



Commonwealth of Massachusetts
Office of the State Auditor
Suzanne M. Bump

Making government work better

Official Audit Report – Issued March 6, 2015

Division of Insurance—Internal Control Questionnaire

For the period July 1, 2013 through June 30, 2014





Commonwealth of Massachusetts
Office of the State Auditor
Suzanne M. Bump

Making government work better

March 6, 2015

Gary D. Anderson, Acting Commissioner of Insurance
Division of Insurance
1000 Washington Street, Suite 810
Boston, MA 02118-6200

Dear Acting Commissioner Anderson:

I am pleased to provide this limited-scope performance audit of the Division of Insurance. This report details the audit objectives, scope, methodology, findings, and recommendations for the audit period, July 1, 2013 through June 30, 2014. My audit staff discussed the contents of this report with management of the agency, whose comments are reflected in this report.

I would also like to express my appreciation to the Division of Insurance for the cooperation and assistance provided to my staff during the audit.

Sincerely,

A handwritten signature in blue ink, appearing to read "SMB", written in a cursive style.

Suzanne M. Bump
Auditor of the Commonwealth

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LIST OF ABBREVIATIONS

| | |
|------|--|
| COSO | Committee of Sponsoring Organizations of the Treadway Commission |
| DOI | Division of Insurance |
| ERM | enterprise risk management |
| GAAP | generally accepted accounting principles |
| ICP | internal control plan |
| ICQ | Internal Control Questionnaire |
| NAIC | National Association of Insurance Commissioners |
| OSA | Office of the State Auditor |
| OSC | Office of the State Comptroller |

EXECUTIVE SUMMARY

Each year, the Office of the State Comptroller (OSC) issues a memorandum (Fiscal Year Update) to internal control officers, single audit liaisons, and chief fiscal officers instructing departments to complete an Internal Control Questionnaire (ICQ) designed to provide an indication of the effectiveness of the Commonwealth's internal controls. In the Representations section of the questionnaire, the department head, chief fiscal officer, and internal control officer confirm that the information entered in the questionnaire is accurate and approved.

In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, the Office of the State Auditor has conducted a limited-scope performance audit of certain information reported in the Division of Insurance's (DOI's) ICQ for the period July 1, 2013 through June 30, 2014. The objective of our audit was to determine whether certain responses provided by DOI to OSC in its fiscal year 2014 ICQ were accurate.

Below is a summary of our findings and recommendations, with links to each page listed.

| | |
|--|---|
| Finding 1 Page <u>7</u> | DOI's 2014 ICQ had inaccurate responses on the subjects of its internal control systems, internal control plan (ICP), and risk assessment, and it had no documentation to support its response about its capital-asset inventory. In addition, DOI did not certify the accuracy of the responses on its ICQ before submitting it to OSC. |
| Recommendation Page <u>11</u> | <ol style="list-style-type: none">1. DOI should take the measures necessary to address the issues we identified during our audit and should ensure that it adheres to all of OSC's requirements for developing an ICP and accurately reporting information about its ICP, capital-asset inventory, and department representations on its ICQ.2. If necessary, DOI should request guidance from OSC on these matters. |

OVERVIEW OF AUDITED ENTITY

The Division of Insurance (DOI), whose headquarters are located at 1000 Washington Street in Boston, was established in accordance with Chapter 26 of the Massachusetts General Laws and is one of five agencies operating under the Office of Consumer Affairs and Business Regulation. DOI is managed by a commissioner whose term in office is coterminous with that of the governor. DOI's mission is to regulate the Commonwealth's insurance industry and license Massachusetts insurance companies, producers, and brokers. DOI, which regulates all aspects of the insurance industry in the Commonwealth, annually licenses approximately 88 in-state and hundreds of out-of-state and international companies, business entities, and health management organizations and more than 100,000 insurance producers and brokers, whose licenses are renewed triennially. DOI monitors the financial solvency of Massachusetts licensed insurance companies and producers, reviews and approves rates and forms, and coordinates the takeover and liquidation of insolvent insurance companies and the rehabilitation of financially troubled companies. It also investigates and enforces state laws and regulations pertaining to insurance, responds to consumer inquiries and complaints, and provides the public with information regarding various types of insurance through its website and assorted publications.

DOI regulates the Massachusetts marketplace with a staff of approximately 118 professionals, including auditors, insurance examiners, accountants, attorneys, and support personnel. DOI had a fiscal year 2014 budget of \$14,182,000, which was fully funded by assessments on the insurance industry.

AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY

In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, the Office of the State Auditor (OSA) has conducted a limited-scope performance audit of certain information reported in the Division of Insurance's (DOI's) Internal Control Questionnaire (ICQ)¹ for the period July 1, 2013 through June 30, 2014. In certain circumstances, we expanded the period of our audit to obtain quality assurance reviews conducted by the Office of the State Comptroller (OSC) before July 1, 2013, solely to review any noncompliance issues reported concerning the preparation, development, and updating of departmental internal control plans (ICPs) in accordance with OSC guidelines.

We conducted this limited-scope performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The overall objective of our audit was to determine whether DOI accurately reported certain information about its overall internal control system to OSC in its 2014 ICQ. Accordingly, our audit focused solely on reviewing and corroborating DOI's responses to specific questions pertaining to ICQ sections that we determined to be significant to the agency's overall internal control system. Below is a list of those areas, indicating the conclusion we reached regarding each objective and, if applicable, where each objective is discussed in this report.

| Objective | Conclusion |
|--|--|
| 1. In its 2014 ICQ, did DOI give accurate responses in the following areas? | |
| a. ICP | No; see Findings 1a, 1b, and 1c |
| b. capital-asset inventory, for both generally accepted accounting principles (GAAP) and non-GAAP assets | No; see Finding 1d |
| c. personally identifiable information | Yes |
| d. audits and findings (reporting variances, losses, shortages, or thefts of funds or property immediately to OSA; see Appendix A) | Yes |

1. Each year, OSC issues a memo (Fiscal Year Update) to internal control officers, single audit liaisons, and chief fiscal officers instructing departments to complete an Internal Control Questionnaire designed to provide an indication of the effectiveness of the Commonwealth's internal controls. In the Representations section of the questionnaire, the department head, chief financial officer, and internal control officer confirm that the information entered into the questionnaire is accurate and approved.

In the course of our audit, we also determined that DOI submitted the 2014 ICQ to OSC without certifying the accuracy of its responses in accordance with OSC instructions (Finding 1e).

Our analysis of the information in the ICQ was limited to determining whether agency documentation adequately supported selected responses submitted by DOI in its ICQ for the audit period and was not designed to detect all weaknesses in the agency's internal control system or all instances of inaccurate information reported by DOI in the ICQ. Further, our audit did not include tests of internal controls to determine their effectiveness as part of audit risk assessment procedures, because in our judgment, such testing was not significant within the context of our audit objectives or necessary to determine the accuracy and reliability of ICQ responses. Our understanding of internal controls and management activities at DOI was based on our interviews and document reviews. Our review was limited to what we considered appropriate when determining the cause of inaccurate ICQ responses.

In order to achieve our objectives, we performed the following audit procedures:

- We reviewed the instructions for completing the fiscal year 2014 ICQ distributed by OSC to all state departments (Appendix B).
- We reviewed the OSC Internal Control Guide, dated September 2007, to obtain an understanding of the requirements for preparing an ICP.
- We reviewed Chapter 93H, Section 3, of the General Laws, and Massachusetts Executive Order 504, to obtain an understanding of the requirements pertaining to the safeguarding and security of confidential and personal information and to providing notification of breaches to appropriate parties.
- We reviewed Chapter 93I of the General Laws to obtain an understanding of the requirements pertaining to the disposal and destruction of electronic and hardcopy data records.
- We interviewed the director of OSC's Quality Assurance Bureau to obtain an understanding of OSC's role in the ICQ process and to obtain and review any departmental quality assurance reviews² conducted by OSC for DOI.
- We interviewed DOI's Deputy Commissioner of Communications and Operations to gain an understanding of DOI's ICQ process and requested and obtained documentation to support the responses on its ICQ for the 12 questions we selected for review.

2. According to OSC, the primary objective of the quality assurance reviews is to validate (through examination of transactions, supporting referenced documentation, and query results) that internal controls provide reasonable assurance that Commonwealth departments adhere to Massachusetts state finance law and the policies and procedures issued by OSC. The quality assurance review encompasses the following areas: internal controls, security, employee and payroll status, and various accounting transactions. The internal control review determines whether the department has a readily available updated ICP.

- We interviewed DOI's Deputy Commissioner of Communications and Operations to ask whether DOI had any instances of variances, losses, shortages, or thefts of funds or property to determine compliance with Chapter 647 of the Acts of 1989's requirement of reporting to OSA.
- We reviewed the fiscal year 2014 ICQ and selected questions pertaining to (1) the ICP, (2) Chapter 647 requirements, (3) capital-asset inventory (GAAP and non-GAAP), and (4) personally identifiable information. We selected these areas using a risk-based approach and prior OSA reports that noted inconsistencies with departmental supporting documentation and agency ICQ responses submitted to OSC. Accordingly, we selected the following ICQ questions:
 - Does the department have an ICP that documents its internal control systems, procedures, and operating cycles, covering the objectives of all department activity?
 - Is the ICP based on the guidelines issued by OSC?
 - Has the department conducted an organization-wide risk assessment that includes the risk of fraud?
 - Has the department updated its ICP within the past year?
 - Does the department require that all instances of unaccounted-for variances, losses, shortages, or thefts of funds be immediately reported to OSA?
 - Does the department have singular tangible and/or intangible capital assets with a useful life of more than one year?
 - Does the department take an annual physical inventory of tangible and intangible capital assets, including additions, disposals, and assets no longer in service?
 - Are there procedures that encompass all phases of the inventory process—acquisition, recording, tagging, assignment/custody, monitoring, replacement, and disposal—as well as the assignment of the roles of responsibility to personnel?
 - Are information system and data security policies included as part of the department's internal controls?
 - Is the department in compliance with Chapter 93H, Section 3, of the General Laws, and Executive Order 504, regarding notification of data breaches?
 - Are stored personal data, both electronic and hardcopy, secured and properly disposed of in accordance with Chapter 93I of the General Laws and in compliance with the record-conservation requirements of the Secretary of State?
 - Are sensitive data, as defined in policy and the General Laws, secured and restricted to access for job-related purposes?

To determine whether the responses provided to OSC by DOI for the above 12 questions were accurate, we performed the following procedures:

- We requested and reviewed the DOI ICP to determine whether it complied with OSC requirements.
- We requested and reviewed any department-wide risk assessments conducted by DOI.
- We conducted interviews with DOI managers to determine the procedures used to prepare and update the ICP and conduct an annual capital-asset inventory.
- We requested and reviewed DOI's policies and procedures for personally identifiable information to determine whether policies were in place and addressed the provisions of (1) Chapter 93H, Section 3, of the General Laws, and Executive Order 504, regarding notification of data breaches and (2) Chapter 93I of the General Laws regarding storing electronic and hardcopy personal data.
- We requested documentation for the last annual inventory conducted by DOI.
- We requested and reviewed all documentation available to support DOI's certification of the accuracy of its responses on the fiscal year 2014 ICQ.

In addition, we assessed the data reliability of OSC's PartnerNet, the electronic data source used for our analysis, by extracting copies of the ICQ using our secured system access and comparing their data to the ICQ data on the source-copy ICQ on file at DOI during our subsequent interviews with management. ICQ questions are answered entirely with a "Yes," "No," or "N/A" checkmark. By tracing the extracted data to the source documents, we determined that the information was accurate, complete, and sufficiently reliable for the purposes of this audit.

DETAILED AUDIT FINDINGS WITH AUDITEE'S RESPONSE

1. Information reported regarding internal controls was inaccurate or unsupported by documentation.

Some of the information that the Division of Insurance (DOI) reported in its Internal Control Questionnaire (ICQ) to the Office of the State Comptroller (OSC) for fiscal year 2014 was inaccurate or not supported by documentation. Specifically, although DOI indicated that it was in compliance with OSC guidelines in all of the areas we reviewed, its internal control plan (ICP) had not fully documented internal control systems, procedures, and operating cycles covering the objectives of all department activity; its ICP was not based on guidelines issued by OSC; it could not document that it had conducted an organization-wide risk assessment that included fraud; and it could not document that it had performed an annual physical inventory of its capital assets. In addition, DOI had not certified that the representations reported to OSC in this ICQ were accurate and complete.

Without establishing an ICP in accordance with OSC guidelines, DOI may not be able to achieve its mission and objectives effectively; efficiently; and in compliance with applicable laws, rules, and regulations. Further, inaccurate information in the ICQ prevents OSC from effectively assessing the adequacy of DOI's internal control system for the purposes of financial reporting. Finally, without performing and documenting an annual physical inventory, DOI is not ensuring that its capital assets are properly safeguarded against loss, theft, or misuse and that its inventory records are complete and accurate.

The problems we found are detailed in the sections below.

a. DOI's response was inaccurate with regard to whether its ICP documented internal control systems, procedures, and operating cycles covering the objectives of all department activity.

In the Internal Control Plans section of the fiscal year 2014 ICQ, departments were asked "Does the department have an internal control plan that documents its internal control systems, procedures and operating cycles, covering the objectives of all department activity?" In response to this question, DOI answered "yes," but our analysis of DOI's ICP indicated that it did not fully document the internal control systems, procedures, and operating cycles of all DOI's departmental activities. Instead, the department's ICP was limited to administrative and fiscal activities and did not include

its operational departments (the Board of Appeals, Consumer Services Section, Financial Examination Department, Financial Surveillance Section, Company Licensing Section, Legal Division, Market Conduct Section, Producer Licensing Department, Special Investigations Unit, and State Rating Bureau).

b. DOI's response regarding whether its ICP was based on guidelines issued by OSC was inaccurate.

In the Internal Control Plans section of the fiscal year 2014 ICQ, departments were asked, "Is the internal control plan based on guidelines issued by the Comptroller's Office?" In its ICQ, DOI answered "yes," but DOI's ICP was not fully compliant with the guidelines in OSC's Internal Control Guide. Contrary to OSC guidelines, DOI's ICP did not consider the following three of the eight components of enterprise risk management (ERM): Objective Setting, Event Identification, and Risk Assessment. In addition, as noted in the other sections of this report, DOI did not meet OSC guidelines in several of the areas reviewed.

c. DOI's response regarding whether it had conducted an organization-wide risk assessment including the risk of fraud was inaccurate.

In the Internal Control Plans section of the fiscal year 2014 ICQ, departments were asked, "Has the Department conducted an organization-wide risk assessment that includes the consideration of fraud?" In its ICQ, DOI answered "yes," but DOI had not conducted an organization-wide risk assessment that included the consideration of fraud.

d. DOI's response regarding whether it had taken an annual physical inventory of capital assets was not supported by documentation.

In the Capital Assets Inventory section of the fiscal year 2014 ICQ, departments were asked, "Does the Department take an annual physical inventory of tangible and/or intangible capital assets including additions, disposals and assets no longer in service?" In its ICQ, DOI answered "yes," but during our audit DOI could not provide us with documentation to support its assertion that it had conducted an annual physical inventory of capital assets during fiscal year 2014.

e. DOI submitted its 2014 ICQ without certifying the accuracy of its responses as required by OSC instructions.

Contrary to OSC guidance, DOI's department head, chief fiscal officer, and internal control officer did not certify that they had read and approved each statement presented on the ICQ. If this step is not conducted, there is no assurance that DOI's management has reviewed the ICQ and ensured that the information that the agency is providing to OSC is complete and accurate.

Authoritative Guidance

The ICQ is a document designed by OSC that is sent to departments each year requesting information and department representations on their internal controls over 12 areas: management oversight, accounting system controls, budget controls, revenue, procurement and contract management, invoices and payments, payroll and personnel, investments held by the Commonwealth, material and supply inventory, capital-asset inventory, federal funds, and information-technology security and personal data. The department head, chief fiscal officer, and internal control officer of each department must certify the responses provided in the Representations section of the ICQ. The purpose of the ICQ is to provide an indication of the effectiveness of the Commonwealth's internal controls. External auditors use department ICP and ICQ responses, along with other procedures, to render an opinion on the internal controls of the Commonwealth as a whole.

In its document *Enterprise Risk Management—Integrated Framework*, or *COSO II*, the Committee of Sponsoring Organizations of the Treadway Commission (COSO) defines ERM as “a process, effected by the entity's board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage the risks to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives.” For an ICP to be compliant with OSC internal control guidelines, the ICP must contain information on the eight components of ERM: Internal Environment, Objective Setting, Event Identification, Risk Assessment, Risk Response, Control Activities, Information and Communication, and Monitoring. COSO guidance states that all components of an internal control system must be present and functioning properly and operating together in an integrated manner in order to be effective. In addition, OSC's Internal Control Guide requires ICPs to include a risk assessment. Lastly, DOI should update its ICP as often as changes in management, level of risk, program scope, and other conditions warrant but at least annually.

Reasons for Inaccurate or Unsupported Information

DOI officials told us that the department's 2014 ICQ was prepared in consultation with its executive office (i.e., the Office of Consumer Affairs and Business Regulations) using instructions provided by DOI's former First Deputy Commissioner, who left DOI in July 2013, and using the prior year's ICQ as a basis for making changes where they were considered necessary. DOI's Deputy Commissioner stated that the agency was unaware of the requirement that each department's ICP include all eight components of ERM.

The Deputy Commissioner stated that DOI does not produce an entity-wide risk assessment that includes the risk of fraud, but instead relies on regular accreditation reviews conducted by the National Association of Insurance Commissioners (NAIC) as full assurance that all operating departments' risks are identified and mitigated. The Deputy Commissioner further advised us that DOI management's opinion, including that of the then-current Commissioner, was that the current ICP, combined with the NAIC peer reviews, provided an effective ICP that met OSC requirements. Our examination of NAIC documentation provided by DOI determined that while the accreditation process relates to risks in some of DOI's operational activities, it does not constitute an organization-wide risk assessment, does not present that information in manner consistent with the ERM framework required by OSC, and does not include a fraud risk assessment.

DOI management also informed us that the department monitors its internal control systems at management meetings throughout the year, but could not produce any agendas, memorandums, meeting minutes, or other documentation to substantiate this monitoring activity. The Deputy Commissioner stated that DOI did not have the resources necessary to produce an entity-wide risk assessment that included the risk of fraud.

The Deputy Commissioner stated that DOI's current annual practice was to overwrite the previous fiscal year's inventory on the inventory spreadsheet used to record its non-generally accepted accounting principles inventory. She further stated that no supervisory reviews or approvals were applied to the annual inventory and that the DOI employee conducting the inventory e-mailed the Deputy Commissioner to confirm that the annual inventory was completed, but DOI could not provide us with a confirmation e-mail from earlier than 2012. In addition, DOI did not have written policies and procedures for conducting an annual physical inventory.

The Deputy Commissioner stated that she did not receive the OSC memorandum and was not aware of the requirement that the department head, chief fiscal officer, and internal control officer sign the ICQ to confirm its accuracy.

Recommendation

1. DOI should take the measures necessary to address the issues we identified during our audit and should ensure that it adheres to all of OSC's requirements for developing an ICP and accurately reporting information about its ICP, capital-asset inventory, and department representations on its ICQ.
2. If necessary, DOI should request guidance from OSC on these matters.

Auditee's Response

The Division has made every effort to respond to the annual ICQ accurately, within the limitations of the questionnaire design. As discussed in the exit meeting with the audit team, the Division indicated that, unlike other questionnaires which the Division completes, such as the annual EO504 examination, the ICQ only allows "yes" and "no" responses, when often a "not applicable" or "not always" response would be the accurate reply. Moreover, there is no space allowed for explanatory notes, which are often required to elaborate when neither "yes" or "no" is fully responsive.

Although DOI has made good faith efforts to satisfy OSC's requirements for its ICP, risk assessment, and annual capital asset inventory, DOI acknowledges that it has not maintained sufficient records to support its efforts of complying with OSC's requirements but will do so in the future. . . .

The Division fully recognizes the importance of an enterprise-wide approach to risk assessment, and in fact takes such an approach in preparation for its regular accreditation by the National Association of Insurance Commissioners (NAIC). The Division has asserted to the audit team that its current ICP, which focuses on risk of fraud in day-to-day administrative operations, in combination with its regular, formal accreditation examination by the NAIC, which considers the risk of fraud and many other important controls in the Division's regulatory assignments, were sufficiently broad to meet the OSC's expectations.

Nonetheless, utilizing the guidance provided by the audit team, the Division will update its ICP to integrate these two undertakings so that the ICP as a stand-alone document provides an enterprise-wide view as mandated by OSC. In anticipation of this project, discussion is underway about creating a multi-unit working group of Division managers and senior managers to ensure that the analysis of internal controls and fraud risk incorporates all aspects of its operations. In addition, the Division will participate in training offered by the OSC to ensure that it is fully prepared to update its ICP to OSC standards.

With regard to the Division's capital asset inventory system, we appreciate the audit team's identification of problems with the current system utilized by the Division. This current system

operates in real time and was not relied upon to produce a report documenting the specific capital inventory on the last day of each fiscal year. The absence of this report was rightly of concern to the audit team, and the Division has already met with IT staff to address this matter. An updated system incorporating the audit team's suggestions will be implemented for the FY '15 inventory, including the creation of a written policy for conducting the inventory.

APPENDIX A

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

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 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 insure 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 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 weakness 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.

APPENDIX B

Office of the State Comptroller's Memorandum Internal Control Questionnaire and Department Representation



Martin J. Benison
Comptroller

Commonwealth of Massachusetts
Office of the Comptroller
One Ashburton Place, Room 901
Boston, Massachusetts 02108

Phone (617) 727-5000
Fax (617) 727-2163
Internet <http://www.mass.gov/osc>

Memorandum

To: Department Heads, Internal Control Officers, and Chief Fiscal Officers
From: Martin J. Benison, Comptroller
Date: April 22, 2014
Re: Internal Control Questionnaire and Department Representations: Due May 12, 2014

Comptroller Memo # FY2014-23

Executive Summary

This memo announces the FY2014 *Internal Control Questionnaire* (ICQ). The ICQ application is located on our intranet site, [Comptroller Intranet](#), under PartnerNet. See the attached *Instructions for Completing the FY2014 Internal Control Questionnaire* for details. Departments should complete the ICQ on or before May 12, 2014. Auditors, and staff from the Comptroller's Quality Assurance Bureau review ICQ responses and may contact departments to follow up on specific answers. Department management is responsible for implementing and maintaining effective internal controls based on prescribed statutes, regulations and policies. The ICQ's Representations Section confirms this for the Commonwealth.

The user must first enter PartnerNet to access the ICQ for both data entry and review. Chief Fiscal Officers, (CFOs) Single Audit Liaisons and Internal Control Officers (ICOs) already have access to both PartnerNet and the ICQ. Once these users log on to PartnerNet, they will be presented with a link to the ICQ application. Department Security Officers can request access for additional users by submitting a [PartnerNet Security Request Form](#).

The ICO, the Single Audit Liaison, and the CFO should work closely with senior management to identify appropriate staff for providing responses to every section of the ICQ. Please collect and review all responses, then enter them into the ICQ application no later than May 12, 2014. **Instructions on completing and submitting the ICQ are attached.**

The ICQ is designed to provide an indication of the effectiveness of the Commonwealth's internal controls. During the Single Audit, auditors from KPMG, as well as Comptroller staff will review the internal controls of several departments in more depth. They will also visit departments to follow-up on prior year findings, review compliance with federal and state regulations, test selected transactions, and review cash and encumbrances. The auditors use department internal control plans and ICQ responses, along with other procedures, to render an opinion on the internal controls of the Commonwealth as a whole.

Departments Using Centralized Business Units

Some departments use centralized business units to perform functions for multiple departments such as human resources, payroll, accounting, and procurement. These departments should answer the questions as if they used a contractor to perform these functions. In the comments field of each relevant section, briefly describe the arrangement.

Representations

The last section of the questionnaire is the department's certification of the accuracy of responses.

The Department Head, CFO, and ICO must read and approve each statement. Then, enter the approvers' names, official titles, and approval dates. Finally, print this section, have each person sign and date it, and keep the signed copy on file as your department's certification of the representations.

Internal controls are critical in creating an environment that is accountable to the public, while being responsive to the needs and direction of senior management. The Internal Control Act, Chapter 647 of the Acts of 1989, mandates that each department document its internal controls in accordance with guidelines established by the Office of the Comptroller – see: [Internal Control Guide](#).

The completed ICQ is due on or before **May 12, 2014**. Staff should plan to provide a copy to any auditors who visit your agency as part of the Commonwealth's Single Audit. If you have any questions, contact the Comptroller's Help Line at (617) 973-2468. Thank you in advance for your time and cooperation.

Attachments: Instructions for Completion

cc: Single Audit Liaisons,
MMARS Liaisons
Payroll Directors
General Counsels
Internal Distribution

Instructions for Completing the FY2014 Internal Control Questionnaire

The Office of the Comptroller (CTR) collects Internal Control Questionnaire (ICQ) data electronically. Please submit the completed questionnaire no later than **May 12, 2014**. Each section includes an area for optional comments at the end. The *Comments* blocks accept up to 500 characters.

ACCESS

1. The questionnaire is accessed through PartnerNet.
2. From the CTR portal, click on the [Comptroller Intranet](#) button. [PartnerNet](#) is the 3rd selection under "Applications." Select the link to access the PartnerNet login screen.
3. Log in to PartnerNet using your Commonwealth UAID and your password (if you do not have or do not know your UAID or your password, contact your department security officer for assistance).
4. If this is your first time in PartnerNet, you will be presented with the requirement of creating your own password. After successfully changing your password, the My Home link will be available. If you are already a PartnerNet user, the login procedure will have presented you with the My Home application page.
5. Once at the *My Home* page, test the *ICQ* link under the Applications heading. If nothing happens, review the error bar across the top of your screen, "*Pop-up blocked.*" You can set your browser to "*Always Allow Pop-ups from This Site*" by clicking the error bar, and selecting the "Allow" option (you need do this only on the first visit). Click the link to the ICQ application again.
6. Step 5 will bring you to your department's 2014 ICQ selection screen. Maximize your browser window.
7. Choose Fiscal Year: 2014 with the *Select* button.
8. If the text displayed does not wrap properly and you are using an Internet Explorer browser, select the Tools button on the toolbar and select "Compatibility View."
9. Data from our files was entered for the first five items of the Department Information Section. Please enter or correct information where necessary. Then continue with the rest of the questionnaire.
10. To view last year's ICQ responses, click the *Printing and Status* link located on the Top Menu Bar. A link to the 2013 ICQ is found under the heading: **Archived**.

COMPLETING QUESTIONS AND SAVING YOUR WORK. Each department must answer all questions applicable to its operations. To save a partially completed ICQ, click on the *Save and Proceed* button located at the end of each section. This will save your work and bring you directly to the following section. After your work is saved, click on the red *Exit* button located at the top of each section.

The section menu on the left navigation panel allows you to navigate between sections. However, each section must be saved (*Save and Proceed* button) before exiting or the information will be lost.

Save frequently. If you have not "saved" or otherwise interacted with the system for **three minutes**, the system will log you out. **If you did not "save" data entered before being logged out, you will lose that information.**

PRINT. After logging in, users may find it useful to print the questionnaire and distribute sections to the appropriate business area managers. Each section can be printed separately using the *Printing and Status* link (located at the top-right of the masthead). *Printing and Status* will now display the response options and check boxes. Select the *Print all Topics* checkbox to print the entire document.

STATUS. The Printing and Status page will also display the ICQ status (Complete/Incomplete) and the last user's ID.

SECTIONS OR QUESTIONS THAT DO NOT APPLY TO YOU. Not all sections or questions apply to all departments. Please do not skip a section. Enter "No" or "Not Applicable" to the first question of the section. For example: *Does the department receive or manage any federal funds?* Selecting "No" will inactivate all related questions in this section. Simply go to the next available question to continue the questionnaire. If you discover that you inactivated questions by mistake, changing the original response from "No" to "Yes" will activate all related questions.

REPRESENTATIONS. The Representations Section operates differently than other ICQ Sections. In this section, the Department Head, CFO, and Internal Control Officer confirm that the information entered into the questionnaire is accurate and approve the representations listed. After they have reviewed the representations, enter their names, official titles, and the approval dates in the appropriate fields. Print this section, have each approver sign it, and file it as your department's certification of the representations. **Do not select *Save and Submit* until you have completed the entire questionnaire, including the representations by the Department Head, CFO and Internal Control Officer.**

SUBMIT TO THE OFFICE OF THE COMPTROLLER.

When the ICQ is complete, select *Save and Submit* and click the *Done* button.

Your ICQ will not *Submit* if certain required responses are missing. These will be displayed in the navigation panel on the left. Complete the remaining questions and submit again.

After the ICQ is successfully submitted, the questionnaire will be stored in the Comptroller's ICQ database. Once submitted, your department will no longer be able to change the document. If you have accidentally or prematurely submitted the questionnaire and need to make corrections, contact the Comptroller's Help Line (617 973-2468) to unlock your questionnaire. *Save and Submit* the completed ICQ no later than May 12, 2014.