The Commonwealth of Massachusetts

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INDEPENDENT STATE AUDITOR'S REPORT ON CERTAIN ACTIVITIES OF THE TEMPLETON DEVELOPMENTAL CENTER FEBRUARY 1, 2004 TO JANUARY 31, 2007

OFFICIAL AUDIT REPORT

JULY 13, 2007

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The Templeton Developmental Center (TDC), a residential-care facility located in Templeton, Massachusetts, is administered under the provisions of Chapters 19B and 123B of the Massachusetts General Laws. TDC operates under the control of the Department of Mental Retardation (DMR) and is a large human services agency charged with improving the quality of life for citizens with serious and persistent mental retardation. TDC is one of three developmental centers in DMR Region II, serving the populations of 65 cities and towns in central Massachusetts. During the period February 1, 2004 through January 31, 2007, TDC expended more than $59 million under various cost centers to carry out its functions.

As authorized by Chapter 11, Section 12, of the Massachusetts General Laws, the Office of the State Auditor performed an audit at TDC. The purpose of our audit was to follow up on the issues identified in our prior audit report (No. 2004-1454-3S), and to determine whether our prior audit recommendations have been implemented and the noted deficiencies corrected.

Our prior audit report noted deficiencies in six areas. Our follow-up review revealed that although four of these issues (documentation of internal control plan, compliance with café regulations, internal controls over revenue, and internal controls over food inventories) have been resolved, the remaining two prior issues (internal controls over client funds and reconciliation of Clients' Fund checking account) have not yet been fully resolved, as discussed below.

Our prior audit report noted that TDC did not have a documented internal control plan, contrary to the provisions of Chapter 647 of the Acts of 1989, An Act Relative to Improving the Internal Controls within State Agencies (see Appendix I), which requires that internal control systems be clearly documented and readily available for examination. While our prior audit was in progress, TDC had begun to draft an internal control plan. Our follow-up review determined that TDC has documented and implemented a complete and comprehensive internal control plan.

Our prior audit of TDC's café operations found two areas of noncompliance with 115 Code of Massachusetts Regulations 3.07. Specifically, we noted that TDC lacked a Café Committee and did not take monthly inventories of goods as required. Our follow-up review disclosed that TDC has established a Café Committee, which is composed of facility residents, TDC staff, and community members, that conducts regular meetings and properly records their minutes. Furthermore, our follow-up review revealed that

TDC conducts an inventory of Café goods on a monthly basis and that TDC's food service manager now reviews the inventory lists for accuracy and uploads the data into an Excel program for additional analysis.

c. Internal Controls over Revenue Improved **5**

Our prior review identified two areas in which internal controls over revenue were inadequate. Specifically, we noted that (a) the container redemption center could not accurately determine the amount of cans and bottles being redeemed or verify the accuracy of the funds due from each distributor and (b) TDC was not making timely bank deposits of receipts from its retained revenue account. Our follow-up review disclosed that TDC has created and implemented a policy that effectively reconciles the number of cans and bottles redeemed at the Redemption Center to the funds received by the Consumer Funds Office. In addition, we found that TDC deposits its retained funds approximately every 12 days, a significant improvement from the 57-day average reported in our prioraudit.

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Our prior review noted that TDC had not documented its control procedures over the purchasing, receiving, and use of its food inventories. Although TDC monitored the purchase, receipt, and use of food items, it did not have a perpetual inventory system, which is necessary to reconcile periodic physical counts to its records. Our follow-up audit determined that this issue has been corrected. TDC incorporated specific policies (No. 1.4.22 and 1.4.40) into its internal control plan to ensure that goods and supplies are accounted for, a physical inventory is conducted on a quarterly basis, and procedures for receiving and issuing goods are clearly outlined.

2. PRIOR AUDIT RESULTS PARTIALLY RESOLVED **8**

a. Clients' Fund Checking Account Not Reconciled **8**

Our prior audit noted that TDC had not performed monthly bank reconciliations of the main checking account for its Clients' Fund in more than three years, and that as of January 31, 2004, this account had an unreconciled variance of $3,311. Our follow-up review determined that, as of January 31, 2007, TDC Clients' Fund account still had not been reconciled and had an unreconciled balance of $ 6,191. Although TDC has implemented several corrective actions to remedy this issue, including installing a database system to increase accuracy, reviewing client accounts and reconciling the balances from January 1999 through July 2003, opening a new checking account in October 2004, and reconciling account balances from January 2005 to the present, TDC still needs to reconcile the remaining variance and consolidate its accounts.

In response to our audit, TDC officials stated the old Client Fund checking account was completely balanced and reconciled by April 27, 2007. All activity and reporting for the account was finalized and the remaining funds were distributed and transferred to appropriate accounts.

Our prior review of TDC's internal control procedures for the collection and accounting of funds disclosed that improvements were needed, specifically regarding the documentation of client fund expenditures and client clothing and property lists, which had not been updated since November 2002. Our follow-up review determined that these issues have been adequately addressed. All deposits were reconciled to the clients' bank statements, and expenditures were accurately traced to the request for purchase, invoices, and approval signatures. Furthermore, the client clothing and property lists were current and updated through our audit period ended January 31, 2007.

However, our prior review also disclosed that improvements were needed over the disposition of deceased clients' funds, specifically in regard to TDC's not forwarding the necessary paperwork to DMR's legal office within 90 days, as required. Our follow-up review disclosed that improvements have been made in the amount of time taken by TDC to submit the proper documentation to DMR, with the average number of days dropping from 1,115 to 218. Nevertheless, TDC must implement further actions to ensure that all necessary paperwork is submitted to DMR within 90 days, as required.

In response to our audit, TDC officials added a policy to its Internal Control Plan that outlines the process to be followed to ensure that all required paperwork is forwarded to DMR's legal office within 90 days of a client's death.

INTRODUCTION

Background

The Templeton Developmental Center (TDC), a residential-care facility for mentally retarded clients, is located in Templeton, Massachusetts and is administered under the provisions of Chapters 19B and 123B of the Massachusetts General Laws. Chapter 19B, Section 1, of the General Laws established the Department of Mental Retardation (DMR), one of 15 agencies under the Executive Office of Health and Human Services (EOHHS). EOHHS is a Massachusetts cabinet-level agency in charge of all health and human services programs in the Commonwealth, and is the largest secretariat in state government, with a consolidated fiscal year 2007 budget of approximately $ 12.1 billion (including $ 1.2 billion for DMR).

DMR's mission is to improve the quality of life for citizens with serious and persistent mental retardation. DMR accomplishes its mission by ensuring that clients have access to an integrated network of effective and efficient services that promote consumer rights, responsibilities, rehabilitation, and recovery. DMR is specifically charged with establishing procedures and the highest-practicable professional standards for the reception, examination, treatment, restraint, transfer, and discharge of mentally retarded persons in its facilities. DMR has promulgated administrative regulations under 115 Code of Massachusetts Regulations (CMR) that are adaptable to changing conditions and to advances in methods of care, treatment, and programs and services for the mentally retarded.

DMR serves, on average, approximately 32,000 clients annually and provides responsive, high-quality services to adults and children with serious retardation disorders. DMR serves approximately 1,300 persons in its six developmental centers throughout the state, which provide 24-hour care and support in compliance with federal regulations. DMR also assists individuals and families that choose to move to homes in the community. DMR's organizational structure includes its Boston Central Administrative Office and five regional areas of local administrative responsibility, with developmental centers grouped under these regions.

Our review was conducted at TDC, which is administered under DMR Region II, consisting of 65 cities and towns in central Massachusetts, with a total population of approximately 760,000. TDC is a special-care residential facility operated within DMR and is maintained primarily to provide specialized care and treatment of mentally retarded citizens, the majority of whom are also epileptic or physically challenged. TDC has an extensive farm operation that includes a dairy with a herd of 65 dairy cows. Milk is processed and packaged at the TDC facility, which consumes the milk and sells the surplus to local dairy companies. The facility also raises beef cows, which are used by the dietary department and are also sold at auction. Moreover, the facility raises forage crops to help feed the dairy and beef cows. Vegetables are also raised for the dietary department or sold at a farm stand at the facility's front entrance.

Special client trainee programs are maintained both on the grounds and at off-site locations to help clients further develop their basic learning skills.

TDC had 136 individual clients as of January 31, 2007. To support the clients, TDC expended more than $59 million during the period February 1, 2004 through January 31, 2007 under various cost centers.

Audit Scope, Objectives, and Methodology

In accordance with Chapter 11, Section 12, of the General Laws, we have conducted an audit of TDC's financial activity for the period February 1, 2004 to January 31, 2007. The purpose of our audit was to follow up on the issues identified in our prior audit report (No. 2004-1454-3S) and to determine whether our prior audit recommendations have been implemented and the noted deficiencies corrected. Our prior audit report disclosed internal control weaknesses over client funds, revenues, and inventory, and noted that TDC did not have a documented internal control plan in place in accordance with Chapter 647 of the Acts of 1989, An Act Relative to Improving the Internal Controls within State Agencies. We conducted our audit in accordance with applicable generally accepted government auditing standards.

Our audit methodology included interviewing TDC personnel, observing transaction processing, examining and tracing financial data and documentation through TDC's various internal systems, conducting physical inspections and reviews of TDC's fixed asset inventory, assembling various agency documentation, and performing such other audit procedures as we deemed necessary.

As a result of our audit, except as noted in the Audit Results section of this report, we have determined that for the areas tested, TDC has maintained adequate internal controls over its financial operations in accordance with prescribed requirements and has complied with applicable laws, rules, and regulations.

AUDIT RESULTS

1. PRIOR AUDIT RESULTS RESOLVED

a. Internal Control Plan Documented in Accordance with Chapter 647 of the Acts of 1989

Our prior audit report (No. 2004-1454-3S) noted that the Templeton Developmental Center (TDC) did not have a documented internal control plan, although it had various departmental policies and a procedures manual that could be used to draft such a plan. A departmental internal control plan is a high-level summarization on a department-wide basis of a department's risks and of the controls used by the department to mitigate those risks. Chapter 647 of the Acts of 1989, An Act Relative to Improving the Internal Controls within State Agencies, requires that internal control systems be clearly documented and readily available for examination. While our prior audit was in progress, TDC had begun to draft an internal control plan.

Our follow-up review determined that TDC completed and implemented its internal control plan effective July 1, 2005. We reviewed a copy of TDC's internal control plan and found it to be complete and comprehensive. Furthermore, we determined that TDC has reviewed and made updates to its internal control plan on an annual basis. TDC finalized and made available its completed internal control guide, including accounting and administrative controls, which we found to be in accordance with the guidelines established by the Office of the State Comptroller (OSC). The plan contains key elements, including the process used by management to identify control risks and a description of those controls that are readily available to both staff and management.

b. Compliance with Café Regulations Improved

Our prior audit of TDC's Café operations found two areas of noncompliance with 115 Code of Massachusetts Regulations 3.07. Specifically, we noted that TDC lacked a Café Committee and did not take monthly inventories of goods as required. Our prior review disclosed that the last committee meeting was held on October 3, 2000; and that after several meetings, the Café Committee members felt that their recommendations were not being followed and they decided to disband. The 115 CMR 3.07(2) states as follows:

> *A cafe committee shall be selected by each facility. The facility director or designee shall be the chairperson of this committee which will consist of eight members chosen as representatives of the following groups: facility staff; individuals who are residents; parents or families; facility trustees; organizations concerned with the welfare of individuals who are residents. At least three members of the committee shall not be employees of the Department.*

Our follow-up audit determined that this issue has been adequately addressed. TDC is now in compliance with 115 Code of Massachusetts Regulation 3.07(2) by forming a Café Committee that meets regularly and by taking monthly physical inventories within the canteen operations. The Café Committee, which is composed of 12 members (two residents, two community members, and eight staff members), met 10 times during the period January 1, 2006 to March 1, 2007, and minutes of these meetings were adequately documented. Additionally, we verified that policies and procedures regarding Café Committee meetings are contained within TDC's internal control plan.

Our prior audit also found that the last complete inventory of the Café was performed in June 2000. The 115 CMR section 3.07(6) states, in part:

> *An inventory of goods shall be kept at a reasonable level consistent with sales and an inventory of goods shall be taken monthly.*

Our follow-up review determined that food inventories are now being taken on a regular basis. We conducted interviews with the food service manager and observed a physical inventory being taken at the Café on February 22, 2007. We determined that inventories are conducted on a monthly basis at the Café, and the inventory results are subsequently checked by the food service manager and entered into an Excel spreadsheet for accuracy and additional analysis. Our audit also determined that TDC has policies and procedures regarding Café inventories included within its internal control plan.

c. Internal Controls over Revenue Improved

Our prior review identified two areas in which internal controls over revenue were inadequate. Specifically, we noted that (a) the container redemption center could not accurately determine the amount of cans and bottles being redeemed or verify the accuracy of the funds due from each distributor, and (b) TDC was not making timely bank deposits of receipts from its retained revenue account. Our follow-up review indicated that both of these prior issues had been adequately resolved.

For our follow-up review, we selected seven vendors who redeemed cans and bottles from TDC's redemption center. We validated that the checks received from the vendors were sent directly to the Consumer Funds Office. We also confirmed that the Consumer Funds Office (CFO) reconciled documents provided by the redemption center to the checks received from the vendors. The reconciliation reflected the number of cans and bottles picked up as well as the amount of funds received. TDC receives 7.25 cents per bottle or can, and the redemption center collected a total of $224,294 during the period February 1, 2004 through January 31, 2007. Our follow-up review concluded that TDC has updated and implemented a policy that requires a timely reconciliation be performed between the redemption center and the CFO on the number of cans and bottles picked up by the company drivers and the corresponding funds received from the various redemption vendors. This process will ensure that TDC is paid the proper amount for the cans and bottles picked up.

Our prior audit also disclosed that the CFO was not making timely bank deposits of receipts from TDC's retained revenue sources. Specifically, the CFO deposited funds on an average of once every 57 days, with the daily receipts averaging $1,767. The Legislature has appropriated a retained revenue account, with a $100,000 annual cap, through which TDC can earn and retain income earned primarily through the sale of animals and milk. Our prior audit determined that, for the 13-month period July 2002 to August 2003, funds were deposited into the bank five to 350 business days after their date of receipt, or an average delay of 57 days, and receipts for the period totaled $148,402.

Our follow-up review determined that, for the period February 1, 2004 to January 31, 2007, funds were deposited into the bank from one to 135 business days after the date of receipt, or an average delay of 12 days, and receipts for this period totaled $480,624. These retained revenues were derived from the sale of milk, beef, and hay. We reviewed sales paid by cash as well as sales paid by check. Cash sales were mostly for employees' purchases of milk, and payments made by check were from larger vendors, such as dairy farms and beef auction houses. Subsequent to our audit, the dairy barn instituted a process whereby checks received for milk and beef will be forwarded to the CFO on the day they are received, which should further improve the timing of deposits to the retained earnings accounts.

d. Internal Control Procedures for Food Inventories Improved

Our prior review noted that TDC did not document its control procedures over the purchase, receipt, and use of its food inventories. During the period July 1, 2003 through February 28, 2004, TDC expended approximately $131,250 on food purchases. We examined its food inventory for May 2004 and conducted a physical inventory of nine food items. Our tests disclosed a variance between the inventory and the physical count for five (or 55%) of the nine food items tested. TDC monitors the purchase, receipt, and use of food items; however, it lacked a perpetual inventory system, which is necessary to reconcile periodic physical counts to its records.

Our follow-up review disclosed that TDC incorporated policies (No. 1.4.40 and 1.4.22) into its internal control plan to ensure that all supplies are accounted for, a physical inventory is conducted on a quarterly basis, and procedures for receiving and issuing goods are clearly outlined. TDC's policy No. 1.4.40, which outlines the procedures necessary to ensure that the facility's supplies (including groceries, beverages, meats, frozen foods, cooking needs, and cleaning items) and equipment are monitored and accounted for on a regular basis, states that a physical inventory must be taken on a quarterly basis.

We selected a random sample of 15 items from the inventory list that are used on a regular basis in the dining area, and conducted a physical inventory of the storeroom. Our sample test of meat, frozen food, and grocery items, on which TDC expended approximately $555,350 for the period February 1, 2004 through January 31, 2007, determined that all the items selected were correctly accounted for in the storeroom.

Additionally, we reviewed policy No. 1.4.22, which details the procedures used within the storeroom for receiving and issuing goods. The storeroom manger has a computerized system that allows him to maintain a perpetual inventory of the storeroom. This system was implemented in October 2006 and was obtained from Monson Developmental Center. Items received and distributed to the dining area are entered into the system, resulting in a current storeroom balance.

2. PRIOR AUDIT RESULTS PARTIALLY RESOLVED:

a. Clients' Fund Checking Account Not Reconciled

Our prior audit noted that TDC had not performed monthly bank reconciliations of the main checking account for its Clients' Fund in more than three years and that, as of January 31, 2004, this account had an unreconciled variance of $3,311. Although TDC installed a Clients' Fund database system, TDC's bookkeeper responsible for reconciling the Clients' Fund checking account stated that there were several problems with the database system that precluded her from reconciling the account, including the following:

- *The Clients' Fund database lacks the ability to make corrections for transactions that are incorrectly posted to the system. As a result, the use of an adjustment transaction is required to fix errors and void transactions. Adjustment transactions are added to credit/debit totals that artificially inflate income and expense information reported by the database.*

- *Transfers from individual savings accounts to the main checking account (and the reverse) are recorded as debit and credit totals, thereby artificially inflating income and expense information reported by the database. Because income and expenses are artificially inflated, the summary information reported by the database cannot be relied upon in billing client charges for care or reporting to regulatory agencies. Use of this incorrect information could result in bills being reduced by expenses that do not exist, thereby reducing revenue to the Commonwealth. Also, false income reports may have consequences to the individual clients such as a loss of social security income benefits.*

- *There is presently no means to balance the main Clients' Fund checking account to the database. TDC staff have spent numerous hours attempting to devise some way to reconcile the account; however, they have been unable to find a solution. Attempts to resolve this problem through DMR's MIS department have been unsuccessful.*

- *There are many unexplainable occurrences within the database activity. For example, when printing reports from the database, the same report printed on different days, periodically resulted in different balances with no identifiable reason for the differences.*

Our follow-up review determined that as of January 31, 2007, the TDC Client Fund account still had not been reconciled and had an unreconciled balance totaling $6,191. The Clients' Fund office has started reviewing records as far back as January 1999 in an attempt to reconcile the account balance, and has done so through July 2003. Additional corrective actions taken by TDC include opening a new checking account in October 2004 and using this account since January 2005 as the main checking account for Clients' Funds. We obtained and reviewed bank statements for the period January 2005 to January 2007 and found that that TDC has reconciled the new account from January 2005 through January 2007, reporting no variances. The unreconciled balance as of January 31, 2007 was $ 6,191 and represents the entire bank balance, since TDC could not provide a reliable checkbook balance at this time. TDC indicated that it intends to work towards a complete reconciliation of the account balance as time allows.

Recommendation

TDC should continue its efforts to reconcile the old checking account balance by accounting for the $6,191 variance as of January 31, 2007. Once the account is reconciled, any remaining funds should be transferred into the new account.

Auditee's Response

The old Client Fund checking account was completely balanced and reconciled by April 27, 2007. All activity and reporting for the account was finalized and all remaining funds were distributed and transferred to appropriate accounts.

b. Improvements Needed in Internal Controls over Client Funds

Our prior review of TDC's internal control procedures for the collection and accounting of client funds disclosed that improvements were needed regarding documentation of client fund expenditures, updating of client clothing and property lists, and handling and disposition of deceased clients' funds. Our follow-up review revealed that although TDC had adequately addressed the first two issues and taken steps to address the third, improvements were still needed in TDC's handling and disposition of deceased clients' funds, as discussed below.

In our prior audit, we found that 30% of reviewed invoices for expenditures of TDC's mentally handicapped clients lacked adequate supporting documentation or sufficient detail. Our follow-up review revealed that this issue had been adequately addressed. For our follow-up review, we selected six clients with deposits and expenditures within our audit period and tested these transactions for the proper supporting documentation. We tested two deposits and two expenditures for each of the six clients, for a total of 24 transactions. All deposits were reconciled to the clients' bank statements, and all expenditures were validated to the request for purchase, invoices, and approval signatures. Deposits included Social Security payments, wages earned, and return of funds remaining from a purchase or recreational event. Expenditures included recreational events, such as a lunch outing; personal care charges, such as toiletries, personal items, and cablevision; and charges for care and smoking materials. All deposits and expenditures had the proper documentation and signatures and were in compliance with TDC's policies and procedures.

Furthermore, our prior review disclosed that TDC's clothing and property list for clients had not been updated for items purchased since November 2002 and that furniture and clothing had not been properly tagged. Our follow-up review determined that TDC has adequately addressed this issue with the implementation of policy No. 1.4.17 regarding client property and clothing, which states, in part:

> *The facility must take steps to safeguard the personal property of the individuals it supports. All property and clothing must be purchased using guidelines established by the Consumer Funds Office with regard to requisitioning funds, return of receipts and tagging and safeguarding client property.*

We selected five clients residing at four different locations within TDC and determined that their clothing and other items were properly recorded and tagged for safekeeping. Items tested included a radio, a television, skis, recliner chairs, clothing, and shoes. We found that the client clothing and property lists were current and updated through our current audit period ended January 31, 2007 and that TDC is in compliance with policy No. 1.4.17 regarding client property and clothing.

Our prior review of TDC's internal control procedures for the collection and accounting of funds disclosed that TDC had not forwarded paperwork for 27 of 33 deceased clients to DMR's legal office within 90 days in accordance with DMR policy. Information on the 27 deceased clients' accounts follows:

Period Since Death	Number of Deceased	Funds on Hand as of 1/31/2004
Over 5 years	2	$3,090
4 to 5 years	5	3,650
3 to 4 years	7	4,510
2 to 3 years	7	9,383
1 to 2 years	4	4,680
90 days to 1 year	2	2,299
Total	27	$27,612

Our follow-up review determined that although TDC had improved the timeliness of providing DMR's legal staff with the proper documentation for the disposition of deceased clients' funds, this issue had not been completely addressed. The average number of days taken by TDC to submit the proper documentation to DMR has been reduced from 1,115 days to 218 days, which represents a reduction of 897 days and approximately an 80% improvement from our prior audit. However, we reviewed the files of the eight residents who had passed away during our audit period and found that there was only one instance in which TDC forwarded the necessary paperwork to DMR's legal office within 90 days. The remaining seven client files were forwarded between 107 to 518 days, as outlined below:

Period Since Death	Number of Deceased	Funds on Hand as of 3/14/07
One to two years	2	$12,069
90 days to one year	5	5,903
Total	7	$17,972

Of the seven accounts that exceeded the 90-day requirement for submitting paperwork to DMR, TDC staff has informed us that one was closed March 30, 2007 upon receipt of the necessary paperwork from DMR, three were awaiting death certificates, and three have unknown reasons for lacking the necessary paperwork.

Recommendation

TDC should forward the required paperwork for the remaining deceased client accounts to DMR's legal office within 90 days, as required. In the future, TDC should be more diligent in obtaining, preparing, and submitting all the necessary documentation in a timely manner to DMR's legal office.

Auditee's Response

A policy that outlines the process to be followed to ensure compliance has been added to the facility's Internal Control Plan. The facility will forward all required paperwork to DMR's legal office within 90 days of a consumer's death.

APPENDIX

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

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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 Keverian, Speaker.

In Senate, December 22, 1989.

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

January 3, 1990.

Approved,

Michael S. Dukakis Governor.