NO. 2009-0306-3S

INDEPENDENT STATE AUDITOR’S REPORT
ON CERTAIN ACTIVITIES OF THE
DEPARTMENT OF PUBLIC SAFETY

OFFICIAL AUDIT REPORT
MAY 13, 2010
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INTRODUCTION

Chapter 22, Section 1, of the Massachusetts General Laws established the Department of Public Safety (DPS) under the supervision and control of the Commissioner of Public Safety. DPS is a regulatory, inspection, and licensing agency within the Executive Office of Public Safety and Security (EOPSS). Within DPS are the Division of Inspection, which includes the Elevator Division, Architectural Access Board, Building Division, and Engineering Division; the State Boxing Commission; and the Special Licensing Unit. Part-time DPS boards and commissions include the Board of Building Regulations and Standards; the Board of Boiler Rules; the Board of Pipefitters, Refrigeration Technicians, and Sprinkler Fitters; the Board of Elevator Regulations; the Board of Elevator Examiners; the Board of Elevator Appeals; and the Recreational Tramway Board.

DPS is responsible for ensuring the integrity of the licensure, registration, and inspectional process for the various trades and professions that it oversees and regulates; the continual updating of licenses and registrations for over 154,000 individuals, corporations, and partnerships; the inspection of approximately 37,500 elevators; the inspection of all state-owned buildings, including colleges, universities, prisons, health clinics, hospitals, and rest homes; and the maintenance of multiple databases related to licensing, enforcement, and revenue collection. In addition to its main office located in Boston, DPS has five district offices located in Pittsfield, Springfield, Taunton, Tewksbury, and Westborough. For the fiscal year ended June 30, 2008, DPS’s receipts amounted to $19,537,865.

In accordance with Chapter 11, Section 12, of the General Laws, the Office of the State Auditor conducted an audit of DPS to examine financial and management activities and records relating to license and permit fees and revenues collected for the period July 1, 2008 to December 31, 2008 and up to April 8, 2009 to review controls over elevator inspections. The objectives of our audit were to assess the adequacy of DPS’s internal controls over: (1) the collection, accounting, and depositing of licensing/inspection fees and other revenues; (2) the elevator inspection process; (3) property and equipment; and (4) compliance with the Office of the State Comptroller (OSC) and Chapter 647 requirements, including those related to complete and accurate accounting records and an adequate Internal Control Plan (ICP).

AUDIT RESULTS

1. INTERNAL CONTROLS OVER ELEVATOR INSPECTIONS NEED IMPROVEMENTS

DPS has not developed internal controls to ensure that elevator inspections are completed in a timely manner and before elevator inspection certificates expire, which results in a potential public safety risk. DPS relies on elevator owners to apply annually for their inspection and pay the inspection fee. According to DPS’s database, as of April 8, 2009, 11,419 (30%) of the 37,494 elevator inspection certificates had expired, ranging from periods of less than one year to over four years. Of the 11,419 expired certificates, DPS has received inspection fees for 5,982 (52%) elevator inspections; however, an inspection has not been completed, and the remaining owners of the 5,437 (48%)
elevators have not applied for an annual inspection, resulting in lost revenues to the Commonwealth totaling $2,174,800. In situations where annual inspections have not been conducted for a number of years, the amount of additional lost revenue totals approximately $4.3 million, for a total of approximately $6.5 million in revenue that the Commonwealth has lost. Prudent business practices advocate that strong controls be established over elevator inspection scheduling, completion, and fee collection. At a minimum, elevator owners should be notified when an elevator inspection certificate has expired. In response to the audit report, DPS indicated that it will be purchasing a new software system that will completely overhaul how the department stores its data, issues its licenses, and enforces its statutes.

2. IMPROVEMENTS NEEDED IN INTERNAL CONTROLS OVER PROPERTY AND EQUIPMENT

DPS was not in compliance with OSC and Operational Services Division (OSD) requirements for accounting, recording, reporting, and reconciling its fixed assets. Specifically, our audit disclosed that the inventory listing was not completely and accurately maintained, an annual physical inventory of fixed assets was not conducted, and surplus procedures were inadequate. Without proper fixed asset controls, there is inadequate assurance that property and equipment is safeguarded against potential loss, theft, or misuse. In response to the audit report, DPS indicated that it has taken steps to ensure compliance with OSC and OSD requirements.

3. IMPROVEMENTS NEEDED IN DEVELOPING AN INTERNAL CONTROL PLAN AND CONDUCTING RISK ASSESSMENTS

DPS does not have a complete and updated ICP, contrary to Chapter 647 of the Acts of 1989 (An Act Relative to Improving the Internal Controls within State Agencies) and OSC guidelines. Our audit of DPS’s ICP disclosed that the plan has not been updated since fiscal year 2002, contained references to old Massachusetts Management Accounting and Reporting System documents, lacked evidence that the existing plan was based on a department-wide risk assessment, and did not contain the required interrelated components of internal controls. Risk assessment is an integral part of an ICP because it identifies and analyzes risks and assists management in prioritizing those activities where internal controls are most needed. The absence of a department-wide risk assessment and updated ICP may hinder or prevent DPS from fulfilling its responsibilities, achieving its goals and objectives, and ensuring the integrity and effectiveness of its control system. In response to the audit report, DPS indicated that it is in the process of reviewing and updating its ICP.

APPENDIX

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

Background

Chapter 22, Section 1, of the Massachusetts General Laws established the Department of Public Safety (DPS), a regulatory, inspection, and licensing agency under the supervision and control of the Commissioner of Public Safety and existing within the Executive Office of Public Safety and Security (EOPSS). Within DPS are the Division of Inspections, which includes the Elevator Division, Architectural Access Board, Building Division, and Engineering Division; the State Boxing Commission; and the Special Licensing Unit. Part-time DPS boards and commissions include the Board of Building Regulations and Standards; the Board of Boiler Rules; the Board of Pipefitters, Refrigeration Technicians, and Sprinkler Fitters; the Board of Elevator Regulations; the Board of Elevator Examiners; the Board of Elevator Appeals; and the Recreational Tramway Board.

DPS is responsible for ensuring the integrity of the licensure, registration, and inspectional process for the various trades and professions that it oversees and regulates; the continual updating of licenses and registrations for over 154,000 individuals, corporations, and partnerships; the inspection of 37,494 elevators; the inspections of all state-owned buildings, including colleges, universities, prisons, health clinics, hospitals, and rest homes; and the maintenance of multiple databases related to licensing enforcement and revenue collection. In addition to its main office located in Boston, DPS has five district offices located in Pittsfield, Springfield, Taunton, Tewksbury, and Westborough. For fiscal year 2008, DPS recorded receipts of $19,537,865, as follows:

<table>
<thead>
<tr>
<th>Source of Revenue</th>
<th>Revenue Collected</th>
</tr>
</thead>
<tbody>
<tr>
<td>Boxing Fund</td>
<td>$50,177</td>
</tr>
<tr>
<td>Building and Related Fees</td>
<td>739,373</td>
</tr>
<tr>
<td>Home Improvement Registration</td>
<td>396,427</td>
</tr>
<tr>
<td>Inspection of Elevators</td>
<td>11,813,120</td>
</tr>
<tr>
<td>Building Seminar Training</td>
<td>169,405</td>
</tr>
<tr>
<td>License Fees</td>
<td>6,288,787</td>
</tr>
<tr>
<td>Amusement Device License</td>
<td>60,275</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>20,301</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$19,537,865</strong></td>
</tr>
</tbody>
</table>

1 Chapter 143, Section 71E, of the General Laws defines elevators to include moving stairways, dumbwaiters, moving walks, material lifts, wheelchair lifts, automatic people movers, vertical reciprocating conveyors, orchestra lifts, automobile lifts and other associated devices within the elevator industry recognized by the Board of Elevator Regulations, except inclined stair lifts located and installed in residential homes.
Audit Scope, Objectives, and Methodology

In accordance with Chapter 11, Section 12, of the General Laws, the Office of the State Auditor conducted an audit of DPS to examine financial and management activities and records relating to license and permit fees and revenues collected for the period July 1, 2008 to December 31, 2008 and up to April 8, 2009 to review controls over elevator inspections. The objectives of our audit were to assess the adequacies of DPS’s internal controls over: (1) the collection, accounting, and depositing of fees, license/inspection proceeds, and other revenues; (2) the elevator inspection process; (3) property and equipment; and (4) compliance with the Office of the State Comptroller (OSC) and Chapter 647 requirements, including those related to complete and accurate accounting records and an adequate Internal Control Plan (ICP).

Our audit was conducted in accordance with applicable generally accepted government auditing standards with the objective of determining the completeness of financial activities and records and compliance with applicable laws, rules, and regulations. To accomplish our objectives, we conducted on-site interviews; reviewed DPS’s ICP and evaluated its internal control structure; and reviewed and analyzed controls over revenue operations, including processes, policies, and property and equipment. In addition, we reviewed and analyzed its database management system controls.

Our review disclosed that, except for those matters discussed in the Audit Results section of this report, DPS had adequate internal controls over its financial and management activities and was in compliance with all applicable laws, rules, and regulations for the areas tested.
AUDIT RESULTS

1. INTERNAL CONTROLS OVER ELEVATOR INSPECTIONS NEED IMPROVEMENTS

The Department of Public Safety (DPS) has not developed internal controls to ensure that elevator inspections are completed in a timely manner thus preventing elevator certificates from expiration. As a result, there is inadequate assurance that all elevators within the Commonwealth are safe and operating in a satisfactory condition. DPS relies on elevator owners to apply annually for their inspection and pay the inspection fee. Upon receipt of the payment, DPS subsequently schedules an inspection. However, there are no systematic follow-up procedures for delinquent elevator certificates. Our analysis of DPS’s database as of April 8, 2009 disclosed that elevator inspections had expired for 11,419 (30%) of the 37,494 elevators listed on the DPS database. The expired certificates ranged from a period of less than one year to over four years. Of the 11,419 expired certificates, DPS has received inspection fees for 5,982 (52%) elevators; however, an inspection has not been completed, and the remaining owners of 5,437 (48%) elevators have not applied for an annual inspection. Our analysis disclosed the following:

<table>
<thead>
<tr>
<th>Age of Certificate Expiration</th>
<th>Number of Expired Elevator Certificates</th>
<th>Number of Expired Elevator Certificates Where Inspection Fees Paid</th>
<th>Number of Expired Elevator Certificates Where Inspection Fees Not Paid</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than one year</td>
<td>7,320</td>
<td>5,333</td>
<td>1,987</td>
</tr>
<tr>
<td>One to two years</td>
<td>1,079</td>
<td>486</td>
<td>593</td>
</tr>
<tr>
<td>Two to three years</td>
<td>507</td>
<td>98</td>
<td>409</td>
</tr>
<tr>
<td>Three to four years</td>
<td>488</td>
<td>55</td>
<td>433</td>
</tr>
<tr>
<td>More than four years</td>
<td>2,025</td>
<td>10</td>
<td>2,015</td>
</tr>
<tr>
<td></td>
<td><strong>11,419</strong></td>
<td><strong>5,982</strong></td>
<td><strong>5,437</strong></td>
</tr>
</tbody>
</table>

We selected a sample of 47 of the 649 expired elevator certifications over one year old where an inspection fee was paid to determine the timeliness of elevator inspection scheduling. Our review of DPS records noted that the inspection status for 20 of the 47 expired certificate owners who paid fees over one year ago is as follows:

<table>
<thead>
<tr>
<th>Condition</th>
<th>Number</th>
<th>Range of Expired Certificates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inspection scheduled over one year ago but an inspection not completed</td>
<td>12</td>
<td>5 – one to two years old</td>
</tr>
<tr>
<td></td>
<td></td>
<td>3 – two to three years old</td>
</tr>
<tr>
<td></td>
<td></td>
<td>4 – over three years old</td>
</tr>
<tr>
<td>Inspections not scheduled</td>
<td>8</td>
<td>1 – one to two years old</td>
</tr>
<tr>
<td></td>
<td></td>
<td>3 – two to three years old</td>
</tr>
<tr>
<td></td>
<td></td>
<td>4 – over three years old</td>
</tr>
</tbody>
</table>
The fees for the remaining 27 expired elevator certificates were recently paid. An inspection has been scheduled but not completed in 16 cases, and an inspection has not been scheduled in 11 cases.

Furthermore, our review of management reports used to monitor the number of expired certificates disclosed no breakdown between the number of expired certificates in which the annual inspection fee was paid and the number of expired certificates where the inspection fee was not paid. Without this breakdown of expired inspection certificates, DPS is precluded from developing and implementing appropriate strategies to address the backlog of expired inspection certificates.

DPS’s management informed us that its database management system, Microsoft’s FoxPro, which it uses to manage compliance with the annual inspection of elevators, is not an up-to-date and accurate database and lacks the capability of billing elevator owners for elevators requiring annual inspections. Furthermore, DPS has not updated the database with current information regarding elevator ownership and locations. In an effort to follow up on expired inspection certificates, DPS sent letters to owners of 2,000 units with expired certificates over three years or more to determine the status of the inspection fees owed DPS. The letters, dated February 13, 2009, requested the owner to respond by March 20, 2009. As of March 31, 2009, 490 letters, or 25%, were returned as undeliverable, further indicating that the owner information on the database may not be accurate for a significant percentage of cases.

We were advised during the audit that:

- **DPS has contracted with a vendor to obtain a new database management system to replace the current FoxPro system and it is expected to be fully integrated by the end of 2010.**

- **DPS would need to hire a minimum of an additional 13 inspectors, and a supervisor and at least 1 additional elevator scheduler in order to complete annual inspections for all elevator units.**

- **DPS has attempted to address the backlog of expired elevator inspections in its Budget spending plans submitted for fiscal years 2005 to 2009. The plans included a request to add three additional elevator inspector positions in order to address the backlog and to meet the inspectional demand of new elevator units coming on-line annually.**
Chapter 143, Section 62, of the Massachusetts General Laws assigns the responsibility of elevator inspections to DPS, as follows:

The Commissioner shall cause a system of elevator inspection to be instituted and maintained in the Commonwealth. . . . The Commissioner shall assign an adequate number of competent inspectors for all elevators in the Commonwealth.

The owners of 5,437 (14.5%) of the Commonwealth’s 37,494 elevators did not apply for an inspection and therefore did not pay their annual inspection fee of $400, resulting in uninspected elevators and potential lost revenue to the Commonwealth totaling at least $2,174,800. In situations where annual inspections have not been conducted for a number of years, the amount of additional potential lost revenue totals approximately $4.3 million, for a total of approximately $6.5 million in revenue that the Commonwealth has lost.

Prudent business practices advocate that strong internal controls be established over the timely scheduling, completion, and fee payments of all elevator inspections. At a minimum, elevator owners should be notified when an elevator inspection certificate has expired.

In October 2008, DPS established a late fee of $200 within 801 CMR 4.02 (524)(2), Fees, Permits and Services to be Charged by State Agencies, mandated by the Executive Office for Administration and Finance. However, as of April 8, 2009, no policy had been established by DPS to charge late fees. As a result, no late fees had been imposed.

Lastly, we noted that the DPS state inspector procedure manual was last revised in September 2000.

Recommendation

DPS should develop an improved system of elevator inspections and supporting controls to ensure that:

- Elevators are inspected on a timely basis to address the public safety issue. Consideration should be given to taking a proactive approach in following up on delinquent elevator certificates.

- An adequate number of inspectors are available to complete inspections for all elevators in the Commonwealth.

- Fines are imposed and collected for elevator owners that do not comply.
Management reports contain essential information that can be used to more effectively monitor the status of expired certificates, allowing for the development and implementation of strategies to address and resolve expired inspection certificates.

- Policies and procedures are updated for conducting elevator inspections.

**Auditee’s Response**

In response to this issue, DPS stated, in part:

*The Department agrees with the Report’s findings that the Department’s database is inefficient and should be updated. Towards that end, after several years of unsuccessfully pursuing funding for this project through ITD bond funding, the Department carefully managed its FY 09 funds to enable it to purchase a new “E-licensing” software system which will replace the current FoxPro database. This new system allows the Department to come into the 21st Century, and will completely overhaul how the Department stores its data, issues its licenses, and enforces its statutes. It is expected to be operational in the Spring of 2010.*

*With regard to the backlog of expired elevator certificates, this has been an ongoing issue for the Department. The backlog is due largely to the fact that there are simply not enough elevator inspectors to perform all of the necessary inspections. The issue is further exacerbated by the fact that the statutory definition of “elevator” has been broadened twice in the last five years. The definition now includes entire new categories of devices previously not regulated by the Department, and which now require inspection. Additionally, as new construction continues in the Commonwealth, the number of elevator units which come on line continues to rise by approximately 1,500 units a year.*

**2. IMPROVEMENTS NEEDED IN INTERNAL CONTROLS OVER PROPERTY AND EQUIPMENT**

Our review disclosed that DPS was not in compliance with Office of the State Comptroller (OSC) and Operational Services Division (OSD) requirements for accounting, recording, reporting, and reconciling its fixed assets. Specifically, our review noted that the inventory listing was not completely and accurately maintained, an annual physical inventory of fixed assets was not conducted, and surplus procedures were inadequate.

Our review of the inventory database, consisting of 97 property items, disclosed the following:

- The acquisition date was not recorded on the list.
- The acquisition price was not included on the list.
- The disposition/status of items (e.g., active, surplus, spare) was not included on the list.
- Sixteen of 97 items did not include a location.
• Two (computers) of 97 items did not have a unique identifying tag number.

• Five (computers) of 97 items did not include a full description (the serial number of the item was not recorded).

The OSC and OSD Fixed Assets – Acquisition Policy, issued on July 1, 2004 and revised on November 1, 2006, states, in part:

Non-GAAP Fixed Assets must be recorded in a Department’s inventory and reconciled at least annually. This inventory can be either electronic or on paper, as long as it records the date of purchase, amount, description, location and disposition of an item.

DPS could not provide documentation for its last completed physical inventory. However, DPS’s IT Director indicated that a physical inventory has not been completed for several years.

The OSC Fixed Asset – Accounting and Management Policy, issued on July 1, 2004 and revised November 1, 2006, states, in part:

There shall be an annual inventory taken of fixed assets owned by every Department. This inventory shall include, at a minimum, a verification of the existence and location of fixed assets owned by a Department. This inventory shall be done on or about June 30th of each year for GAAP and non-GAAP assets. All changes needed to assets shall be entered in MMARS no later than seven (7) business days after June 30th of each year.

In addition, this policy states, in part:

There shall be a reconciliation of the fixed asset inventory against the books and records maintained by the Department, either on the Fixed Asset Subsystem or other documented methods. This reconciliation is to be done, at a minimum, on an annual basis. This reconciliation shall be available for audit either by the department’s internal auditors, the State Auditor’s Office or the Commonwealth’s external auditors. Internal records must reconcile to the records available on the Fixed Asset Subsystem. A Department will maintain supporting documentation of fixed asset transactions available for examination by appropriate audit organizations.

DPS was not following required procedures when equipment was deemed to be surplus. If an equipment item was no longer needed, DPS would dispose of the item without notifying OSD and remove the item from the inventory listing.

OSD regulation 802 CMR 3.05(1), states, in part:

All agencies must examine their inventories of equipment, supplies and materials and periodically report property that is no longer needed to the State Surplus Property Officer. The disposal of all surplus, salvage, scrap, and worthless property must be coordinated through the State Surplus Property Officer. State agencies may not transfer, donate, destroy or otherwise dispose of property without following these procedures.
Without proper fixed asset controls, there is inadequate assurance that property and equipment is safeguarded against potential loss, theft, or misuse.

**Recommendation**

DPS should take the necessary corrective actions regarding fixed asset management to ensure compliance with OSC and OSD policies/regulations and to ensure adequate internal controls over its fixed assets. Specifically, it should:

- Conduct a physical inventory in accordance with OSC’s established procedures to verify the existence, location, and value of inventory items and reconcile the results to the inventory database. Once the inventory is completed, any items that cannot be located should be reported to the Office of the State Auditor (OSA) in compliance with Chapter 647 of the Acts of 1989.

- Update the inventory database to include the date the asset was acquired as well as its cost, status, location, and identification number.

**Auditee’s Response**

In its response, DPS indicated that it has taken steps to ensure compliance with OSC and OSD requirements.

### 3. IMPROVEMENTS NEEDED IN DEVELOPING AN INTERNAL CONTROL PLAN AND CONDUCTING RISK ASSESSMENTS

Our audit indicated that DPS does not have a complete and updated Internal Control Plan (ICP), contrary to the provisions of Chapter 647 of the Acts of 1989 (An Act Relative to Improving the Internal Controls within State Agencies) and OSC guidelines. The OSC’s Internal Control Guide states, in part:

> An internal control plan is a description of how a department expects to meet its various goals and objectives by using policies and procedures to minimize risk. The Commonwealth has defined the internal control plan to be a high-level summary supported by lower level policy and procedures. Each department’s internal control plan will be unique; however, it should be based on the same framework as the organization’s mission, goals and objectives, and the components of internal control recommended by the standards of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Report. The plan should be reviewed and updated as conditions warrant, but at least annually.

Our review of DPS’s ICP disclosed that the plan had not been updated since fiscal year 2002, contained references to outdated MMARS documents, lacked evidence that the ICP was based
on a department-wide risk assessment, and did not contain the required interrelated components of internal controls.

The OSC updated its Internal Control Guide\(^2\) to require departments to incorporate the principles of Enterprise Risk Management (ERM) into the ICP and to update the ICP as often as changes in management, level of risk, program scope, etc., occur, but at least annually. The ERM augments and expands on COSO’s five components of internal controls and requires ICPs to include eight interrelated control components consisting of: internal environment, objective setting, event identification, risk assessment, risk response, control activities, information and communication, and monitoring. The eight internal components are explained below:

- The internal environment is the tone of an organization, which, among other things, determines an organization’s risk culture and provides the basis for its control.

- Objective setting is a critical process that supports an organization’s mission.

- Event identification identifies internal control and external events that impact an organization in its attempt to achieve its objectives.

- A risk assessment is a process used to identify and analyze factors that may affect the achievement of a goal and allows an organization to understand the extent to which potential events may impact objectives.

- The risk response evaluates options to an identified risk and determines the course of action. Risk responses fall into four basic categories: (1) accept the risk and monitor it, (2) avoid the risk by eliminating it, (3) reduce the risk by instituting controls, or (4) reduce the risk by partnering or entering into a strategic alliance with another department or external entity.

- An organization’s control activities include policies and procedures or directives that an organization establishes so that identified risks do not prevent the organization from reaching its objectives.

- Information and communication is the identification and dissemination of pertinent information in a form and timeframe that enable people to carry out their responsibilities.

\(^2\) The revised Internal Control Guide, dated September 13, 2007, replaced both the Internal Control Guide for Managers, Volume I and the Internal Control Guide for Departments, Volume II and is based on the standards of the 1994 Committee of Sponsoring Organizations of the Treadway Commission (COSO) and the Framework for Enterprise Risk Management (ERM) reports.
• Monitoring is the ongoing review of an organization’s activities and transactions to assess the quality of performance over time and to determine whether internal controls are effective to achieve the organization’s mission, goals, and objectives. The purpose of monitoring is to determine whether internal control is adequately designed, properly executed, and effective.

As mentioned above, the risk assessment is an integral part of an internal control plan because it identifies and analyzes risks and assists management in prioritizing those activities where controls are most needed and mitigating risk. DPS’s lack of a department-wide risk assessment may hinder it or prevent it from fulfilling its responsibilities, achieving goals and objectives, and ensuring the integrity and effectiveness of its control system. Furthermore, a risk assessment may have identified internal control weaknesses disclosed in our report that have resulted in the loss of revenue to the Commonwealth due to the inadequate system and controls over the inspection of elevators and the potential loss that could result from not safeguarding property and equipment from potential loss, theft, or misuse.

**Recommendation**

DPS, in accordance with Chapter 647 of the Acts of 1989 and the OSC’s Internal Control Guide, should prioritize the completion of its ICP, beginning with the documentation of a department-wide risk assessment. Risk assessments should be utilized for all aspects of DPS’s business, including programmatic and financial operations, to determine the extent to which legislative, regulatory, or organizational goals and objectives are being achieved, and to design and implement cost-effective and productive internal controls. After the risk assessment is completed, DPS should develop and implement internal controls to mitigate identified risks.

Furthermore, DPS should ensure that its ICP is updated and that its internal control system is evaluated and necessary changes are implemented at least annually or when conditions warrant. This would include the establishing and updating of all operational policies and procedures.

**Auditee’s Response**

*The Department has been in the process of reviewing and updating its Internal Control Plan for several months. This process was suspended until such time that it was clear whether the Department would be able to move forward with the new database software. Now that the program has been purchased, it is the Department’s intention to prioritize the update of its Internal Control Plan in coordination with the implementation of the E-licensing program to reflect the changes in procedures which will occur.*
APPENDIX

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

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 exercising 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 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 controller, 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
Chapter 647, Acts of 1989, An Act Relative to Improving the Internal Controls within State Agencies

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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.


Passed to be enacted, George Lunn, Speaker.

In Senate, December 22, 1989.

Passed to be enacted, William D. Bulger, President.


Approved, Michael S.是我国．Governor.