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INDEPENDENT STATE AUDITOR'S REPORT ON
CERTAIN ACTIVITIES OF
TEWKSBURY HOSPITAL
JULY 1, 2001 TO JUNE 30, 2004

OFFICIAL AUDIT
REPORT
JUNE 22, 2005

TABLE OF CONTENTS/ EXECUTIVE SUMMARY

INTRODUCTION

1

Chapter 122 of the Massachusetts General Laws authorized the Department of Public Health (DPH) to have general supervision of Tewksbury Hospital. The hospital, which is located on a 900-acre campus, provides services on a daily basis to over 300 inpatient adults with chronic medical and mental illnesses. The hospital's operations are under the direction of its Chief Executive Officer, who heads a senior management team.

Our audit was initiated as a result of a Chapter 647 report filed by DPH, which reported numerous improprieties involving employees in the Tewksbury Hospital Maintenance Department. Specifically, the report noted (1) improper use of overtime and stand-by duty pay; (2) possible use of state facilities for maintenance on personal vehicles; and (3) purchasing and receiving issues, as well as other issues. When DPH discovered these issues, it implemented administrative actions to address them. In addition, the hospital implemented new policies and procedures over maintenance department operations. Chapter 647 of the Acts of 1989, An Act Relative to Improving the Internal Controls within State Agencies, requires the Office of the State Auditor to determine the internal control weaknesses that contribute to or cause an unaccounted-for variance, loss, shortage, or theft of funds or property; make recommendations to correct the condition found; identify the internal control policies and procedures that need modification; and report the matter to appropriate management and law enforcement officials.

In accordance with Chapter 11, Section 12, of the General Laws and Chapter 647 of the Acts of 1989, the Office of the State Auditor conducted an audit of Tewksbury Hospital for the period July 1, 2001 to June 30, 2004. The purpose of the audit was to review the hospital's maintenance department operations to determine the adequacy of controls over all maintenance department activities. Specifically, we reviewed payroll and staffing issues as well as purchasing practices, including incidental purchases. We also conducted a follow-up of prior audit issues.

AUDIT RESULTS

3

1. PRIOR AUDIT RESULT RESOLVED: INTERNAL CONTROL PLAN

3

Our prior audit of the Tewksbury Hospital noted that the hospital had not developed its own internal control plan in accordance with Chapter 647 of the Acts of 1989, an Act Relative to Improving Internal Controls Within State Agencies. Our follow-up audit disclosed that the hospital has taken corrective action and has developed an internal control plan, updated its policies and procedures, and incorporated them as part of its internal control plan.

2. PRIOR AUDIT RESULTS PARTIALLY RESOLVED

3

During our follow-up audit, we determined that the hospital has taken partial measures to address issues identified during the prior audit regarding the hospital's management of fixed assets and internal controls over maintenance department payroll expenditures.

a. Improvements Needed in Fixed-Asset Management**3**

Our prior audit disclosed that improvements were needed regarding fixed-asset management and reporting requirements. Our follow-up audit revealed that, although the hospital has taken some corrective action by tagging all equipment and preparing an inventory list, it still needs to take additional corrective action. Specifically, although the hospital did not purchase any equipment during the audit period, we selected 22 items totaling \$74,785 from the inventory listing that was prepared two years previously by the hospital, which consisted of a television, two trucks, computer equipment, a snow blower, a trailer, a printer, and medical equipment. We found that eight of the 22 items tested could not be located. Our audit indicated that three of the eight items had been disposed of, and that a fourth item was used as a trade-in for another vehicle. The remaining four items, however, were never located. In its response hospital management indicated that it will improve its asset management, control, and inventory practices to ensure compliance with the Office of the State Comptroller's guidelines.

b. Inadequate Internal Controls over Maintenance Department Payroll Expenditures**5**

Our prior audit disclosed that maintenance and groundskeeping personnel did not prepare and sign their own timesheets. In addition, maintenance overtime was not identifiable by cost center, and there were no adequate records available detailing the necessity for or approvals for overtime or stand-by duty pay. Our follow-up audit revealed that, although the hospital took corrective action regarding the employees preparing their own timesheets and allocating overtime by cost center, additional measures are needed pertaining to the issue of overtime. Specifically, our follow-up audit noted that the hospital did not document the reason that overtime was worked or any authorization for overtime. For fiscal years 2002, 2003, and 2004, the hospital expended over \$4.3 million dollars in overtime costs, and maintenance overtime costs for that period totaled in excess of \$900,000. In addition, overtime within the maintenance department was not distributed equally among maintenance personnel, contrary to Collective Bargaining Agreements. Moreover, our follow-up audit noted that employees were receiving stand-by duty pay even though they were out on extended periods of leave such as vacation, illness, or other leave. According to collective bargaining agreements, stand-by duty denotes that a department head has ordered any employee to immediately be available for duty upon receipt of a message to report to work. As a result, the use of stand-by duty pay appears to be used as a matter of salary enhancement rather than for emergency purposes. As a result of our audit, the hospital has developed new policies and procedures regarding stand-by duty pay and overtime pay. In its response, the hospital stated that all overtime will be recorded on timesheets that are approved by appropriately designated supervisory personnel and that policies and procedures governing the use of stand by duty pay have been put into place.

3. INTERNAL CONTROL IMPROVEMENTS NEEDED OVER MAINTENANCE GARAGE OPERATIONS AND PURCHASING AND RECEIVING FUNCTIONS **8**

a. Maintenance Garage Operations **8**

Our audit of the maintenance garage operations revealed a lack of controls over the general operations within the garage. Specifically, the hospital had not established or implemented (1) any written policies or procedures concerning the maintenance of hospital vehicles; (2) work order forms necessary for servicing those vehicles; (3) inventory of materials or parts; and (4) proper log entries for vehicle service performed. Our review of the maintenance log on a 1998 Chevrolet Blazer revealed that the vehicle had 14 new tires installed before the vehicle had 70,000 miles. A further analysis indicated that the vehicle had four additional new tires installed on May 25, 2004 with a mileage reading of 126,549. Counting the four original tires on the vehicle when it was originally leased, this vehicle has had 22 new tires installed over a five-year period. Another vehicle, a 1997 Chevrolet pick-up truck, had six new tires installed with a mileage reading of approximately 25,000 miles. Maintenance personnel were unable to explain why so many tire changes were made on these vehicles. Due to the lack of controls over the operation of the maintenance garage, the hospital could not ensure that these state vehicles were receiving the maintenance either indicated or necessary. In addition, this lack of controls created an environment which was vulnerable to fraud and abuse. In its response, the hospital acknowledged that its past practice regarding written policies and procedures for the maintenance of hospital vehicles was lacking and indicated that it now has new policies and procedures in place to address this issue.

b. Purchasing and Receiving – Incidental Purchases under \$1,000 **10**

Our audit of the purchasing and receiving functions within the Facilities Department indicated that the hospital did not have adequate policies and procedures concerning incidental purchases under \$1,000. Our tests on 30 purchase-request forms totaling approximately \$16,880 indicated that four, or 13% of the total forms reviewed, lacked proper signatory authority from senior management or a department supervisor. In addition, 10 of the 30 forms we reviewed did not list a description of the purchases, any purpose for the purchase, or whether the purchases were made for specific use or stock. Furthermore, purchases under \$1,000 were allowed to be made by any facility employee simply by taking a purchase order form to a local Home Depot and purchasing the item. Because these purchases did not go through the hospital's storehouse (receiving department) there is no record, other than the bill of lading, that the goods purchased by maintenance personnel were actually purchased for and received by the hospital, or of the current location where these items might be. As a result, the hospital cannot be assured that these types of purchases are being made on behalf of and used by the hospital. The hospital concurred that its past practices in the use of the charge card and control of items with a purchase value of less than \$1,000 was not effective. In its response, the hospital indicated that it has revised its purchasing and receiving policies and procedures to conform with sound business practices.

APPENDIX I	13
Chapter 647, Acts of 1989, An Act Relative to Improving the Internal Controls within State Agencies	13
APPENDIX II	16
Chapter 647 Awareness Letter from the State Auditor and the State Comptroller	16

INTRODUCTION

Background

Chapter 122 of the Massachusetts General Laws authorized the Department of Public Health (DPH) to have general supervision of Tewksbury Hospital. The hospital, which is located on a 900-acre campus, provides services on a daily basis to over 300 inpatient adults with chronic medical and mental illness. The cost for patient care is funded through DPH appropriations and the Department of Mental Health. The mental health units at Tewksbury Hospital were created due to closings that occurred at the Danvers State Hospital and the Solomon Mental Health Center. Tewksbury Hospital provides long-term geriatric services, substance-abuse rehabilitation, head-injury rehabilitation for adults, and treatments for mental illness and behavioral problems. The hospital also treats patients with Alzheimer's disease, Acquired Immune Deficiency Syndrome, and Huntington's Disease. The hospital has a seven-person board of trustees that is empowered to make rules and regulations, subject to DPH approval, for the proper management of the hospital. The hospital's operations are under the direction of its Chief Executive Officer (CEO), who heads a senior management team who report directly to the CEO.

Our audit was initiated as a result of a Chapter 647 report filed by the DPH which reported numerous improprieties involving employees in the Tewksbury Hospital Maintenance Department. Specifically, the report noted (1) improper use of overtime and stand-by duty pay; (2) possible use of state facilities for maintenance on personal vehicles; and (3) purchasing and receiving issues, as well as other issues. When DPH discovered these issues, it implemented administrative action to address them. In addition, the hospital implemented new policies and procedures over maintenance department operations. Chapter 647 of the Acts of 1989, An Act Relative to Improving the Internal Controls within State Agencies, requires the Office of the State Auditor (OSA) to determine the internal control weaknesses that contribute to or cause an unaccounted-for variance, loss, shortage, or theft of funds or property; make recommendations to correct the condition found; identify the internal control policies and procedures that need modification; and report the matter to appropriate management and law enforcement officials.

Audit Scope, Objectives, and Methodology

In accordance with Chapter 11, Section 12, of the General Laws and Chapter 647 of the Acts of 1989, the OSA has completed an audit of Tewksbury Hospital for the period July 1, 2001 to June 30,

2004. In some instances, it was necessary to expand our audit testing both before and after these dates. The hospital's financial activity and its compliance with laws and regulations are the responsibility of its management. The objectives of our audit were to review the hospital's maintenance department to determine the adequacy of controls over all maintenance department activities. Specifically, we reviewed payroll and staffing issues as well as purchasing practices, including incidental procedures. We also conducted a follow-up review of issues contained in our prior audit report.

Our audit was conducted in accordance with applicable generally accepted government auditing standards. We conducted site visits and interviews with hospital personnel and reviewed pertinent documentation and internal policies and procedures concerning overtime, stand-by duty pay, and purchasing. We conducted tests to determine compliance with collective-bargaining unit agreements and hospital procurement practices.

We requested and received detailed policies and procedures relating to purchasing and receiving practices, as well as employee overtime and stand-by duty and employee sign-in and sign-out procedures. At the conclusion of our audit, we discussed our findings with the Chief Executive Officer, the Chief Operating Officer, and the Treasurer.

Based upon our audit for the areas tested, we have determined that, except for the matters discussed in the Audit Results section, the hospital has adequate internal controls and complied with all applicable laws, rules, and regulations concerning overtime, stand-by duty pay, and incidental purchasing.

AUDIT RESULTS

1. PRIOR AUDIT RESULT RESOLVED: INTERNAL CONTROL PLAN

Our prior audit of Tewksbury Hospital noted that the hospital had not developed its own internal control plan in accordance with Chapter 647 of the Acts of 1989, an Act Relative to Improving Internal Controls Within State Agencies. Our follow-up audit disclosed that the hospital has taken corrective action and has developed an internal control plan, updated its policies and procedures, and incorporated them as part of its internal control plan.

2. PRIOR AUDIT RESULTS PARTIALLY RESOLVED

During our follow-up audit, we determined that the hospital has taken partial measures to address issues identified during the prior audit regarding the hospital's management of fixed assets and internal controls over maintenance department payroll expenditures.

a. Improvements Needed in Fixed-Asset Management

Our prior audit disclosed that Tewksbury Hospital did not comply with fixed-asset management and reporting responsibilities, including conducting an annual physical inventory and preparing a current, complete fixed-asset report based on the results of that inventory. Our prior audit recommended that the hospital take the necessary corrective action regarding fixed-asset management and reporting to ensure compliance with the Office of the State Comptroller (OSC) guidelines, including conducting a physical inventory, preparing a complete and accurate fixed-asset report each fiscal year, and exercising more diligence in tagging equipment and tracking transfers and dispositions.

Our follow-up audit disclosed that, although the hospital has taken some corrective action by tagging all equipment and preparing an inventory listing, it still needs to take additional corrective action. Specifically, although the hospital did not purchase any equipment during the audit period, we selected 22 items totaling \$74,785 from the inventory listing that was prepared two years previously by the hospital, which consisted of a television, two trucks, computer equipment, a snow blower, a trailer, a printer, and medical equipment that included a medical pump. We found that eight of the 22 items tested could not be located. However, our audit noted that three of the eight items had been disposed of and had not been noted on the inventory listing, and that a fourth item was used as a trade-in on another vehicle. The

remaining four missing items, however, could not be accounted for. The hospital indicated that the unlocated inventory, which consisted of a radio, tool chest, computer, and a jackhammer, in all likelihood had been moved to another location without recording the relocation on the inventory listing.

For the management of fixed assets, the OSC provides guidance in the form of publications, including the Internal Control Guide (Volume II, Appendix 3: Internal Controls for Fixed Assets); Comptroller Policy Memo 310 – Fixed Asset Policies; and Comptroller Policy Memo 313 – Fixed Asset Subsystem Policy Manual and User Guide. Specifically, the Massachusetts Management Accounting and Reporting System (MMARS) Policy entitled Fixed Assets – Accounting and Management, issued March 22, 2004, states, in part:

- *The CFO is responsible for the management of fixed assets.*
- *There shall be an annual physical inventory of fixed assets, including at a minimum a verification of the existence and location of fixed assets owned by a department.*
- *There shall be a reconciliation of the results of that inventory.*

Because the hospital did not conduct a physical inventory and the required reconciliation, it exposed its property to possible loss, theft, or misuse.

Recommendation

Tewksbury Hospital should continue to take necessary corrective action regarding fixed-asset management to ensure compliance with the OSC's guidelines, including conducting an annual physical inventory and preparing a complete and accurate fixed-asset report each fiscal year. Moreover, the hospital should strengthen its policies and procedures to ensure adequate internal controls over fixed-asset management. These policies should require that all departments work cooperatively with the fixed-asset manager to control the acquisition, recording, transfer, and disposal of fixed assets, and to ensure that all requirements of fixed-asset management are met.

Auditee's Response

The Hospital accepts the recommendation to improve its asset management, control and inventory practices to assure compliance with OSC's guidelines.

The Hospital finds that its deficiencies were with the disposal of fixed assets. In several instances, the assets identified had been purchased years in the past and the question of

the materiality of the asset at the time of disposal may have contributed to the lack of documentation.

b. Inadequate Internal Controls over Maintenance Department Payroll Expenditures

Our prior audit disclosed that maintenance and groundskeeping personnel did not prepare and sign their own timesheets. In addition, maintenance overtime was not identifiable by cost center, and there were no adequate records available detailing the necessity for or approvals for overtime or stand-by duty pay.

Our prior audit recommended that the hospital improve its control over maintenance department payroll costs by requiring that employees prepare and sign their own time records and obtain supervisory approval on their attendance. In addition, we recommended that all overtime be identifiable as to tasks performed and appropriate cost centers.

Our follow-up audit noted that, although the hospital took some corrective action regarding employees preparing their own time records and allocating overtime by cost center, additional measures need to be taken by hospital management for corrective action. Specifically, for fiscal years 2002, 2003, and 2004, the hospital expended over \$4.3 million dollars in overtime costs, and maintenance overtime costs for that period totaled in excess of \$900,000. In reviewing maintenance overtime, we noted that the hospital could not provide documentation that supported the reason why overtime was worked or any authorization for the overtime. Although employees recorded overtime hours on their individual time records, no explanation was given as to what project the employee worked on and whether the overtime was scheduled or unscheduled. Our analysis of time records that included overtime indicated that the department supervisor or manager did not always approve the timesheets. Our review further noted that overtime within the maintenance department was not distributed equally among all employees, according to the Commonwealth of Massachusetts Collective Bargaining Agreements, Article 7, Work Week and Work Schedules – Section 2, Overtime, which states, in part:

c. Overtime shall be distributed as equitably and impartially as practicable among persons in each work location who ordinarily perform such related work in the normal course of this workweek.

For the period July 1, 2001 to June 30, 2004, overtime hours for maintenance employees ranged from five hours to as much as 138 hours per month. The hospital could not provide any

documentation that supported how overtime was scheduled or awarded. Without adequate documentation to support how overtime was scheduled and assigned, the appearance of favoritism in working overtime could exist.

On August 11, 2004, the hospital established a written overtime policy for facilities to be incorporated within the hospital's formal policies and procedures. The purpose of the policy is to properly ensure that the distribution of overtime is completed in a fair and equitable manner for all employees. The policy further defines and classifies overtime as well as details how overtime is to be scheduled.

In addition to the overtime issue, our prior audit noted a questionable practice of having too many employees on stand-by duty pay. According to the Collective Bargaining Agreements, stand-by duty denotes that a department head has ordered any employee to immediately be available for duty upon receipt of a message to report to work. If any employee assigned to stand-by duty is not available to report to duty when contacted, no stand-by pay shall be paid to the employee for the period. Furthermore, an employee on stand-by duty shall be reimbursed at a rate not to exceed \$10 for such stand-by period. The stand-by period shall be 15 hours in duration for any night stand-by duty, and nine hours in duration for any daytime stand-by period.

The following table details stand-by pay for the period July 1, 2001 to June 30, 2004.

Period	Number of Employees	Stand-by Duty Pay
July 1, 2001 to June 30, 2002	29	\$ 64,190
July 1, 2002 to June 30, 2003	29	78,970
July 1, 2003 to June 30, 2004	35	<u>78,819</u>
		<u>\$221,979</u>

Our follow-up audit indicated that the hospital had no written policies or procedures governing the use, authorization, or responsibility for stand-by duty pay. As a result, we noted many weaknesses in the awarding and payment of stand-by duty pay. Specifically, our review noted that employees receiving stand-by duty pay were receiving it when they were out on extended periods of leave such as vacation, illness, or other leave. Examples of these weaknesses include:

Employee A

- Out of a five-week period (three weeks sick and two weeks vacation) from the week ending July 6, 2002 to the week ending August 3, 2002, employee received stand-by duty pay totaling \$470.

Employee B

- Scheduled two-week vacation (from the week ending May 24, 2003 to the week ending May 31, 2003) and received stand-by duty pay totaling \$180.

Employee C

- Sick for two weeks (from the week ending December 28, 2002 to the week ending January 4, 2003) received stand-by duty pay totaling \$180.
- Sick for two weeks (week ending March 22, 2003 to week ending March 29, 2003) received stand-by duty pay totaling \$180.
- Sick for two weeks (week ending May 17, 2003 to week ending May 24, 2003) received stand-by duty pay totaling \$180.
- Out for seven consecutive weeks (sickness and vacation) week ending June 5, 2004 to July 17, 2004 received stand-by duty pay totaling \$630.

We also noted several other employees who were on scheduled one- or two-week vacations and received \$90 in weekly stand-by duty pay.

The hospital had no procedures in place to indicate if and when employees were called in on stand-by duty. No call logs were maintained, and no employee sign-in/sign-out procedures were in place to note stand-by duty. In addition, the hospital provided certain employees with electronic pagers for call-in purposes. When we asked the hospital to provide us with the number of pagers and to whom they were assigned, they could not provide any documents to comply with our request.

As a result, the use of stand-by duty pay appears to be used as a salary enhancement rather than for actual emergency purposes. When this matter was brought to the attention of the interim Chief Executive Officer (CEO) and new acting CEO, written policies and procedures governing the use of stand-by duty pay were developed and implemented. On July 25, 2004, new employee sign-in/sign-out procedures were put into place. On August 11, 2004, a beeper assignment policy was finalized, and on December 14, 2004, a written stand-by duty policy went into effect. The purpose of these policies and procedures were to (1) ensure proper employee sign-in and sign-out procedures; (2) identify and control assignments of beepers based upon facility needs;

and (3) ensure that the hospital has a clear method of recommending, approving, and awarding stand-by duty assignments and compensating designated individuals.

Recommendation

The hospital must ensure that its newly developed and implemented policies and procedures are enforced, monitored, and documented.

Auditee's Response

The Hospital agrees with the recommendation that all overtime will be recorded on the timesheets that are approved by appropriately designated supervisory personnel.

The Hospital continues to assure that all employees in work locations where overtime is required to meet the needs of the Hospital are offered the opportunity to perform overtime.

As was discussed with the audit team, the Hospital does not follow a practice of mandatory overtime, so that there is an imbalance among those employees who voluntarily agreed to overtime. The audit team identified the practice of assigning stand-by pay as being without written policies and procedures governing the use, authorization and responsibility for stand by duty pay. As a consequence of this finding, the Hospital established a rigorous procedure for authorization of stand by pay as well as procedures for documenting sign in, sign out and assignment of beepers to necessary staff.

3. INTERNAL CONTROL IMPROVEMENTS NEEDED OVER MAINTENANCE GARAGE OPERATIONS AND PURCHASING AND RECEIVING FUNCTIONS**a. Maintenance Garage Operations**

Our audit of the maintenance garage operations revealed a lack of internal controls over the general operations within the garage. Specifically, the hospital had not established or implemented any written policies or procedures concerning the maintenance of hospital vehicles. When we requested documentation to support the servicing of hospital vehicles, we were provided with two separate sets of confusing maintenance records. One set of these records was maintained as part of a notebook that detailed the vehicle by description, license plate number, and a record of vehicle service according to mileage. The second set of records consisted of loose-leaf sheets detailing vehicle information such as license plate numbers, mileage, and vehicle-service records. However, when questioned, the hospital staff could not tell us which set of records were the actual vehicle-service records. Moreover, our comparison of the data from both sets of records, by vehicle, revealed that the data did not match up. Using what appeared to be the oldest and most complete maintenance log, we attempted to analyze the

maintenance history of the listed vehicles. Our analysis disclosed that the hospital had not established or implemented (1) policies and procedures covering the maintenance of the garage operation; (2) work order forms necessary for servicing hospital vehicles; (3) inventory of materials or parts; and (4) proper log entries for vehicle service performed.

Our audit noted that many vehicles had oil changes done after only 100 miles, and some after several thousand miles. When we questioned garage personnel about this type of routine maintenance, we were informed that oil changes were done every three months, regardless of mileage, and our examination of logbook entries seemed to verify this claim.

In reviewing the maintenance log on a 1998 Chevrolet Blazer, we noted that the vehicle had 14 new tires installed before the vehicle had 70,000 miles. A further analysis indicated that the vehicle had four additional new tires installed on May 25, 2004, when it had a mileage reading of 126,549 miles. Counting the four original tires on the vehicle when it was originally leased, this vehicle has had 22 new tires installed over a five-year period. Another vehicle, a 1997 Chevrolet pick-up truck, had six new tires installed with a mileage reading of approximately 25,000 miles. Maintenance personnel were unable to explain why so many tire changes were made on these vehicles. Due to the lack of controls over the operation of the maintenance garage, the hospital could not ensure that these state vehicles were receiving the maintenance either indicated or necessary. In addition, this lack of controls created an environment which was vulnerable to fraud and abuse.

The Office of Vehicle Management Policies and Procedures Manual, Preventive Maintenance/Repairs, states, in part:

1. *Departments are required to ensure that vehicles are repaired and maintained...*
2. *... Preventive Maintenance must be performed in accordance with the schedule defined in the Maintenance and Repair Contract.*

In May 2004, the head of maintenance changed the operating policies and procedures regarding vehicle service within the maintenance garage to include a work order, a purchase order listing parts and supplies needed and the costs related to those parts, the maintenance personnel assigned to the vehicle, and a vehicle-log book detailing all work performed. We reviewed these new procedures and noted that they were in place and operating. We requested that

management put in place a formalized written motor-vehicle repair policy, and on January 10, 2005, the hospital established a written motor-vehicle repair policy.

Recommendation

The hospital must ensure that the maintenance garage continues to operate in accordance with the policies and procedures promulgated in January 2005 and in compliance with the Maintenance and Repair Contract and that adequate internal controls are established to ensure that hospital resources are expended for the purposes intended.

Auditee's Response

In its response, the hospital acknowledged that its past practice regarding written policies and procedures for the maintenance of hospital vehicles was lacking and indicated that it now has policies and procedures in place to address these issues.

b. Purchasing and Receiving – Incidental Purchases under \$1,000

Our audit of the purchasing and receiving functions within the facilities department indicated that the hospital did not have adequate policies or procedures concerning incidental purchases under \$1,000. Specifically, the General Services Supervisor stated that all purchases had to have a detailed purchase-order request form that included a description of the item as well as the item's cost and approval by department managers and Chief Financial Officer prior to creating the purchase order. However, our tests on 30 purchase-request forms, totaling approximately \$16,880, indicated that four, or 13% of the total forms reviewed, lacked proper signatory authority from senior management or a department supervisor. Additionally, 10 of the 30 forms reviewed, or 33%, did not list a description of the purchase, any purpose for the purchase, or whether the purchases were made for specific use or stock. Furthermore, purchases under \$1,000 were allowed to be made by any facility employee simply by taking a purchase order to a local Home Depot, purchasing the item, and then charging the purchase against a hospital account at the Home Depot. When we questioned hospital administrators about who had access to this account, we were informed that they would have to contact the Home Depot to determine who had access. Although Home Depot provided us with a list of 13 individuals who had the Home Depot charge card, the hospital had no knowledge that these 13 people had access to and held the Home Depot credit card. All of these individuals had access to the same

hospital account. Our review further noted that, of the 13 employees holding the charge card, four were no longer employed by the hospital. On August 11, 2004, the hospital's General Services Supervisor contacted the Home Depot and deactivated all signatures on this account, with the exception of one maintenance employee and one manager at the hospital.

We reviewed purchase orders to determine whether goods were received by or at the hospital. All maintenance items and incidental purchases under \$1,000 did not go through the hospital's storehouse (receiving department). As a result, there is no record, other than the bill of lading, indicating that goods purchased by maintenance department personnel were actually purchased for and received by the hospital. For example, one particular order we reviewed indicated that a maintenance employee purchased three compressors, priced at almost \$700 each, and 20 100-foot extension cords. Although the hospital paid for the items, it could not provide any evidence that these compressors were ever delivered to the hospital or any details as to where the compressors were. Because of the lack of controls over its purchasing and receiving operations, the hospital cannot be assured that these types of purchases are being made on behalf of, or used by, the hospital.

In July 2004, the hospital promulgated policies and procedures for Facilities Department purchasing and receiving. The purpose of these policies and procedures is to provide direction and accountability for the procurement and receiving of all materials and supplies purchased by the Facilities Department.

Our review indicated that these policies and procedures are currently being implemented and put into operation by the hospital.

Recommendation

The hospital must ensure the continued implementation of the newly developed Facilities Department purchasing and receiving policies and procedures. In addition, the hospital should maintain proper records that detail all purchases and regularly track these purchases to their current location.

Auditee's Response

In its response, The hospital concurred that its past practices in the use of the charge card and control of items with a purchase value of less than \$1,000 was not effective. Moreover, the hospital indicated that it has revised its purchasing and receiving policies and procedures to conform with sound business practices.

APPENDIX I

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

H 5

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

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

11 5

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

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.

House of Representatives, December 21, 1989.

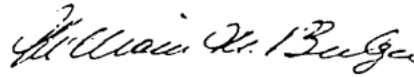
Passed to be enacted,



, Speaker.

In Senate, December 22, 1989.

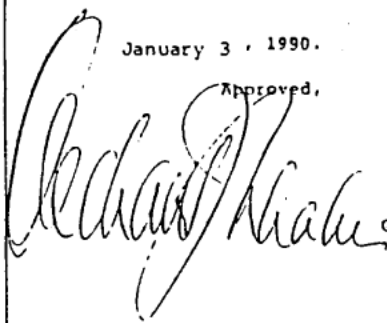
Passed to be enacted,



, President.

January 3, 1990.

Approved,



Governor.

APPENDIX II

Chapter 647 Awareness Letter from the State Auditor and the State Comptroller



The Commonwealth of Massachusetts

Office of the State Auditor
State House
Boston, MA 02133

Office of the Comptroller
One Ashburton Place
Boston, MA 02108

September 19, 2000

Legislative Leadership
Judicial Branch Administrators
Elected Officials
Secretariats
Department Heads

The State Auditor and the Comptroller are both committed to departmental improvements in the Internal Control structure of the Commonwealth. A good system of controls, as you know, assists management in meeting objectives while avoiding serious problems. Chapter 647 of the Acts of 1989, *An Act Relative To Improving Internal Controls Within State Agencies*, establishes acceptable Internal Control systems for state government operations and constitutes the criteria against which we will evaluate internal controls. With the passage of this law, we began a campaign to educate all department staff on the significant role of internal controls in department operations.

In the past few years, departments have made significant progress in the area of internal controls. Every department has certified that they have documented internal controls in the form of an Internal Control Plan. In Fiscal Year 2001, we are focusing our Internal Control Campaign on the review of department risk assessments, as documented within the departments' internal control plans. Internal control plans must, of course, include all aspects of a department's business, programmatic operations as well as financial.

A major requirement of Chapter 647 is that "an official, equivalent in title or rank to an assistant or deputy to the department head, shall be responsible for the evaluation of the effectiveness of the department's internal controls and establish and implement changes necessary to ensure the continued integrity of the system". This official, whom we refer to as the Internal Control Officer, is responsible for ensuring that the plan is evaluated annually or more often as conditions warrant.

During this annual Statewide Single Audit, we continue with our review of the Commonwealth's internal controls. We analyze and evaluate information obtained during the audit process in our continuing effort to educate agencies regarding both the need for internal controls and the risks of not having adequate internal controls in place.

Chapter 647 Awareness Letter from the State Auditor and the State Comptroller

To assist departments with this effort, we provide the following support activities:

- ◆ The Office of the Comptroller offers departments free monthly training on internal controls. These classes are listed in the *OSC Training Bulletin*.
- ◆ The Office of the Comptroller provided a new document entitled the *Internal Control Guide for Managers* on the Office of the Comptroller's Web page:
<http://www.osc.state.ma.us/>. Part II of the guide will be available shortly and will replace the current *Internal Control Guide for Departments*, currently available on the Web.
- ◆ Upon request, the Office of the Comptroller provides assistance to departments in the process of redefining or reviewing their internal control plans.
- ◆ As part of the Statewide Single Audit, auditors will review and comment upon departments' internal control plans, risk assessments, and the reporting level of the Internal Control Officers.
- ◆ We have updated and automated the Internal Control Questionnaire (ICQ) for easier submission. These changes to the ICQ will enable OSA and OSC to evaluate department internal controls and monitor their progress.

Chapter 647 also requires that "all unaccounted for variances, losses, shortages, or thefts of funds or property be immediately reported to the Office of the State Auditor" (OSA). The OSA is required to determine the amount involved and the internal control weaknesses that contributed to or caused the condition, make recommendations for corrective action, and make referrals to appropriate law enforcement officials. In order to comply with this law instances must be reported on the *Report on Unaccounted for Variances, Losses, Shortages, or Thefts of Funds or Property* and be submitted to the OSA. Reporting forms can be obtained by contacting the Auditor's office, Room 1819, McCormack State Office Building, or Web Site:

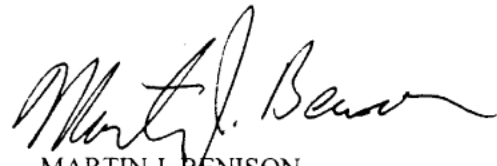
<http://www.magnet.state.ma.us/sao/>.

In conjunction with the above requirement, please note that management is responsible for financial records and systems and must inform, disclose and make representations to the auditors with regards to their management of funds, account activities, programs and systems.

The Offices of the State Comptroller and the State Auditor are committed to the goal of improving the Internal Control structure of the Commonwealth. Thank you for your cooperation and attention on this worthwhile task. Please do not hesitate to call upon the staff of either office for assistance.



A. JOSEPH DENUCCI
Auditor of the Commonwealth



MARTIN J. BENISON
State Comptroller