



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

Making government work better

Official Audit Report – Issued June 23, 2015

Division of Standards—Examination of Annual 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

June 23, 2015

Charles H. Carroll, Director
Division of Standards
One Ashburton Place, Room 1115
Boston, MA 02108

Dear Director Carroll:

I am pleased to provide this limited-scope performance audit of the Division of Standards. 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 Standards 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
DOS	Division of Standards
ERM	enterprise risk management
GAAP	generally accepted accounting principles
ICP	internal control plan
ICQ	Internal Control Questionnaire
MMARS	Massachusetts Management Accounting and Reporting System
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 Standards' (DOS's) ICQ for the period July 1, 2013 through June 30, 2014. The objective of our audit was to determine whether certain responses that DOS provided 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 7	DOS's 2014 ICQ had inaccurate responses on the subjects of its internal control plan (ICP), risk assessment, and capital asset inventory. In addition, DOS did not certify the accuracy of the responses on its ICQ before submitting it to OSC.
Recommendations Page 11	<ol style="list-style-type: none">1. DOS should take the measures necessary to address the issues we identified during our audit and should ensure that it adheres to all OSC's requirements for developing an ICP and accurately reporting information about its ICP and capital-asset inventory. It should also retain a printed, approver-signed copy of its certification of its ICQ representations.2. If necessary, DOS should request guidance from OSC on these matters.

OVERVIEW OF AUDITED ENTITY

The Division of Standards (DOS) was established under Chapter 24A, Section 5, of the Massachusetts General Laws as part of the Office of Consumer Affairs and Business Regulation. DOS is responsible for enforcing standards for weighing and measuring devices used in the sale of items such as food and fuels. It also regulates the sale of gasoline and sets standards for lubricating oils, antifreeze, and other items and practices; tests and approves coin-operated devices; licenses auctioneers, transient vendors, and others; registers car-repair shops; inspects price scanners in retail stores and tests them for accuracy; offers training for officials; enforces item-pricing laws and regulations; and oversees grants for enforcing price and scanner requirements. In order to fulfill its responsibilities, DOS has promulgated regulations under Title 202 of the Code of Massachusetts Regulations.

During our audit period, DOS had a staff of approximately 22 employees. The division had a fiscal year 2014 budget of \$953,806, consisting of a \$793,434 maintenance appropriation and a \$160,372 appropriation for item-pricing inspections. DOS is located at One Ashburton Place in Boston.

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 Standards' (DOS'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 obtain and review the latest internal control plan (ICP) and to review any noncompliance issues reported concerning the preparation, development, and updating of departmental 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 DOS 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 DOS'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 the relevant areas, indicating the conclusion we reached regarding each area and, if applicable, where each one is discussed in this report.

Objective	Conclusion
1. In its 2014 ICQ, did DOS give accurate responses in the following areas?	
a. ICP	No; see Findings 1a and 1b
b. capital-asset inventory, for both generally accepted accounting principles (GAAP) and non-GAAP assets	No; see Findings 1c and 1d

1. Each year, 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 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 into the questionnaire is accurate and approved.

Objective	Conclusion
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

In the course of our audit, we also determined that DOS 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 DOS 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 DOS 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 DOS 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.

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- 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 DOS.
 - We interviewed the director of DOS to gain an understanding of DOS's ICQ process and requested and obtained documentation to support the responses on its ICQ for the 12 questions we selected for review.
 - We interviewed DOS's director to ask whether DOS 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?

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.

-
- 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 that DOS provided to OSC for the above 12 questions were accurate, we performed the following procedures:

- We requested and reviewed the DOS ICP to determine whether it complied with OSC requirements.
- We requested and reviewed any department-wide risk assessments conducted by DOS.
- We conducted interviews with DOS's director and two of its program managers to determine the procedures used to prepare and update the ICP and conduct an annual capital-asset inventory.
- We requested and reviewed DOS'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 DOS.
- We requested and reviewed all documentation available to support DOS'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 DOS 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 Standards (DOS) 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 DOS indicated that it was in compliance with OSC guidelines in all of the areas we reviewed, its internal control plan (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; it had not updated its ICP within the past year; it had not performed an annual physical inventory of its capital assets; and it did not have procedures encompassing all phases of the inventory process. In addition, DOS had not certified that the representations reported to OSC in this ICQ were accurate and complete.

Without an updated ICP in accordance with OSC guidelines, DOS may not be able to achieve its mission and objectives effectively; efficiently; and in compliance with applicable laws, rules, and regulations. In addition, inaccurate information in the ICQ prevents OSC from effectively assessing the adequacy of DOS's internal control system for the purposes of financial reporting. Further, without performing and documenting an annual physical inventory, DOS is not ensuring that its capital assets are properly safeguarded against loss, theft, or misuse and that its inventory records are complete and accurate. Lastly, without properly certifying the accuracy of the ICQ, DOS cannot provide assurance that its management has reviewed the ICQ and ensured that the information that the agency is providing to OSC is complete and accurate.

The problems we found are detailed in the sections below.

a. Contrary to what its ICQ indicated, DOS's ICP was not based on guidelines issued by OSC.

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, DOS answered "yes," but its most recent ICP, dated September 2014, was not fully compliant with the guidelines established in OSC's Internal Control Guide. Specifically, DOS did not adequately identify

two of the eight components of enterprise risk management (ERM)—Internal Environment and Risk Assessment—in its ICP.

b. Contrary to what its ICQ indicated, DOS had not conducted an organization-wide risk assessment including the risk of fraud.

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, DOS answered “yes,” but DOS could not document that the risks contained in the ICP were identified as a result of conducting an organization-wide risk assessment. Furthermore, for the risks mentioned in the ICP, there was no documentation that the risk of fraud had been considered.

c. Contrary to what its ICQ indicated, DOS had not taken an annual physical inventory of capital assets.

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, DOS answered “yes,” but it had not conducted annual physical inventories of its tangible and intangible capital assets that included additions, disposals, and assets no longer in service. Moreover, although they were outside our audit period, we noted that in its ICQs for fiscal years 2011, 2012, and 2013, DOS answered “yes” to this question despite not having conducted annual physical inventories.

d. Contrary to what its ICQ indicated, DOS did not have procedures encompassing all phases of the inventory process.

In the Capital Assets Inventory (GAAP and Non-GAAP) section of the fiscal year 2014 ICQ, departments were asked, “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?” In its ICQ, DOS answered “yes,” but DOS had not established and implemented formal written policies and procedures for managing its capital-asset inventory. Though it was outside our audit period, we noted that DOS also responded “yes” to this question in fiscal year 2013, the first year the question was included in the ICQ.

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

The ICQ was not signed by DOS's department head (who is also its internal control officer) and chief fiscal officer to indicate that they had read and approved each statement presented on the ICQ.

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 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 be based on an organization-wide risk assessment. Lastly, DOS 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

The director of DOS acknowledged that limited staff and legislatively mandated reporting requirements had taken priority over updating the ICP. He agreed that the ICP was not consistent with OSC's guidelines and did not take into consideration all of the eight components of ERM.

The director said he believed a formal agency-wide risk assessment and up-to-date ICP were not necessary given the small size of his agency. He further stated that though he carried out informal discussions regarding risks and fraud with program managers throughout the year, these discussions were not documented.

The director confirmed that annual physical inventories of DOS's generally accepted accounting principles (GAAP) and non-GAAP capital assets were not performed because equipment was continually used, inspected, and calibrated by DOS personnel and any equipment losses would quickly be evident to management. He further stated that DOS performed periodic inventories that would be an adequate substitute for an annual physical inventory. However, DOS did not document the periodic inventories. In addition, we learned in an interview with the newly appointed program director that DOS did not provide training on conducting annual physical inventories or on related policies and procedures.

The director concurred that DOS did not have written policies and procedures encompassing all phases of an inventory process (acquisition, recording, tagging, assignment/custody, monitoring, replacement, and disposal, as well as the assignment of the roles of responsibility to personnel). The director further stated that formal documentation of the inventory process was not necessary because it was a small agency and his staff was sufficiently familiar with the equipment to recognize whether any was missing. He stated that he was unaware that inventory procedures had to be documented and said his staff would begin developing these procedures.

The director stated that the division was not aware of the Representations section of the OSC 2014 ICQ instructions, dated April 22, 2014 (Appendix B), which require that the final ICQ be printed, signed, and filed before it is electronically submitted to OSC, as documentation that all parties who are required to do so have reviewed and approved every response.

Recommendations

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

Auditee's Response

1. *Contrary to the audit findings annual physical inventory of capital assets was taken by DOS during the fiscal year but not in June. However, the physical inventory of capital assets will now be taken on or about June 30th annually as required in the OSC guidelines and that time frame will be reflected in the updated DOS ICP. . . .*
2. *All phases of the inventory process will be enumerated in the updated DOS ICP in accordance with OSC guidelines.*
3. *Contrary to the "draft" findings regarding risk assessment . . . The DOS has continually monitored and instituted formal controls pertaining to all revenue accounts including receivables and disbursements which is overseen and reconciled by the [Office of Consumer Affairs and Business Regulation's Administrative Services Unit] to ensure that all revenue is properly and accurately reported and accounted for. . . .*
4. *Contrary to the audit conclusions the information reported in the ICQ was accurate but some of the information was as stated in the "DRAFT" audit undocumented.*
5. *The 2014 DOS ICQ was submitted electronically as requested by the OSC and a copy as required was printed and retained by DOS. However, it was pointed out that the copy of the ICQ retained in the DOS file was not signed by the Department head as required by the OSC, a minor oversight. Upon being informed of this minor oversight the copy was immediately signed by the director as required by the OSC and placed back in the file.*

Auditor's Reply

We believe that the measures DOS is taking, as indicated in its reply, are responsive to some of our concerns. However, because DOS could not provide us with documentation that it had conducted an organization-wide risk assessment, there was no evidence to substantiate that DOS had identified, analyzed, and responded to risks related to achieving its mission.

With regard to DOS's claim that an annual physical inventory of capital assets was performed, we disagree. Throughout our fieldwork, management stated several times that it had not conducted an annual physical inventory of its capital assets. After we completed our fieldwork, we were presented with what purportedly was DOS's fiscal year 2014 capital-asset inventory. However, our review of the

physical inventory information showed that GAAP assets, motor vehicles used by compliance officers, and non-GAAP assets at the Boston office were not accounted for, and therefore the inventory was not accurate and complete. In addition, the list was not dated, and there was no indication that it had been approved or that the listed assets were verified and reconciled.

For these reasons, we again urge DOS management to implement our recommendations.

OTHER MATTERS

As of June 30, 2014, the capital-asset value reported in the Division of Standards' (DOS's) inventory database amounted to \$940,643, which included the value of two testing trucks: a GMC diesel engine weigh truck and a Ford F-350 gas testing truck, valued at \$100,000 and \$66,900, respectively. The Office of the State Comptroller, in its Fixed Assets Acquisition Policy (2006), requires departments to record assets described as vehicles, equipment, and furniture and all electrical and computer components with a value in excess of \$49,999 in the state's Massachusetts Management Accounting and Reporting System (MMARS) at acquisition. However, the Ford truck was not recorded in MMARS as part of DOS's generally accepted accounting principles (GAAP) inventory. Although this matter was outside the scope of this audit, we discussed this issue with the DOS director and the director of Accounting at the Executive Office of Consumer Affairs and Business Regulation, who manages fixed assets for DOS under a shared-services agreement. From that discussion, we determined that the Ford truck was not recorded as a fixed asset when DOS acquired it in 1996. The director of Accounting noted that the shared-services agreement did not include fixed assets in 1996. The DOS director stated that he would ensure that the truck was recorded in MMARS as a GAAP asset.

Auditee's Response

In its written response to our audit report, DOS commented on this matter as follows:

That oversight has now been corrected and the unit is now listed as a Capital Asset in accordance with the OSC reporting requirements.

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 Representations



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/csc>

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.