



The Commonwealth of Massachusetts

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**INDEPENDENT STATE AUDITOR'S REPORT
ON THE
ADMINISTRATION BY MASSHEALTH OF THE
MEDICAID DRUG REBATE PROGRAM
JUNE 30, 2006**

**OFFICIAL AUDIT
REPORT
JUNE 3, 2008**

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INTRODUCTION**1**

MassHealth, within the Executive Office of Health and Human Services (EOHHS), administers the Medicaid program, which provides access to health care services to approximately one million low- and moderate-income individuals, couples, and families in Massachusetts. In fiscal year 2006, MassHealth paid in excess of \$6.4 billion on 47.4 million medical claims to approximately 28,000 providers, of which 50% was federally funded. During fiscal year 2007, MassHealth paid approximately \$6.2 billion on 49.3 million claims to 30,000 providers.

To help control Medicaid drug spending, federal law requires manufacturers to pay rebates to states as a condition for the federal contribution toward covered outpatient prescription drugs. The Medicaid Drug Rebate Program was established in legislation enacted by Congress in the Omnibus Budget Reconciliation Act of 1990, effective January 1, 1991. Responsibility for the rebate program is shared among the drug manufacturers, the Centers for Medicare and Medicaid Services (CMS), and individual states. In Massachusetts, MassHealth is responsible for administering the drug rebate program. During fiscal year 2006, MassHealth collected approximately \$257 million in drug rebates from manufacturers, 50% of which will be used to offset federal funding.

In August 2004, the United States Department of Health and Human Services' Office of the Inspector General (HHS/OIG) issued a report entitled "Review of Medicaid Drug Rebate Collections Commonwealth of Massachusetts as of June 30, 2002" (Report Number A-01-04-00005). State agencies are required to submit an aging schedule for the ending balance of pending drug rebates to the Centers for Medicare and Medicaid Services (CMS) at the beginning of each quarter. The report concluded that MassHealth had established adequate controls to ensure that cash receipts under the drug rebate program were properly offset from the federal Medicaid reimbursement. However, contrary to federal rules and regulations, MassHealth did not establish accounting procedures and internal controls to reconcile and age drug rebates included within the reporting Form CMS 64.9R, as required, and monitor the collection of interest due from manufacturers.

The report further attributed the primary cause for the lack of procedures to MassHealth's computer system, which did not have the capability of making adjusting entries for cash receipts and other adjustments. MassHealth agreed with the results and recommendations in the HHS/OIG report.

In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, we conducted a follow-up audit of MassHealth to address its progress in implementing the recommendations from the HHS/OIG's report entitled "Review of Medicaid Drug Rebate Collections Commonwealth of Massachusetts as of June 30, 2002." Our audit was conducted as part of the HHS/OIG Partnership Plan in an effort to provide broader coverage of the Medicaid Program and to provide for more effective and efficient use of scarce audit resources by both the federal and state audit sectors. Also, our audit was conducted as part of the Office of the State Auditor's (OSA) ongoing independent statutory oversight of the Commonwealth's Medicaid program, and was conducted in accordance with applicable generally accepted government auditing standards. Our objective was to evaluate the

effectiveness of the Drug Rebate Analysis and Management System (DRAMS) in order to determine whether there are adequate internal controls within the system to ensure accountability as well as compliance with applicable laws, rules, and regulations. We also sought to determine whether 1) the amounts due from drug manufacturers are reported completely and accurately on a quarterly basis to CMS, 2) interest due from the manufacturers is collected in a timely manner and is monitored by MassHealth, and 3) MassHealth's oversight of the management of DRAMS is adequate.

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Our audit disclosed that DRAMS does contain adequate internal controls to provide the basis for adequate accounting and monitoring of the drug rebates due and the interest amounts paid by manufacturers, and therefore constitutes appropriate corrective action in response to the systems concerns contained within the HHS/OIG audit report. However, our follow-up audit also disclosed that the drug rebate receivable balance reported to CMS on June 30, 2006 was understated by approximately \$18 million compared to the balance reflected in DRAMS. The Executive Office of Health and Human Services (EOHHS) had not developed the intradepartmental accounting procedures and internal controls needed to reconcile and age drug rebate balances on the Form CMS 64.9R report prepared by EOHHS' Federal Revenue Department to the drug rebate activity maintained by EOHHS' Finance and Accounting Department, the Massachusetts Management Accounting and Reporting System (MMARS), and DRAMS prior to submitting the report to CMS. In response to the audit report, MassHealth indicated that it agrees with our recommendations for improvements in the reporting process and has developed and documented new policies and procedures that will be referenced in the internal control plan. Also, MassHealth has developed a process of coordinating the closing of accounts at month's end, which has resulted in accurate reports and reconciliations.

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INTRODUCTION

Background

The Executive Office of Health and Human Services (EOHHS) is the largest secretariat in the Commonwealth, with a budget that equals approximately 40% of the Commonwealth's total operating expenditures. MassHealth is a program that is managed by the Office of Medicaid, within EOHHS, offering access to a broad range of healthcare services to more than one million low- and moderate-income individuals, couples, and families in Massachusetts. In fiscal year 2006 MassHealth paid in excess of \$6.4 billion on 47.4 million medical claims to approximately 28,000 providers, of which 50% was federally funded. During fiscal year 2007, MassHealth paid approximately \$6.2 billion on 49.3 million claims to 30,000 providers.

Prior to 2003, the Massachusetts Division of Medical Assistance (DMA) was the single state agency responsible for administering Medicaid as provided for under Title XIX¹ of the Social Security Act. In 2003, the reorganization of EOHHS combined Medicaid and the Children's Health Insurance Program (CHIP) in MassHealth, as provided for under Title XXI² of the Social Security Act, which also manages the Insurance Partnership for small businesses.

Chapter 26, Section 15, of the Acts of 2003 requires EOHHS to be organized so that it serves as the principal agency of the executive department for the following purposes: (a) developing, coordinating, administering, and managing the health, welfare, and human services operations, policies, and programs; (b) supervising and managing the organization and conduct of the business affairs of the departments, commissions, offices, boards, divisions, institutions, and other entities within the executive office to improve administrative efficiency and program effectiveness and to preserve fiscal resources; (c) developing and implementing effective policies, regulations, and

¹ Social Security Act Title XIX: "For the purpose of enabling each State, as far as practicable under the conditions in such State, to furnish (1) medical assistance on behalf of families with dependent children and of aged, blind, or disabled individuals, whose income and resources are insufficient to meet the costs of necessary medical services, and (2) rehabilitation and other services to help such families and individuals attain or retain capability for independence or self-care, there is hereby authorized to be appropriated for each fiscal year a sum sufficient to carry out the purposes of this title. The sums made available under this section shall be used for making payments to States that have submitted, and had approved by the Secretary of EOHHS, State plans for medical assistance."

² Social Security Act Title XXI: "The purpose of this title is to provide funds to States to enable them to initiate and expand the provision of child health assistance to uninsured, low-income children in an effective and efficient manner that is coordinated with other sources of health benefits coverage for children."

programs to ensure the coordination and quality of services provided by the secretary and all of the departments, agencies, commissions, offices, boards, and divisions; (d) acting as the single state agency under Section 1902(a)(5) of the Social Security Act authorized to supervise and administer the state programs under Title XIX, under Titles IV(A), IV(B), IV(E), XX, and XXI of the Social Security Act, and under the Rehabilitation Act; and (e) maximizing federal financial participation for all agencies, departments, offices, divisions, and commissions within the executive office.

While some Medicaid benefits are federally mandated, outpatient prescription drug coverage is an optional benefit that the Commonwealth has elected to offer. Under this program, retail pharmacies distribute drugs to Medicaid beneficiaries and then receive reimbursement from MassHealth for the acquisition cost of the drug and a dispensing fee. To help control Medicaid drug spending, federal law requires manufacturers to pay rebates to states as a condition for the federal contribution toward covered outpatient prescription drugs.³ During fiscal year 2006, MassHealth collected drug rebates from manufacturers totaling \$257 million, as follows:

Quarter Ending	Amount (Million)
September 30, 2005	\$62
December 31, 2005	\$70
March 31, 2006	\$68
June 30, 2006	<u>\$57</u>
	<u>\$257</u>

The Medicaid Drug Rebate Program was established in legislation enacted by Congress in the Omnibus Budget Reconciliation Act of 1990, effective January 1, 1991. Responsibility for the rebate program is shared among the drug manufacturers, the Centers for Medicare and Medicaid Services (CMS), and individual states. In Massachusetts, MassHealth is responsible for administering the Drug Rebate Program. The Medicaid program requires states to present a complete, accurate, and full disclosure of all pending drug rebates and collections and to track collections of interest and report these amounts to CMS. States are also required to offset their federal drawdown by the federal share of drug rebates collected.

In an October 24, 2007 letter from Daniel R. Levinson, the Inspector General of the United States Department of Health and Human Services, to Kerry Weans, the Acting Administrator of CMS,

³ See 42 U.S.C. § 1396r-8.

regarding the “Review of Generic Drug Price Increases” (A-06-07-00042), the Inspector General stated that “Section 1927 of the Social Security Act (the Act) requires manufacturers to pay additional rebates for brand-name drugs when the average manufacturers’ prices (AMP) for those drugs increase more than a specified inflation factor. The Act does not include a similar inflation-based rebate provision for generic drugs. Generic drug price increases exceeded the specified statutory inflation factor applicable to brand name drugs for 35 percent of the quarterly AMPs we reviewed. If the provision for brand-name drugs were extended to generic drugs, the Medicaid program would receive additional rebates.”

MassHealth reports drug rebate collections on a quarterly basis to CMS utilizing a Form CMS 64.9R report, a part of the Form CMS 64 report which summarizes actual Medicaid expenditures for each quarter and is used by CMS to reimburse the federal share of these expenditures. The report also includes aged summary information on the balance of pending rebates.

The United States Department of Health and Human Services’ Office of the Inspector General (HHS/OIG) developed a Partnership Plan in an effort to provide broader coverage of the Medicaid Program, aimed at analyzing and controlling runaway Medicaid costs, by partnering with the State Auditors to conduct joint reviews. The HHS/OIG believes that the Partnership approach would be a more effective and efficient use of scarce audit resources by both the federal and state audit sectors. The Office of the State Auditor believes that this partnership will be a major benefit in effectively and efficiently auditing the Commonwealth’s Medicaid program, which has a significant financial impact on both the federal and state budgets. This cooperative audit effort will generate substantial cost savings at both levels. As part of this partnership, we conducted a follow-up review of the HHS/OIG report entitled “Review of Medicaid Drug Rebate Collections Commonwealth of Massachusetts as of June 30, 2002,” issued in August of 2004.

The objective of the HHS/OIG audit was to evaluate whether MassHealth had established adequate accountability and internal controls over the Medicaid Drug Rebate Program. The audit focused on MassHealth’s drug rebate policies, procedures, and controls in effect during the period from July 1, 2001 through June 30, 2002. This report concluded the following:

The State agency [MassHealth] had established adequate controls to ensure that cash receipts under the drug rebate program were properly offset from Federal Medicaid reimbursement. However, contrary to Federal rules and regulations, the State agency did not establish accounting procedures and internal controls to:

Reconcile and Age Drug Rebate Balances on the Form CMS 64.9R Report

The State agency is required to report aged summary information on its drug rebate program. Such information is to be included quarterly on the Form CMS 64.9R report. The CMS State Medicaid Manual §2500.7(B),⁴ requires the state agency to: ...submit to HCFA (CMS) summary information on pending drug rebates at the beginning of the quarter...

The State agency had no procedures in place to reconcile and age its pending drug rebate balances on the quarterly Form CMS 64.9R report... [The primary cause for the lack of procedures can be attributed to the State agency's computer system, which] did not have the capability of subsequently adjusting invoice balances for cash receipts or other adjustment transactions... As a result, the reported credit balance of \$270 million in pending drug rebates as of June 30, 2002 was incorrect. Furthermore, inaccurate accounts receivable information limits the State agency's ability to accurately measure what is owed from the drug manufacturers.

Monitor the Collection of Interest Due from Manufacturers

According to the rebate agreements between the manufacturers and CMS, manufacturers are required to pay interest on late, disputed, or unpaid rebates. [However,] the State agency had no procedures in place to monitor the collection of interest due from manufacturers for late, disputed, and unpaid rebates. The State agency relied on the manufacturers to compute and submit the proper interest with its overdue rebate payments... As a result, we cannot be assured that all interest due on overdue rebates was properly collected and offset from Federal Medicaid reimbursement.

HHS/OIG recommended that MassHealth:

- *establish procedures for reconciling and ageing its pending drug rebate amounts on the Form CMS 64.9R*
- *establish policies and procedures for the proper monitoring and collection of interest due from manufacturers for late, disputed, and unpaid drug rebate amounts.*

MassHealth agreed with the results of the report, which was issued in August 2004, and on October 1, 2004 contracted (through EOHHS) with Affiliated Computer Services, Inc. (ACS), a provider of business process and information technology outsourcing solutions, to provide pharmacy benefits management (PBM) services for the Commonwealth's Medicaid program. Under the terms of the contract, ACS will provide on-line real time claims processing services; transaction data warehouse

⁴ The CMS State Medicaid Manual §2500.7(B) requires the State agency to: ...submit to HCFA [CMS] summary information on pending drug rebates at the beginning of the quarter, the amounts of drug rebates computed for all drug labelers, amounts written off, other adjustments, remaining pending drug rebates and amounts collected, and reduce your claim for federal reimbursement by the federal share of amounts received. All pending drug rebates must be aged by comparing the dates the pending rebate was established with the ending date of the period shown on the Quarterly Expenditure Report, Form HCFA [CMS] 64....

services; call center/help desk services; and drug rebate services by utilizing its proprietary software, the Drug Rebate Analysis and Management System (DRAMS), a billing and accounts receivable system with the ability to calculate and monitor the collection of interest due from manufacturers. The system also provides the accounts receivable information required to prepare the Form CMS 64.9R.

Audit Scope, Objectives, and Methodology

In accordance with Chapter 11, Section 12, of the General Laws, we conducted a follow-up audit of the HHS/OIG audit report to determine if there were adequate MassHealth oversight activities associated with management of DRAMS for the fiscal year ended June 30, 2006. We also reviewed subsequent reporting and reconciliation activity through September 30, 2007. Our audit was conducted as part of OSA's ongoing independent statutory oversight of the Commonwealth's Medicaid program, and was conducted in accordance with applicable generally accepted government auditing standards. Our objectives were to evaluate the effectiveness of DRAMS in order to determine whether there are adequate internal controls within the system to ensure accountability as well as compliance with applicable laws, rules, and regulations; to determine that amounts due from drug manufacturers are reported completely and accurately on a quarterly basis to CMS on Form CMS 64.9R; to verify that Form CMS 64.9R is reconciled periodically; to review the aging of drug rebates due as of the last Form CMS 64.9R filed with CMS to assess whether interest due from the manufacturers is collected in a timely manner and monitored by MassHealth; and to determine whether the MassHealth's oversight activities associated with the management of DRAMS are adequate.

In order to accomplish our objectives, we reviewed the policies, procedures, and internal controls pertinent to DRAMS and the accounting activities related to drug rebate reporting. Within EOHHS there are two departments that rely on the information provided by DRAMS, namely, the Federal Revenue Department and the Finance and Accounting Department. We interviewed and consulted various members of management and staff in EOHHS, MassHealth, and the contractor for DRAMS (ACS). We reviewed applicable state and federal laws, rules, and regulations. We evaluated the policies and procedures of EOHHS, MassHealth, and ACS procedure manuals. We examined an audit conducted by an Independent Public Accountant (IPA) on ACS's Prescription On-Line Processing System for December 31, 2006, which was prepared in accordance with the Statement on

Auditing Standards (SAS) No. 70⁵. We reviewed an additional audit report prepared by an IPA on Controls Placed in Operation and Tests of Operating Effectiveness of ACS's Pittsburgh Data Center Mainframe Processing Environment for the period covering October 1, 2005 to September 30, 2006, and the Form CMS 64.9R report and associated subsidiary reports relevant to the drug rebate balance and reporting as of June 30, 2006. We assessed the procedures that test the accuracy of interest charges on overdue drug rebates and the aging of rebate balances due.

As noted in our Audit Results section, we have determined that DRAMS does provide the basis for adequate accounting and monitoring of the drug rebates in order for Form CMS 64.9R to reflect an accurate aging of rebates due and the accuracy of interest amounts paid by manufacturers, and therefore constitutes appropriate corrective action in response to the systems concerns contained within the HHS/OIG report. However, our audit also disclosed that the drug rebate receivable balance reported to CMS on June 30, 2006 was inaccurate by approximately \$18 million because EOHHS had not developed the intradepartmental accounting procedures and internal controls needed to reconcile and age drug rebate balances on the Form CMS 64.9R report prepared by the Federal Revenue Department within EOHHS to the drug rebate activity maintained by EOHHS' Finance and Accounting Department, the Massachusetts Management Accounting and Reporting System (MMARS), and DRAMS prior to submitting the report the CMS.

⁵ Statement on Auditing Standards (SAS) No. 70, *Service Organizations*, is a widely recognized auditing standard developed by the American Institute of Certified Public Accountants (AICPA). A service auditor's examination performed in accordance with SAS No. 70 ("SAS 70 Audit") is widely recognized because it represents that a service organization has been through an in-depth audit of its control objectives and control activities, which often include controls over information technology and related processes.

AUDIT RESULTS

IMPROVEMENTS NEEDED IN THE OVERSIGHT, CONTROLS, AND PROCEDURES FOR DRUG REBATE REPORTING

Our audit which followed up on the results contained within the United States Department of Health and Human Services' Office of the Inspector General (HHS/OIG) August 2004 report on the Drug Rebate Analysis and Management System (DRAMS) provided by Affiliated Computer Services, Inc. (ACS) disclosed that DRAMS does contain adequate internal controls to provide the basis for adequate accounting and monitoring of drug rebates due from manufacturers to MassHealth, and further ensures the accuracy of interest amounts to be paid by manufacturers. We have further concluded that the purchase and implementation of DRAMS constitutes appropriate corrective action in response to the systems concerns detailed in the HHS/OIG report.

Our audit also disclosed, however, that the drug rebate receivable balance reported to CMS on June 30, 2006 was understated by approximately \$18 million compared to the balance reflected in DRAMS. The Executive Office of Health and Human Services (EOHHS) had not developed the intradepartmental oversight accounting procedures and internal controls needed to ensure that the Form CMS 64.9R report prepared by EOHHS' Federal Revenue Department reconciled with the drug rebate activity maintained by EOHHS' Finance and Accounting Department, the Massachusetts Management Accounting and Reporting System (MMARS), and the balance in DRAMS, prior to submitting the report to CMS. However, the variance between the drug rebate balance reported to CMS on June 30, 2006 and the correct amount due did not affect the federal Medicaid reimbursement (the drug rebate should offset the federal Medicaid payment), because the cash receipts under the drug rebate program for the period were accurately reported on Form CMS 64.9R and properly offset from the federal Medicaid reimbursement. Furthermore, management did not review and approve the Form CMS 64.9R report prior to forwarding to CMS.

The Committee of Sponsoring Organization (COSO) of the Treadway Commission developed the current official definition of internal control. In its report, Internal Control – Integrated Framework, the Commission defines internal control as follows:

Internal control is a process, effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- *Effectiveness and efficiency of operations*
- *Reliability of financial reporting*
- *Compliance with applicable laws and regulations*

COSO further defines control activities as:

The policies and procedures that help ensure management directives are carried out. They help ensure that necessary actions are taken to address risks to achievement of the entity's objectives. Control activities occur throughout the organization, at all levels and in all functions. They include a range of activities as diverse as approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets and segregation of duties.

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

Periodic comparison shall be made between the resources and the recorded accountability of the resources to reduce the risk of unauthorized use or loss and protect against waste and wrongful acts.

An adequate system of internal control over the reporting of drug rebate information to CMS would include ensuring that responsible employees understand the reporting process in sufficient depth and recognize the reasonableness of the reported result. In addition, the structure, policies, and procedures over the process would include sufficient management oversight to ensure accurate reporting to CMS. In addition, management approval of the Form CMS 64.9 report is required prior to it being forwarded to CMS.

During our audit we had several discussions with employees of the EOHHS Federal Revenue Department, the Finance and Accounting Department, and representatives from ACS regarding procedures, internal controls, and oversight of the reporting process between MassHealth and CMS. As a result of these discussions, EOHHS initiated and implemented certain process enhancements to ensure that accurate drug rebate accounting information is reported to CMS. Specifically included within these process enhancements are monthly and quarterly reconciliations of the data contained within DRAMS with the data reported to CMS and accounted for in the MMARS system.

We reviewed the reporting and reconciliation activity from June 30, 2006 to September 30, 2007 and determined that the errors contained within the June 30, 2006 report were corrected, and that the subsequent reporting of drug rebate activity and balances was accurate.

Recommendation

EOHHS should formally reference the policies and procedures developed to support the reporting process enhancements in its internal control plan, and management should continue to monitor the accuracy of the reporting of drug rebate activity and balances to CMS. Management should also approve the Form 64.9R prior to submission to CMS. In addition, EOHHS should continue to reconcile the data contained in DRAMS with the information reported to CMS and accounted for in MMARS on a monthly and quarterly basis.

Auditee's Response

The Medicaid Director responded that MassHealth agrees with our recommendations and has developed and documented new policies and procedures that will be referenced in its internal control plan. In addition, MassHealth has developed a process of coordinating the closing of accounts at the end of each month, which has resulted in accurate reports and reconciliations.

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Chapter 647

THE COMMONWEALTH OF MASSACHUSETTS

In the Year One Thousand Nine Hundred and Eighty-nine

AN ACT RELATIVE TO IMPROVING THE INTERNAL CONTROLS WITHIN STATE AGENCIES.

Be it enacted by the Senate and House of Representatives in General Court assembled, and by the authority of the same, as follows:

Notwithstanding any general or special law to the contrary, the following internal control standards shall define the minimum level of quality acceptable for internal control systems in operation throughout the various state agencies and departments and shall constitute the criteria against which such internal control systems will be evaluated. Internal control systems for the various state agencies and departments of the commonwealth shall be developed in accordance with internal control guidelines established by the office of the comptroller.

(A) Internal control systems of the agency are to be clearly documented and readily available for examination. Objectives for each of these standards are to be identified or developed for each agency activity and are to be logical, applicable and complete. Documentation of the agency's internal control systems should include (1) internal control procedures, (2) internal control accountability systems and (3), identification of the operating cycles. Documentation of the agency's internal control systems should appear in management directives, administrative policy, and accounting policies, procedures and manuals.

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

(C) Transactions and other significant events are to be authorized and executed only by persons acting within the scope of their authority. Authorizations should be clearly communicated to managers and employees and should

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Include the specific conditions and terms under which authorizations are to be made.

(D) Key duties and responsibilities including (1) authorizing, approving, and recording transactions, (2) issuing and receiving assets, (3) making payments and (4), reviewing or auditing transactions, should be assigned systematically to a number of individuals to ensure that effective checks and balances exist.

(E) Qualified and continuous supervision is to be provided to ensure that internal control objectives are achieved. The duties of the supervisor in carrying out this responsibility shall include (1) clearly communicating the duties, responsibilities and accountabilities assigned to each staff member, (2) systematically reviewing each member's work to the extent necessary and (3), approving work at critical points to ensure that work flows as intended.

(F) Access to resources and records is to be limited to authorized individuals as determined by the agency head. Restrictions on access to resources will depend upon the vulnerability of the resource and the perceived risk of loss, both of which shall be periodically assessed. The agency head shall be responsible for maintaining accountability for the custody and use of resources and shall assign qualified individuals for that purpose. Periodic comparison shall be made between the resources and the recorded accountability of the resources to reduce the risk of unauthorized use or loss and protect against waste and wrongful acts. The vulnerability and value of the agency resources shall determine the frequency of this comparison.

Within each agency there shall be an official, equivalent in title or rank to an assistant or deputy to the department head, whose responsibility, in addition to his regularly assigned duties, shall be to ensure that the agency has written documentation of its internal accounting and administrative control system on file. Said official shall, annually, or more often as conditions warrant, evaluate the effectiveness of the agency's internal control system and establish and implement changes necessary to ensure the continued integrity of the system. Said official shall in the performance of his duties ensure that: (1) the documentation of all internal control systems is readily available for examination by the comptroller, the secretary of administration and finance and the state auditor, (2) the results of audits and recommendations to improve departmental internal controls are promptly evaluated by the agency management, (3) timely and appropriate corrective actions are effected

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by the agency management in response to an audit and (4), all actions determined by the agency management as necessary to correct or otherwise resolve matters will be addressed by the agency in their budgetary request to the general court.

All unaccounted for variances, losses, shortages or thefts of funds or property shall be immediately reported to the state auditor's office, who shall review the matter to determine the amount involved which shall be reported to appropriate management and law enforcement officials. Said auditor shall also determine the internal control weaknesses that contributed to or caused the condition. Said auditor shall then make recommendations to the agency official overseeing the internal control system and other appropriate management officials. The recommendations of said auditor shall address the correction of the conditions found and the necessary internal control policies and procedures that must be modified. The agency oversight official and the appropriate management officials shall immediately implement policies and procedures necessary to prevent a recurrence of the problems identified.

House of Representatives, December 21, 1989.

Passed to be enacted,

George Luvaan, Speaker.

In Senate, December 22, 1989.

Passed to be enacted,

William W. Budge, President.

January 3, 1990.

Approved,

Richard H. Kiah, Governor.