action plan, the workflow management system will route work more efficiently, improve supervisory oversight, streamline case processing, strengthen quality control, allow CSE to monitor all federal timeframes, and provide management and staff with more real time information about case status and what actions are required on a case.

Additionally, CSE plans to utilize data warehousing technology to provide case owner and executive management reports and data to support the analysis of CSE performance and allow staff to proactively and effectively manage their caseloads with the goal of improving performance and service to customers. An effective data warehouse can transform raw child support data into strategic information that case owners can use to prioritize actions and accomplish this goal. A vendor has been selected and the requirements definition and general system design phases on the project are underway.

CSE also implemented an enhanced interface with the Department of Transitional Assistance in March 2007. The enhanced interface improves the accuracy of data on child support referrals and critical information on public assistance history and benefit amounts of our TANF cases. Accurate data ensures that these cases are properly handled and payments are properly distributed according to federal rules. Improving the accuracy of this data will increase CSE's performance on the federal performance measures as it will significantly reduce the amount of time staff have to spend correcting data as well as improve the level of customer service that CSE can provide.

Department of Social Services F
Finding Number 13: Non-Compliance with Legal Requirements for Open Fair Appeal Hearings

Department of Social Services F
Finding Number 14: Controls Over FamilyNet and Home Licensing Report Data Need Improvement

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

Department of Social Services F
Finding Number 16: The Process for Home Licensing Needs Improvement

Department of Transitional Assistance P - *
Finding Number 17: Failure to Perform Federal Tax Information Match
While DTA has made significant progress in matching the data contained in the IRS file, we have not finished processing the results of the data match. The Department will complete the match processing by the end of this fiscal year and expects to be in full compliance with IRS matching requirements.

Executive Office of Elder Affairs F
Finding Number 18: Supporting Documentation for Monitoring Payments to Area Agencies Needs to be Improved

Executive Office of Elder Affairs F
Finding Number 19: Lack of Documentation to Support the Amounts Reported on SF-269

Executive Office of Health and Human Services/Office of Medicaid/Department of Mental Retardation F
Finding Number 20: Provider Applications not Signed by Provider or the Office of Medicaid

Executive Office of Health and Human Services/Office of Medicaid F
Finding Number 21: Overpayment Must be Refunded in a More Timely Manner

Executive Office of Health and Human Services/Office of Medicaid F
Finding Number 22: A Department of Health and Human Services Report Cities Claiming of Unallowable Targeted Case Management Costs

Executive Office of Public Safety and Homeland Security **F**
Finding Number 23: Internal Control Improvements Needed over the Review of Documentation Submitted by Sub recipients and Reimbursements Made to Sub recipients

Executive Office of Public Safety and Homeland Security/Office of the State Comptroller **P - ***
Finding Number 24: Improvements Needed over the Reconciliation of Federal Grant Expenditures and Reimbursements

The Executive Office of Public Safety created the Office of Grants and Research during the current fiscal year to consolidate and coordinate more closely all Federal grant related activities. Certain reconciliation related fiscal practices were strengthened including:

- *Current Federal Grant activity is now being reconciled on an ongoing weekly basis;*
- *Fiscal staff is now systematically reconciling past federal fiscal year grants. In the process of this work, staff found many errors in the posting of MMARS revenue data and "Child" expenditure coding. Staff have been and will continue to work closely with CTR staff to fix these data errors in MMARS; and*
- *The Office of Grants and Research plans to increase the level of reconciliation activity both through the recent addition of fiscal staff skilled in reconciliation and through the employment of supplemental accounting staff until all older Federal grants are reconciled and correction are made.*

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

Information Technology Division **F**
Finding Number 26: Final Rates for Billed Services Should be Prepared on a Timely Basis

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

Massachusetts Highway Department **P - ***
Finding Number 28: Monitoring of Davis Bacon Needs Improvement

Massachusetts Rehabilitation Commission **F**
Finding Number 29: Payroll Certifications not Obtained for Federally-Funded Programs

Office of the State Comptroller **F**
Finding Number 30: Excess Indirect Costs Charged not Adjusted in a Timely Manner

Bridgewater State College

P - *

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

The manual Work Study Timesheet process has been fully revised as recommended and all appropriate controls for this process are in place, as directed in the prior audit finding. Automation of the manual timesheet process to a fully online process is nearly complete, with installation and testing complete, and the first 'production' runs scheduled for July 2007.

The Human Resources staff has conducted a full reconciliation process of all Work Study timesheets. All timesheets that contained errors were photocopied, a reconciliation sheet was attached identifying errors, and the errors were rectified.

All timesheets received in Payroll are reviewed and verified by two Payroll staff members to ensure errors do not exist and all calculations are correct. If errors are found, the timesheet is not processed.

All expectations and processing requirements for Federal College Work study have been communicated to the Human Resources/Payroll responsible staff.

All federal College Work Study managers and supervisors are being given additional training. Supervisors who make repeated time sheet errors will be required to attend further mandatory training. Upon repeated offenses, notification of repeated errors and of the mandatory training. Upon repeated offenses, notification of repeated errors and of the mandatory training requirement is escalated to the respective area Vice President.

Any late submissions or working in excess of 20 hours justification will be required in writing from the respective Vice President as to why the submitted timesheet was late or in excess of 20 hours.

The newly implemented "Web of Employees" module of the College's Banner information system will enable online timesheets and approvals, which further enhances security and controls over timesheets. The module is set to "go live" at the start of the fiscal year in July 2007.

Holyoke Community College

F

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

Northern Essex Community College

F

Finding Number 33: Inaccurate Student Refunds Issued