



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

Making government work better

Official Audit Report – Issued October 3, 2016

Massachusetts Cultural Council—Examination of Annual Internal Control Questionnaire For the period July 1, 2014 through June 30, 2015





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

Making government work better

October 3, 2016

Ms. Anita Walker, Executive Director
10 St. James Avenue, Third Floor
Boston, MA 02116

Dear Ms. Walker:

I am pleased to provide this performance audit of the Massachusetts Cultural Council. This report details the audit objectives, scope, methodology, findings, and recommendations for the audit period, July 1, 2014 through June 30, 2015. 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 Massachusetts Cultural Council for the cooperation and assistance provided to my staff during the audit.

Sincerely,

A handwritten signature in blue ink, appearing to read "SMBump".

Suzanne M. Bump
Auditor of the Commonwealth

TABLE OF CONTENTS

EXECUTIVE SUMMARY	1
OVERVIEW OF AUDITED ENTITY.....	2
AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY	3
DETAILED AUDIT FINDINGS WITH AUDITEE’S RESPONSE.....	7
1. Information reported regarding internal controls was inaccurate or unsupported by documentation.	7
a. Contrary to what its ICQ indicated, MCC’s ICP did not document the controls used to mitigate its risks.	8
b. Contrary to what its ICQ indicated, MCC’s ICP was not based on guidelines issued by OSC.	8
c. Contrary to what its ICQ indicated, MCC had not conducted an organization-wide risk assessment that included the consideration of fraud.	8
d. Contrary to what its ICQ indicated, MCC had not updated its ICP within the past year.	8
e. Contrary to what its ICQ indicated, MCC had not performed an annual physical inventory of capital assets.	9
f. MCC did not have documented procedures encompassing all phases of the inventory process.	9
g. MCC did not include information systems and data security policies in its internal controls.	9
h. MCC submitted its 2015 ICQ without certifying the accuracy of its responses as required by OSC instructions.	10
OTHER MATTERS	15
APPENDIX A	16
APPENDIX B	18

LIST OF ABBREVIATIONS

CFO	chief fiscal officer
COSO	Committee of Sponsoring Organizations of the Treadway Commission
ERM	enterprise risk management
GAAP	generally accepted accounting principles
ICP	internal control plan
ICQ	Internal Control Questionnaire
IT	information technology
MAGnet	Massachusetts Access to Government Network
MCC	Massachusetts Cultural Council
OSA	Office of the State Auditor
OSC	Office of the State Comptroller
PII	personally identifiable information

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 (CFOs) 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, CFO, and internal control officer confirm that the information entered on the questionnaire is accurate and approved.

In accordance with Section 12 of Chapter 11 of the Massachusetts General Laws, the Office of the State Auditor has conducted a performance audit of certain information reported on the Massachusetts Cultural Council's (MCC's) ICQ for the period July 1, 2014 through June 30, 2015. The objective of our audit was to determine whether certain responses that MCC provided to OSC on its fiscal year 2015 ICQ were accurate.

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

Finding 1 Page 7	MCC's 2015 ICQ had inaccurate responses on the subjects of its internal control plan (ICP), risk assessment, information system and data security, and capital-asset inventory. In addition, MCC did not certify the accuracy of the responses on its ICQ before submitting it to OSC.
Recommendations Page 12	<ol style="list-style-type: none">1. MCC 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, risk assessment, information system and data security, and capital-asset inventory on its ICQ. It should also review all ICQ questions for accuracy before completing the certification section and electronically submitting its ICQ to OSC.2. If necessary, MCC should request guidance from OSC on these matters.

OVERVIEW OF AUDITED ENTITY

The Massachusetts Cultural Council (MCC) was created by Section 15 of Chapter 653 of the Acts of 1989. This act added Section 52 to Chapter 10 of the Massachusetts General Laws, establishing MCC within the Office of the State Treasurer, but not making the council subject to that office's control.

According to its website,

The Massachusetts Cultural Council (MCC) is a state agency that promotes excellence, access, education, and diversity in the arts, humanities, and interpretive sciences to improve the quality of life for all Massachusetts residents and contribute to the economic vitality of our communities.

The Council pursues this mission through a combination of grant programs, partnerships, and services for nonprofit cultural organizations, schools, communities, and artists.

MCC is governed by the Massachusetts Cultural Council Board, which consists of 19 members appointed by the Governor. The board members serve staggered three-year terms. The Governor chooses a chair and vice chair from the members of the board. The board approves an annual program and a budget by majority vote. An executive director, appointed by the board, manages the agency's daily activities.

For fiscal year 2015, MCC had a budget of \$12,864,100 and had 25 full-time employees. It is located at 10 St. James Avenue in Boston.

AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY

In accordance with Section 12 of Chapter 11 of the Massachusetts General Laws, the Office of the State Auditor (OSA) has conducted a performance audit of certain information reported on the Massachusetts Cultural Council (MCC's) Internal Control Questionnaire (ICQ) for the period July 1, 2014 through June 30, 2015. Because of issues identified during our audit, we expanded our audit period to include ICQs submitted to the Office of the State Comptroller (OSC) before fiscal year 2015 solely to review, and report on, the accuracy of the responses concerning the areas of our audit for prior fiscal years.

We conducted this 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 MCC accurately reported certain information about its overall internal control system to OSC on its 2015 ICQ. Accordingly, our audit focused solely on reviewing and corroborating MCC'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 objective and, if applicable, where each objective is discussed in this report.

Objective	Conclusion
1. On its 2015 ICQ, did MCC give accurate responses in the following areas?	
a. internal control plan (ICP)	No; see Findings <u>1a</u> , <u>1b</u> , <u>1c</u> , and <u>1d</u>
b. capital-asset inventory, for both generally accepted accounting principles (GAAP) and non-GAAP assets	No; see Findings <u>1e</u> and <u>1f</u>
c. personally identifiable information (PII)	No; see Finding <u>1g</u>
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 MCC had submitted its 2015 ICQ to OSC without certifying the accuracy of its responses in accordance with OSC instructions (Finding 1h).

Our analysis of the information on the ICQ was limited to determining whether agency documentation adequately supported selected responses submitted by MCC on its ICQ for the audit period; it was not designed to detect all weaknesses in the agency's internal control system or all instances of inaccurate information reported by MCC on 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 MCC 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 2015 ICQ distributed by OSC to all state departments (Appendix B).
- We reviewed the September 2007 version of the OSC Internal Control Guide (the version effective during the audit period) to obtain an understanding of the requirements for preparing an ICP.
- We reviewed Section 3 of Chapter 93H of the General Laws 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 reviews¹ conducted by OSC for MCC.
- We interviewed MCC's deputy director and chief fiscal officer (CFO) to gain an understanding of MCC's ICQ process, and we requested and obtained documentation to support the responses on its ICQ for the 12 questions we selected for review.

1. 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 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 MCC's deputy director and CFO to ask whether MCC 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 2015 ICQ and selected questions pertaining to (1) the ICP, (2) Chapter 647 requirements, (3) capital-asset inventory (GAAP and non-GAAP), and (4) PII. 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 goals, objectives, risks, and controls used to mitigate those risks?
 - 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, transfers, 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 complying with Section 3 of Chapter 93H of the General Laws 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 Secretary of State's record-conservation requirements?
 - 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 MCC provided to OSC for the above 12 questions were accurate, we performed the following procedures:

- We requested and reviewed MCC's ICP to determine whether it complied with OSC requirements.
- We requested and reviewed any department-wide risk assessments conducted by MCC.
- We conducted interviews with the deputy director and CFO to determine the procedures used to prepare and update the ICP; conduct an annual capital-asset inventory; and, if applicable, report unaccounted-for variances, losses, shortages, or thefts of funds immediately to OSA.
- We requested and reviewed MCC's policies and procedures for PII to determine whether policies were in place and addressed the provisions of (1) Section 3 of Chapter 93H of the General Laws 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 physical inventory conducted by MCC.
- We requested and reviewed all documentation available to support MCC's certification of the accuracy of its responses on the fiscal year 2015 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 OSC's data to the ICQ data on the source-copy ICQ on file at MCC 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 Massachusetts Cultural Council (MCC) reported on its Internal Control Questionnaire (ICQ) to the Office of the State Comptroller (OSC) for fiscal year 2015 was inaccurate or not supported by documentation. Specifically, although MCC indicated that it was complying with OSC guidelines in all of the areas we reviewed, its internal control plan (ICP) did not document the controls used to mitigate its risks; its ICP was not based on guidelines issued by OSC; it had not conducted an organization-wide risk assessment that included the consideration of fraud; its ICP had not been updated within the past year; it had not documented an annual physical inventory of its capital assets; it did not have procedures encompassing all phases of the inventory process; and its internal controls did not include information system and data security policies. In addition, MCC had not certified that the representations on its ICQ were accurate and complete.

Without establishing an ICP in accordance with OSC guidelines and updating it at least once a year, MCC may not be able to achieve its mission and objectives effectively; efficiently; and in compliance with applicable laws, rules, and regulations. Without accurate information on the ICQ, OSC cannot effectively assess the adequacy of MCC's internal control system for the purposes of financial reporting. Without establishing formal inventory policies and procedures, and performing and documenting an annual physical inventory, MCC is not ensuring that its capital assets are properly safeguarded against loss, theft, and misuse and that its inventory records are complete and accurate. Without information system and data security policies, MCC cannot provide assurance that its information technology (IT) systems and database are properly secured against unauthorized access or modification to information. Finally, without properly certifying the accuracy of the ICQ, MCC 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, MCC's ICP did not document the controls used to mitigate its risks.

In the Internal Control Plans section of the fiscal year 2015 ICQ, departments were asked, "Does the Department have an internal control plan that documents its goals, objectives, risks, and controls used to mitigate those risks?" In response to this question, MCC answered "yes." However, our analysis showed that although its fiscal year 2011 ICP (the most recent one available) documented goals, objectives, and risks for MCC's administrative and operational activities, it did not document the control activities management had established through policies and procedures to mitigate risks, and it did not include IT operations as part of MCC's operational activities and controls.

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

In the Internal Control Plans section of the fiscal year 2015 ICQ, departments were asked, "Is the internal control plan based on guidelines issued by the Comptroller's Office?" On its ICQ, MCC answered "yes," but its ICP did not fully comply with OSC's Internal Control Guide. Specifically, it did not consider or adequately identify five of the eight components of enterprise risk management (ERM): control environment, risk assessment, risk response, control activities, and monitoring.

c. Contrary to what its ICQ indicated, MCC had not conducted an organization-wide risk assessment that included the consideration of fraud.

In the Internal Control Plans section of the fiscal year 2015 ICQ, departments were asked, "Has the Department conducted an organization-wide risk assessment that includes the consideration of fraud?" On its ICQ, MCC answered "yes," but we found that MCC had not conducted such an assessment for fiscal year 2015.

d. Contrary to what its ICQ indicated, MCC had not updated its ICP within the past year.

In the Internal Control Plans section of the fiscal year 2015 ICQ, departments were asked, "Has the department updated its internal control plan within the past year?" On its ICQ, MCC answered "yes," but we ascertained that its ICP had not been updated since 2011. Moreover, although they were outside our audit period, we noted that MCC answered "yes" to this question on its ICQs for fiscal years 2013 and 2014.

e. Contrary to what its ICQ indicated, MCC had not performed an annual physical inventory of capital assets.

In the Capital Assets Inventory section of the fiscal year 2015 ICQ, departments were asked, "Does the Department take an annual physical inventory of tangible and/or intangible capital assets including additions, transfers, disposals and assets no longer in service?" On its ICQ, MCC answered "yes," but during our audit, MCC disclosed that it had not conducted an annual physical inventory of capital assets in fiscal year 2015. MCC's generally accepted accounting principles (GAAP) assets consisted of office workstations valued at a total of \$143,767. MCC also provided us with an inventory list that included 18 non-GAAP assets with a total value of \$46,947 (\$41,031 of IT equipment and \$5,916 of office furnishings) and 549 items, each valued at less than \$1,000, with a total value of \$122,394 (\$41,098 of IT equipment and \$81,296 of office furnishings).

Further, although they were outside our audit period, we noted that MCC answered "yes" to this question on its ICQs for fiscal years 2013 and 2014.

f. MCC did not have documented procedures encompassing all phases of the inventory process.

In the Internal Control Plans section of the fiscal year 2015 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?" On its ICQ, MCC answered "yes," but during our audit, MCC could not provide us with documented procedures encompassing all phases of its inventory process. Further, although they were outside our audit period, we noted that MCC answered "yes" to this question on its ICQs for fiscal years 2013 and 2014.

g. MCC did not include information systems and data security policies in its internal controls.

In the Internal Control Plans section of the fiscal year 2015 ICQ, departments were asked, "Are information system and data security policies included as part of the department's internal controls?" On its ICQ, MCC answered "yes," but during our audit, we found that its internal controls did not include documented policies for those areas.

h. MCC submitted its 2015 ICQ without certifying the accuracy of its responses as required by OSC instructions.

Contrary to OSC guidance, MCC's department head, chief fiscal officer (CFO), 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 before MCC submits its ICQ to OSC, there is no assurance that MCC's management has reviewed the ICQ to ensure that the information MCC 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 IT security and personal data. The department head, CFO, and internal control officer of each department must certify the responses provided in the Representations section of the ICQ as required by OSC's Memorandum—Internal Control Questionnaire and Department Representations (Appendix B).² 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.” To comply with OSC internal control guidelines, an 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

2. Effective May 11, 2016, OSC has eliminated this requirement. Instead, for the fiscal year 2016 ICQ and future ICQs, each department will be required to indicate approval and submit the ICQ electronically after all questions are reviewed with the department head.

requires that an ICP be updated as often as changes in management, level of risk, program scope, and other conditions warrant, but at least annually.

OSC's Accounting and Management Policy and Fixed Assets—Acquisition Policy provide guidance on the proper recording of, and accounting for, capital assets and require an annual inventory of each department's fixed assets, both GAAP and non-GAAP.

The Massachusetts Office of Information Technology's (MassIT's) Enterprise IT Asset and Risk Management Policy requires all agencies to conduct an annual physical audit of IT assets and reconcile the audit with the IT asset inventory. Further, MassIT's Enterprise Information Security Policy requires agencies that operate on the Massachusetts Access to Government Network (MAGNet) to "adopt and document a comprehensive information security policy."

Reasons for Inaccurate or Unsupported Information

The deputy director stated that MCC was unable to complete its update of its 2011 ICP to include the ERM framework and an organization-wide risk assessment because of daily operational demands that cut short its collaboration with OSC to improve the ICP in 2013. He further stated that MCC had answered "yes" to the ICP questions because it believed the ICP revisions initiated with OSC were sufficient to warrant such an answer.

MCC's deputy director stated that MCC had not performed an annual physical inventory in fiscal year 2015 because its fiscal operations officer, who was responsible for the annual physical inventory, resigned near the end of the fiscal year and was not replaced in time for MCC to complete the inventory before the end of the fiscal year. He stated that he had answered "yes" on the ICQ at the May 29 submission deadline under the assumption that the new fiscal operations officer would complete the annual inventory by the end of the fiscal year (June 30).

The fiscal operations officer stated that MCC had an informal inventory process in place but had not formalized it in written procedures. The CFO stated that he answered "yes" to the related question under the assumption that MCC had documented capital-asset procedures.

MCC's information system specialist stated that he was not aware of MassIT's Enterprise Information Security Policy, which requires all agencies connected to MAGNet to adopt and document a comprehensive information security policy. The CFO told us he had assumed MCC's informal policies,

which are based on industry best practices, were sufficient to support a "yes" response on the ICQ question.

MCC's CFO stated that he was unaware of OSC's requirement that the department head, CFO, and internal control officer certify the responses on the ICQ by signing and dating the form and retaining a signed copy on file as confirmation of its accuracy.

Recommendations

1. MCC 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, risk assessment, information system and data security, and capital-asset inventory on its ICQ. It should also review all ICQ questions for accuracy before completing the certification section and electronically submitting its ICQ to OSC.
2. If necessary, MCC should request guidance from OSC on these matters.

Auditee's Response

The audit used the MCC's ICP from FY 2011 as the basis of its audit stating that this ICP was "the most recent one available." While this is technically correct, we did point out that MCC staff had worked with the staff of the Office of the State Comptroller (OSC) over a period of several months in 2013 to update its ICP and, as a result of those efforts, had developed a new draft which addressed many (though not all) of the issues subsequently raised in the audit. However, as we discussed, MCC never proceeded to fully finalize and implement this 2013 draft as its "official" ICP. When we received the notice of the audit this spring and reviewed the files we realized this and updated the draft and adopted it as our 2016 ICP. Over the years since 2013, we had based our yearly ICQs on this revised but not formally adopted 2013 draft of the ICP. We understand that this does not change any of the findings in the audit but we wish to note and explain our efforts in this regard.

Based on the findings listed in the draft of the audit, MCC is taking or will take the following steps.

1. *MCC is in the process of revising and updating its 2016 ICP based on the audit findings and will review OSC's 2015 Internal Control Guide and consult with OSC on appropriate updates and inclusions. Our plan would be to submit a revised ICP to OSC for its input and review this fall.*
2. *Specifically, MCC's revised ICP will document the controls it uses to mitigate risk and will specifically include information system and data security policies and include procedures encompassing all phases . . . of its inventory process and address all eight components of enterprise risk management.*

3. *MCC will seek guidance from OSC and conduct an organization-wide risk assessment that includes consideration of fraud. We plan to conduct and complete such assessment this fall.*
4. *MCC will formally set an annual schedule for updating its ICP. From here on out, the Fiscal Department will review the ICP at the end of each fiscal year (approximately one month after the ICQ is submitted), suggest changes and review with senior management. The MCC will then formally adopt a new plan for the next year by September. This new updated plan would be the basis of the next ICQ (which would be due the following May).*
5. *As MCC's longstanding inventory protocol did not meet the requirements as laid out by the OSC Asset Policies (an inventory was completed for FY15 per this non-compliant procedure and did not accurately document the capital assets correctly), MCC has thoroughly revised the inventory procedure to be in line with the OSC Asset Policies. In addition, upon review of a list of Capital Assets shared by the auditing team, it was discovered there were some items that should no longer be listed. MCC staff will review and adjust any incorrect data regarding Capital Assets . . . to prevent further confusion.*
6. *While MCC has used a consistent procedure for the inventory process in the past, this procedure was not completely in line with the expectations of the OSC and had not been officially documented or formally adopted by the MCC. Per the auditing team's observations, the MCC has developed a new, more thorough procedure, in line with all OSC Asset Policies. This new inventory procedure, encompassing all phases of the inventory process (acquisition, recording, tagging, assignment/custody, monitoring, replacement, disposal, roles of responsibility) will be documented in the MCC's revised ICP in order to ensure that all steps and stages of the inventory process are completed correctly.*
7. *As the audit noted that MCC's extensive non-GAAP inventory contains a number of items without purchase amounts, the MCC has (A) per OSC Asset Policies, removed many of these items from the inventory database for not meeting the requirements for tracking, and (B) for the remaining items, tracked down the original purchase price and updated them in the inventory list. We note that disposal information (date, reason for deaccession, etc.) is kept both digitally and physically, but this information was not included on the schedule we provided to the auditors. We will make sure we include disposition information appropriately on the inventory schedule in the future.*
8. *MCC will follow the new policy for submitting ICQs which should insure the proper certification and review by MCC management of the annual ICQ.*

MCC is a relatively small agency where staff often wears several "different hats." Historically, procedures have been informal and often not completely documented. We have a relatively few capital assets and a modest number of items in our inventory. However, regardless of our size, we recognize the requirements and the importance of Internal Control policy of the Commonwealth and we will act to fully comply with these policies, to adopt, follow and update an appropriate ICP and to accurately and appropriately submit our ICQs each year.

Auditor's Reply

Based on its response, we believe MCC is taking appropriate measures to address the issues we identified during our audit.

OTHER MATTERS

In addition to the findings in this report, we identified other control weaknesses with the Massachusetts Cultural Council (MCC) inventory list. Specifically, the list did not include the purchase date and disposal information for any items and did not include the purchase amount for 75 items. The Office of the State Comptroller's Fixed Assets—Acquisition Policy requires that all non-GAAP capital assets be recorded in departments' inventories and reconciled annually. Inventories can be either electronic or on paper, as long as they record the date of purchase, amount, description, location, and disposal of items.

As a result of these issues, MCC cannot be sure that all of its capital assets are properly accounted for and accurately reported.

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

The 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>

To: Department Heads, Internal Control Officers, and Chief Fiscal Officers

From: Martin J. Benison, Comptroller

Date: May 6, 2015

Re: Internal Control Questionnaire and Department Representations: Due May 29, 2015

Comptroller Memo # FY2015-25

Executive Summary

This memo announces the FY2015 *Internal Control Questionnaire* (ICQ). **The ICQ application is located on our intranet site, [Comptroller Intranet](#), under PartnerNet. See the attached *Instructions for Completing the FY2015 Internal Control Questionnaire for details.* Departments should complete the ICQ on or before May 29, 2015. 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 29, 2015. **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.

The Office of the State Auditor also refers to ICQ responses and Internal Control Plans when conducting their audits of state agencies.


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 29, 2015**. Staff should plan to provide a copy to any auditors or regulators, federal or state, who conduct a review of your agency. 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 FY2015 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 29, 2015**. 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 2015 ICQ selection screen. Maximize your browser window.
7. Choose Fiscal Year: 2015 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 2014 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 **five 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. The questionnaire can be printed from the *Printing and Status* page (the link is located at the top-right of the masthead). *Printing and Status* displays all of the responses for all sections of the ICQ. Select the **Print** button 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.

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 29, 2015**.