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INDEPENDENT STATE AUDITOR'S REPORT
ON THE INTERNAL CONTROL PLAN
OF MASSHEALTH
AS OF JULY 19, 2007

OFFICIAL AUDIT
REPORT
MARCH 12, 2008

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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 2007, MassHealth paid in excess of \$6.2 billion (of which 50% is federally funded) on 49.3 million claims to approximately 30,000 providers within the Commonwealth.

In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, we conducted an audit of MassHealth's Internal Control Plan (ICP). The audit was conducted as part of the Office of the State Auditor's (OSA) ongoing independent statutory oversight of the Commonwealth's Medicaid program. Our objective was to determine whether MassHealth's ICP is in compliance with the requirements of Chapter 647 of the Acts of 1989, An Act Relative to Improving the Internal Controls within State Agencies; guidelines established by the Office of the State Comptroller (OSC); the Committee of Sponsoring Organizations of the Treadway Commission (COSO) report titled "Internal Controls - Integrated Framework"; and other applicable laws, rules, and regulations. In addition, we determined whether MassHealth had conducted a risk assessment in order to identify, analyze, and manage the potential risks that could prevent MassHealth from achieving its mandate and objectives.

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Our audit disclosed that MassHealth had prepared and developed a draft ICP that was partially in compliance with the requirements of Chapter 647 of the Acts of 1989 and the OSC guidelines. However, we found specific areas of the draft ICP that could be improved, modified, or enhanced, including (a) high-level summarization, (b) control environment, (c) risk assessment, (d) information and communication, and (e) formalization/availability. In addition, contrary to Chapter 647 of the Acts of 1989, the draft ICP was not dated and approved by senior management. Internal controls are essential to MassHealth's fiscal and program operations to ensure that the delivery of health care services to its members is efficient, effective, reliable, and in compliance with applicable laws, rules, and regulations. It is important that top management demonstrate and communicate their commitment to integrity, ethical behavior, and competence of MassHealth employees. Control activities should be designed and implemented to address significant risks related to department activities, such as the turnover of management employees. Communicating internal controls to employees on a timely basis and conducting ongoing monitoring to determine compliance with the draft ICP will help ensure that MassHealth is managed in the most effective manner.

In response to the audit report, MassHealth indicated that it accepts all of our recommendations for improvements and enhancements of its ICP and has begun a

project to improve internal control training and plan development at a divisional and programmatic level. Additionally, MassHealth has agreed to maintain a formal, dated ICP which will be readily available for examination by the appropriate authorities.

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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. Within EOHHS, MassHealth 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 2007, MassHealth paid in excess of \$6.2 billion (of which 50% is federally funded) on 49.3 million claims to 30,000 providers within the Commonwealth.

Prior to 2003, the Division of Medical Assistance (DMA) was the single Commonwealth 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), as provided for under Title XXI² of the Social Security Act, in MassHealth, 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: (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 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

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."

Title XIX, for the programs under Titles IV (A), IV (B), IV (E), XX, and XXI of the Social Security Act, and for the programs under the Rehabilitation Act; and (e) maximizing federal financial participation for all agencies, departments, offices, divisions, and commissions within EOHHS.

EOHHS includes the following: (1) the Department of Elder Affairs, under the direction of a Secretary of Elder Affairs, who is appointed by the Governor; (2) the Office of Health Services, which includes the Department of Public Health, the Department of Mental Health, MassHealth, and the Betsy Lehman Center for Patient Safety and Medical Error Reduction; (3) the Office of Children, Youth and Family Services, which includes the Department of Social Services, the Department of Transitional Assistance, the Department of Youth Services, the Office of Child Care Services, the Child Abuse Prevention Board, and the Office for Refugees and Immigrants; (4) the Office of Disabilities and Community Services, which includes the Department of Mental Retardation, the Massachusetts Rehabilitation Commission, the Massachusetts Commission for the Blind, the Massachusetts Commission for the Deaf and Hard of Hearing, the Soldiers' Home in Massachusetts (Chelsea), and the Soldiers' Home in Holyoke; and (5) the Department of Veterans' Services, under the direction of the Secretary of Veterans' Services, who is appointed by the Governor.

Chapter 647 of the Acts of 1989, An Act Relative to Improving the Internal Controls within State Agencies, requires state agencies to establish an internal control structure in accordance with the guidelines promulgated by the Office of the State Comptroller (OSC). Accordingly, the OSC has issued the Internal Control Guide for Managers and Internal Control Guide for Commonwealth Departments.

The Internal Control Guide for Managers (Volume I) discusses internal controls and the role of managers in developing, implementing and monitoring them. The guide incorporates the principles included in a report titled Internal Control – Integrated Framework, prepared by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission, which defines internal control as a process designed to provide reasonable assurance that an organization's objectives are achieved. It assumes that the primary responsibility for internal controls belongs to the management of the organization and involves programmatic activities as well as financial management.

The Internal Control Guide for Commonwealth Departments (Volume II) is specifically targeted to Massachusetts state government and to departments as a whole. It is designed to assist departments in preparing an Internal Control Plan (ICP), which has been defined by the OSC as “a high-level summarization, on a department-wide basis, of the department’s risks (as a result of a risk assessment) and of the controls used by the department to mitigate those risks. This high-level summary must be supported by lower level detail, i.e., departmental policies and procedures.”

On September 20, 2007 the OSC issued a revised Internal Control Guide to streamline the contents of the existing manuals and to incorporate the principles of Enterprise Risk Management (ERM) that tie risk to strategic planning. These principles reflect the concepts of broad-based objectives setting, event identification, and risk response. The new guide replaces both the Internal Control Guide for Managers, Volume I, and Internal Control Guide for Departments, Volume II. However, the revised guide does not fundamentally change the above criteria, which has been used as a basis for our evaluation of MassHealth’s ICP.

Audit Scope, Objectives, and Methodology

In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, the Office of the State Auditor (OSA) has conducted an audit of MassHealth’s ICP as of July 19, 2007. Our audit was conducted in accordance with applicable generally accepted government auditing standards. The purpose of the audit was to determine whether MassHealth’s ICP is in compliance with the requirements of Chapter 647 of the Acts of 1989, An Act Relative to Improving the Internal Controls within State Agencies; guidelines issued by the OSC; the Committee of Sponsoring Organizations of the Treadway Commission (COSO) report titled, “Internal Control – Integrated Framework”; and other applicable laws, rules, and regulations. In addition, we determined whether MassHealth had conducted a risk assessment in order to identify, analyze, and manage the potential risks that could prevent MassHealth from achieving its mandate and objectives.

Our audit was conducted as part of the OSA’s ongoing independent statutory oversight of the Commonwealth’s Medicaid program. In order to accomplish our objectives, we reviewed:

- The EOHHS Office of Medicaid Draft Internal Control Plan Summary (undated).
- Applicable laws, rules, and regulations; the OSC’s Internal Control Guidelines Volumes I and II; Chapter 647 of the Acts of 1989; and the COSO report titled, “Internal Control – Integrated Framework” published in 1994.

- Various operational and administrative policies.
- Various MassHealth departmental risk assessment reports.

We also interviewed appropriate MassHealth management personnel.

The undated EOHHS Office of Medicaid Draft Internal Control Plan Summary was not initially available for our review and was not presented to us until seven weeks after our initial request. As a result of this delay, MassHealth impeded the audit process, and there is inadequate assurance that the document existed at the time of our initial request, which constitutes a serious external impairment to our audit work. Government Auditing Standards issued by the Controller General of the United States, Chapter 3, Section 3.19, defines external impairments as “factors external to the audit organization may restrict the work or interfere with auditors’ ability to form independent and objective opinions and conclusions.” In addition, Chapter 8, Section 8.10, requires auditors to report “significant constraints imposed on the audit approach by data limitations or scope impairments, including demands of access to certain records or individuals.” Furthermore, Chapter 647 requires that the ICP be readily available for review by the OSA, the OSC and the Executive Office for Administration and Finance.

As noted in the Audit Results section of this report, we have determined that MassHealth needs to improve its ICP by including a high-level statement on the control environment, integrating the risk assessment activities into the ICP, and documenting the communication to unit managers describing their responsibility for designing, implementing, monitoring and periodically evaluating aspects of the ICP as it applies to their particular area of responsibility. Finally, MassHealth should formalize and date its ICP, which should include the attestation of senior management and be available for review as required by Chapter 647 of the Acts of 1989.

AUDIT RESULTS

IMPROVEMENTS AND ENHANCEMENTS NEEDED IN MASSHEALTH'S INTERNAL CONTROL PLAN

In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, we conducted an audit of MassHealth's Internal Control Plan (ICP), which state agencies are required to maintain in accordance with Chapter 647 of the Acts of 1989, An Act Relative to Improving Internal Controls within State Agencies. The audit was conducted as part of the Office of the State Auditor's (OSA) ongoing independent statutory oversight of the Commonwealth's Medicaid program. In response to our request, MassHealth's oversight agency, the Executive Office of Health and Human Services (EOHHS) presented us with a document titled, Office of Medicaid Draft Internal Control Plan Summary, which management indicated was updated through March 2007. The stated purpose of the draft ICP is "to provide a reference on internal controls for internal control personnel within MassHealth," whose mission is "to help the financially needy obtain high quality health care that is affordable, promotes independence and provides customer satisfaction." The draft ICP also includes an overview of MassHealth; its responsibilities and program activities, including an explanation of the benefit plans available to members; an outline of the requirements for membership; and the responsibilities and requirements for participation as a healthcare provider. The document also identifies and provides a brief description of the electronic systems used to monitor and control the activities of the organization, as well as numerous references to regulations, policies, procedures, and other internal control activities.

Although the draft ICP contains some of the internal control elements required by Chapter 647 of the Acts of 1989, An Act Relative to Improving Internal Controls within State Agencies, as well as some of the elements outlined in the Office of the State Comptroller's (OSC's) Internal Control Guide for Managers Volume I and Internal Control Guide for Commonwealth Departments Volume II, our review disclosed that the draft ICP (a) lacked a high-level summarization of Committee of Sponsoring Organizations of the Treadway Commission (COSO) internal control elements, (b) lacked a high-level statement on the control environment, (c) did not include a risk assessment to be integrated into the plan, (d) did not adequately document information and communication to department managers, and (e) was not formalized, dated, or signed-off by senior management and available for review by the OSA.

Our review disclosed the following:

a. High-Level Summarization

The OSC's Internal Control Guide, Volume II, states, in part:

The Office of the Comptroller defines an internal control plan as, "a high-level summarization, on a department-wide basis, of the department's risks (as a result of a risk assessment) and of the controls used by the department to mitigate those risks. The high-level summary must be supported by lower level detail, i.e., departmental policies and procedures...."

For the ICP to be considered a "high-level summarization," the five interrelated COSO components of internal control must be present: control environment, risk assessments, control activities, information and communication, and monitoring. Our review indicated that, although MassHealth does have various standard operating policies and procedures, its draft ICP did not include a high-level statement on the control environment from the Secretary of EOHHS and the Director of MassHealth that effectively addresses key elements of risk assessment, information, and communication. Without a high-level summarization on a department-wide basis of MassHealth's risks, there is inadequate assurance that MassHealth has developed its policies and procedures to mitigate risk; ensured that its assets are properly safeguarded against loss, theft, or misuse; and will achieve its mission and objectives efficiently.

b. Control Environment

MassHealth's draft ICP does not contain direct statements from top management (secretariat level) on the expectations of staff concerning expected integrity and high ethical standards that set the tone for internal controls within MassHealth. Moreover, written statements defining MassHealth's control environment and linking management's attitude, supervision, and organizational structure were absent or unclear in the draft ICP. As a result, employees may not understand the importance of the ICP or of the tools the plan provides for achieving their individual and departmental goals.

The OSC's Internal Control Guide for Managers, Volume I, Chapter 3, Section A, defines control environment as follows:

*The **control environment** of a state agency sets the tone of the organization and influences the effectiveness of internal controls within the agency. Control environment, an intangible factor and the first of the five components, is the foundation for all other components of internal*

control, providing discipline and structure and encompassing both technical competence and ethical commitment. Managers must evaluate the internal control environment in their own unit and department as the first step in the process of analyzing internal controls. Many factors determine the control environment, including those on the following list.

- ***Management’s attitude, actions, and values*** set the tone of an organization, influencing the control consciousness of its people. Internal controls are likely to function well if management believes that those controls are important and communicates that view to employees at all levels. If management views internal controls as unrelated to achieving its objectives, or even worse, as an obstacle, this attitude will also be communicated. Despite policies to the contrary, employees will then view internal controls as a “red tape” to be “cut through” to get the job done. Management can show a positive attitude toward internal control by such actions as including internal control in performance evaluations, discussing internal controls at management and staff meetings, and by rewarding employees for good internal control practices.
- ***Commitment to competence*** includes a commitment to hire, train, and retain qualified staff. It encompasses both technical competence and ethical commitment. Management’s commitment to competence includes both hiring staff with the necessary skills and knowledge and ensuring that current staff receives adequate on-going training and supervision.

Moreover, the OSC Internal Control Guide for Managers, Volume I, Chapter 5, Part 13, states that an internal control plan should “briefly state the integrity and ethical values expected of all staff, and especially, the ethical values top management expects of itself (control environment).” The absence of this statement leaves employees unaware of the importance management places on integrity and ethical values.

c. Risk Assessment

The OSC Internal Control Guide for Managers, Volume I, Chapter 3, Part B, has identified risk assessment as the second interrelated component of an internal control plan, as follows:

Organizations exist to achieve some purpose of a goal. Goals, because they tend to be broad are usually divided into specific targets known as objectives. A risk is anything that endangers the achievement of an objective. Risk Assessment, is the process used to identify, analyze and manage the potential risks that could hinder or prevent an agency from achieving its objectives.

MassHealth has established a risk management organization that is composed of a Risk Management Council (which is chaired by the Medicaid Director and includes, among others, the Chief Operating Officer, the Deputy General Counsel, the Director of Internal Audit) and a number of business unit (departmental) managers. The objective of this organization is to manage risks, which are identified as financial, operational, compliance, and reputation. This is

done through a process of risk identification, assessment, and reporting. Managers identify their critical core process, gather key information using standardized templates (in most cases), and periodically report to the Risk Management Council the risk level of each core process, (potential major issue, potential minor issue, or process on target [no risk]).

We reviewed a number of these risk management reports and determined that although they identify risks at the departmental level, they do not provide a high-level summarization, on an agency wide basis, of the major risks and the internal controls used by the organization to mitigate those risks.

A review of the Risk Management Council revealed significant turnover within its organization since March 2007. The draft ICP does not identify the turnover in management as a potential risk in the achievement of its goals. The OSC's Internal Control Guide for Managers, Chapter 3, Section B, Risk Assessments, states:

The risk to reaching objectives increases dramatically during a time of change (turnover in personnel, rapid growth, or establishment of new services, for example). Because any type of change increases risk, monitor and assess every significant, or likely to be significant, change.

The turnover of management results in the loss of institutional knowledge based on experience and could result in undetected significant risk.

d. Information and Communication

The draft ICP contains the following statements relative to the preparation of the departmental or unit ICPs:

Each manager is responsible for designing, implementing, monitoring and periodically evaluating aspects of the internal control plan as it applies to their particular area of responsibility and their interface with the units. As part of the MassHealth's infrastructure goals, each manager has a responsibility to address their internal controls.

MassHealth cannot demonstrate how well this policy has been communicated throughout the organization, or the extent of in-house training designed to make managers aware of the meaning of the ICP and the importance of internal controls. We interviewed a number of unit managers within MassHealth and concluded that although some are generally aware of internal control policies and procedures, they had not prepared internal control plans based on a risk assessment for their individual areas of responsibility. This could result in not identifying certain

risks, which may present obstacles to the achievement of departmental objectives. The OSC Internal Control Guide for Managers, Chapter 3, Section D, Communication, states:

An internal control plan should provide for information to be communicated both within the organization (up as well as down) and externally to the outside, for example vendors, recipients, and other departments. Management should distribute copies of the department's internal control plan to all staff whose jobs are affected in any way by the information in the plan. Sending information electronically allows management to immediately distribute new procedures and other information to a large staff. Departments should conduct in-house training sessions upon releasing new or extensively revised internal control plans to explain the meaning of the plan and the importance of internal controls. This training should also be a part of the orientation of new employees.

Inadequate communication of the ICP and its revisions results in a lack of personnel understanding of the importance of change for personnel and places the achievement of departmental goals at risk.

e. Formalization/Availability

As indicated earlier, MassHealth management indicated that the draft ICP that we reviewed had been updated through March 2007. However, this document was not dated, was marked “Draft”, and did not contain signatures indicating approval from top management. Although we originally requested the ICP on May 25, 2007, MassHealth did not produce the draft document until July 19, 2007, seven weeks after the initial request. Consequently, there is inadequate assurance that the draft ICP existed in May 2007, that senior management had approved the plan, and that internal controls had been designed to mitigate all significant risks.

On July 5, 2007, the OSA sent a letter to MassHealth’s Director of Internal Audit indicating that Chapter 647 requires that “the internal control plan should be readily available for examination by the Office of the State Comptroller, the Executive Office of Administration and Finance and the Office of the State Auditor.” The letter informed MassHealth that its delay in providing the requested document constituted a serious external impairment to our audit work that impeded the audit process. Government Auditing Standards issued by the Comptroller General of the United States in Chapter 3, Section 3.19 defines external impairments as “factors external to the audit organization may restrict the work or interfere with auditors’ ability to form independent and objective opinions and conclusions.” In addition, Chapter 8, Section 8.10 requires auditors

to report “significant constraints imposed on the audit approach by data limitations or scope impairments, including demands of access to certain records or individuals.”

Previous audits have disclosed the need to improve internal controls at MassHealth, and the basis for strong internal control is a well-developed ICP and risk assessment. Our prior audit report No. 2004-1374-3S, issued October 13, 2005, disclosed that MassHealth has neither the resources nor the internal controls to efficiently detect and deter fraud in the Commonwealth Medicaid program. As a result, there is inadequate assurance that safeguards exist to prevent loss, theft, or misuse. Also, our report indicated that the U.S. Government Accountability Office (GAO) placed the Medicaid program on its list of government programs that are at “high risk” of fraud, waste, abuse, or mismanagement. GAO has estimated that between 3% and 10% of total healthcare costs are lost to fraudulent or abusive practices by unscrupulous healthcare providers. Our prior audit report No. 2005-1374-3S1, issued November 16, 2006, reported that MassHealth’s oversight and policies and procedures for the enrollment, credentialing, and recredentialing of Fee for Services transportation providers needed improvements to help improve program integrity and ensure the well being of Medicaid members. The report also stated that an adequate system of internal controls would require that guidelines be established to ensure that all transportation provided meets the same standards, and that MassHealth provides adequate monitoring and oversight. Moreover, our prior report No. 2005-1374-3S1A, issued February 27, 2007, demonstrated that there is a high risk that a significant number of transportation claims are questionable and could be fraudulent, and that MassHealth needs to improve its oversight and fraud detection activities. The report stated that MassHealth should strengthen its internal controls and oversight of payments to transportation providers to ensure that transportation claims are properly supported with the required documentation; that services were delivered; and that claims were complete, accurate, and in compliance with applicable laws, rules, and regulations. These reports highlight the need for management to draft and distribute an ICP that addresses all of the attributes of Chapter 647, COSO, and the OSC’s guidelines in order to maintain a high level of financial and operational integrity.

In summary, internal controls are essential to MassHealth’s fiscal and program operations to ensure that the delivery of health care services to its members are efficient, effective, reliable, and in compliance with applicable laws, rules, and regulations. It is important that MassHealth’s top management demonstrate and communicate their commitment to the integrity, ethical

behavior, and competence of MassHealth employees. Control activities should be designed and implemented to address significant risks related to department activities such as the turnover of management employees. The communication of internal controls to employees on a timely basis is important to manage MassHealth in the most effective manner. As always, the monitoring of internal controls is an ongoing process to determine compliance with the internal control plan.

Recommendation

MassHealth should improve its ICP to ensure compliance with Chapter 647 of the Acts of 1989, the OSC guidelines, and COSO. At a minimum, MassHealth should:

- Include a high-level statement on the control environment from the Secretary of EOHHS and the Director of MassHealth that clearly sets management's expectations of staff concerning integrity and requirements of high ethical standards and of the importance of the ICP within MassHealth.
- Re-evaluate the importance of the Risk Management Council, include its assessment of risk within the ICP, and address those risks associated with organizational and systemic changes.
- Include within the agency-wide ICP a listing of departmental ICPs and risk assessments and maintain these plans both at the department level and with the Internal Control Officer.
- Communicate the ICP throughout the organization, conduct training programs designed to make managers aware of their individual responsibilities for an ICP and effective internal controls, and incorporate these responsibilities within the unit manager's job description.
- Maintain a formal, dated ICP that is supported by and attested with departmental or unit plans and make them readily available for examination by the Office of the State Comptroller, the Executive Office for Administration and Finance, and the Office of the State Auditor.

Auditee's Response

The Executive Office of Health and Human Services and Medicaid has taken a number of actions in recent years to enhance our compliance and control environment. These steps, among others, include: establishing a secretariat-wide Office of Compliance, establishing an Operations Integrity Unit in MassHealth, and improving our provider monitoring capabilities.

In addition, during the course of your audit, we recognized that improvements were needed to our Internal Control Plan and our review processes. Therefore, we have

begun a project to improve internal control training and plan writing at a divisional and programmatic level. We would like to acknowledge the willingness of both the Office of the State Auditor and the Office of the Comptroller to provide advice, materials, and training resources to this project and we look forward to working with you. Additionally, our Compliance, Training, and Human Resource offices are coordinating to develop a system for providing and, where appropriate, mandating on-going compliance and internal control related training.

MassHealth agrees with the recommendations and observations contained in the audit report and offered these additional comments:

- *We will include a high-level statement on the control environment from senior management clearly setting management expectations of staff related to the culture of high ethical standards and the importance of adherence to the Internal Control Plan within MassHealth.*
- *We will integrate our risk assessment process into the internal control plan more explicitly, and will require that clear risk mitigation plans be identified.*
- *MassHealth is in the process of implementing the SAO recommendation to include within the agency-wide Internal Control Plan a listing of departmental internal control plan and risk assessments and will maintain these plans both at the departmental level and with the Internal Control Officer.*
- *MassHealth is also in the process of communicating the importance of the Internal Control Plan throughout the organization, and will conduct training programs designed to make managers aware of their individual responsibilities regarding risk identification and effective internal controls.*
- *In addition, in compliance with the requirements of Chapter 647 of the Acts of 1989 and the OSC guidelines, MassHealth agrees to maintain a formal, dated Internal Control Plan that is supported by and attested with departmental or unit plans, readily available for examination by the Office of the State Comptroller, the Executive Office of Administration and Finance, and the Office of the State Auditor.*

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 J. Livanos*, Speaker.

In Senate, December 22, 1989.

Passed to be enacted, *William W. Dodge*, President.

January 3, 1990.

Approved, *Richard D. Riordan*, Governor.