



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

Making government work better

Official Audit Report – Issued March 11, 2016

Office of the Governor—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

March 11, 2016

Governor Charles D. Baker
Office of the Governor
Room 280
Boston, MA 02133

Dear Governor Baker:

I am pleased to provide this limited-scope performance audit of the Office of the Governor. 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 office, whose comments are reflected in this report.

I would also like to express my appreciation to the Office of the Governor 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

CFO	chief fiscal officer
COSO	Committee of Sponsoring Organizations of the Treadway Commission
DO	director of operations
ERM	enterprise risk management
GAAP	generally accepted accounting principles
ICP	internal control plan
ICQ	Internal Control Questionnaire
OG	Office of the Governor
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 in 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 limited-scope performance audit of certain information reported in the Office of the Governor's (OG's) ICQ for the period July 1, 2014 through June 30, 2015. The objective of our audit was to determine whether certain responses provided by OG 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 8	OG's 2015 ICQ had inaccurate responses on the subjects of its internal control plan (ICP), risk assessment, and capital-asset inventory.
Recommendations Page 11	<ol style="list-style-type: none">OG 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, and capital-asset inventory on its ICQ.If necessary, OG should request guidance from OSC on these matters.

Post-Audit Action

OG has initiated several remedial actions in response to issues we identified during our audit. Specifically, OG has drafted a revised ICP to comply with OSC's 2015 Internal Control Guide and conducted a physical inventory of its tangible and intangible assets. Further, in addition to having demonstrated that it was complying with the requirements of Chapter 647 of the Acts of 1989, the office has formalized in writing its policies and procedures for ensuring compliance with this legislation. It has also developed an information-security program and policies on the use of information-technology resources to meet the requirements of Section 3 of Chapter 93H of the General Laws; Executive Order 504 regarding notification of data breaches; Chapter 93I regarding standards for the disposal of records containing personally

identifiable information; and, where applicable, the record-conservation requirements of the Secretary of State. The information-security program also includes the electronic-security plan and information-security policies for OG's staff. Finally, the office has appointed a new internal control officer and internal security officer to ensure that these revised policies and procedures are effectively applied and reviewed in the future.

OVERVIEW OF AUDITED ENTITY

The Office of the Governor (OG) was established in 1780 under Article 1, Section I, of Chapter II of the Constitution of the Commonwealth. It is administered by the Governor, who is the state's chief administrative officer, and the Lieutenant Governor. Both are elected by popular vote every four years. In addition to overseeing the administration of governmental operations, the Governor also has other duties and powers, such as making judicial appointments and other appointments, granting military commissions, working with the state's Legislature to establish an annual budget, and either supporting or vetoing legislation.

The Governor and Lieutenant Governor oversee a cabinet consisting of the Secretaries of Administration and Finance, Education, Energy and Environmental Affairs, Health and Human Services, Housing and Economic Development, Labor and Workforce Development, Public Safety and Security, and Transportation. Each Secretary is appointed by the Governor and is responsible for overseeing the activities of the executive departments and other agencies within his/her Secretariat.

OG had a fiscal year 2015 budget of \$6,404,390 and has approximately 55 employees. It is located at the State House 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 limited-scope performance audit of certain information reported in the Office of the Governor's (OG's) Internal Control Questionnaire (ICQ) for the period July 1, 2014 through June 30, 2015.¹ However, 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 July 1, 2014 solely to review, and report on, the accuracy of responses concerning the areas of our audit for prior fiscal years.

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 OG 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 OG'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 OG 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)	Yes
d. audits and findings (reporting variances, losses, shortages, or thefts of funds or property immediately to OSA; see Appendix A)	Yes

1. Two administrations were in place during the audit period: the Patrick administration from July 1, 2014 through January 7, 2015 and the Baker administration from January 8, 2015 through June 30, 2015.

Our analysis of the information on the ICQ was limited to determining whether agency documentation adequately supported selected responses submitted by OG 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 OG 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 OG 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, and Massachusetts Executive Order 504, to obtain an understanding of the requirements pertaining to the safeguarding and security of confidential and personal information and to providing notification of breaches to appropriate parties.
- We reviewed Chapter 93I of the General Laws to obtain an understanding of the requirements pertaining to the disposal and destruction of electronic and hardcopy data records.
- We interviewed the director of OSC's Quality Assurance Bureau to obtain an understanding of OSC's role in the ICQ process and to obtain and review any departmental quality assurance reviews² conducted by OSC for OG.
- We interviewed OG's director of operations (DO) and chief fiscal officer (CFO) to gain an understanding of OG's ICQ process, and we requested and obtained documentation to support the responses on its ICQ for the 12 questions we selected for review.

2. According to OSC, the primary objective of the quality assurance reviews is to validate (through examination of transactions, supporting referenced documentation, and query results) that internal controls provide reasonable assurance that Commonwealth departments adhere to Massachusetts 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 OG’s DO and CFO to ask whether OG 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, 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 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 OG provided to OSC for the above 12 questions were accurate, we performed the following procedures:

- We requested and reviewed OG’s ICP to determine whether it complied with OSC requirements.
- We requested and reviewed any department-wide risk assessments conducted by OG.
- We conducted interviews with OG’s DO and CFO to determine the procedures used to prepare and update the ICP and conduct an annual capital-asset inventory.
- We requested and reviewed OG’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, 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 physical inventory conducted by OG.
- We requested and reviewed all documentation available to support OG’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 their data to the ICQ data on the source-copy ICQ on file at OG 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 Office of the Governor (OG) 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 OG indicated that it was complying with OSC guidelines in all the areas we reviewed, its internal control plan (ICP) did not fully document its goals, objectives, risks, and controls used to mitigate those risks; its ICP was not based on guidelines issued by OSC; it had not conducted an organization-wide risk assessment that included fraud; it had not updated its ICP within the past year; it inaccurately stated that it did not own capital assets subject to OSC's Accounting and Management Policy and Fixed Assets—Acquisition Policy; it did not perform an annual physical inventory of its capital assets; and it did not have procedures encompassing all phases of the inventory process.

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

The problems we found are detailed in the sections below.

a. Contrary to what its ICQ indicated, OG's ICP did not document its goals, objectives, risks, and controls used to mitigate those 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, OG answered "yes," but its ICP did not document these items. Instead, the ICP was limited to a summary of the agency's administrative and fiscal

activities; it did not include OG's other operational departments, such as Communications, Constituent Services, and Legislative Affairs.

b. Contrary to what its ICQ indicated, OG'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, OG answered "yes," but its ICP did not fully comply with the guidelines in OSC's Internal Control Guide. The ICP did not consider, or adequately identify, the eight components of enterprise risk management (ERM): Internal Environment, Objective Setting, Event Identification, Risk Assessment, Risk Response, Control Activities, Information and Communication, and Monitoring.

c. Contrary to what its ICQ indicated, OG had not conducted an organization-wide risk assessment including the risk 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, OG answered "yes," but we found that it had not conducted an organization-wide risk assessment that identified potential risks concerning its financial, operational, and compliance activities or the risk of fraud. Developing a risk assessment is important because it enables management to focus its attention on the most important entity risks and to manage risks within defined tolerance thresholds.

d. Contrary to what its ICQ indicated, OG 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, OG answered "yes," but we found that it had not updated its plan since 2009. Further, although they were outside our audit period, we noted that OG answered "yes" to this question on its ICQs for fiscal years 2013 and 2014.

e. Contrary to what its ICQ indicated, OG had capital assets with a useful life of more than one year.

In the Capital Assets Inventory section of the fiscal year 2015 ICQ, departments were asked, "Does the Department have singular tangible and/or intangible capital assets with a useful life of more than one year?" On its ICQ, OG answered "no," but it did have such assets: 78 pieces of furniture, equipment, and accessories with a total cost of \$343,058 and two motor vehicles with a total cost of \$50,339. In addition, OG had 698 items (office furniture, equipment, and accessories) for which no value or cost was determined. Further, although they were outside our audit period, we noted that OG did correctly answer "yes" to this question on its ICQs for fiscal years 2013 and 2014.

f. Contrary to what its ICQ indicated, OG does not have 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, OG answered "yes," but during our audit, OG could not provide us with documentation of such procedures. Further, although they were outside our audit period, we noted that OG answered "yes" to this question on its ICQs for fiscal years 2013 and 2014.

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 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 requires ICPs to include a risk assessment. Lastly, OG should update its ICP 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.

Reasons for Inaccurate or Unsupported Information

OG’s director of operations (DO) and deputy chief legal counsel explained that while the new administration, which began on January 8, 2015, was generally aware of statutory requirements to improve and report on internal controls, it was not well informed on past practices and therefore did not adequately prioritize the issue. The DO stated that the office had not revised the ICP or conducted an organization-wide risk assessment in the six-month period that the current administration had been in place as of the end of our audit period. He further stated that although he was aware that OG’s current inventory procedures did not encompass all phases of the inventory process, the office could not perform the necessary corrections within that six-month period.

The chief fiscal officer told us that he responded “no” to the ICQ question concerning singular tangible and/or intangible capital assets with a useful life of more than one year because he mistakenly thought that the question related only to GAAP assets.

Recommendations

1. OG 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, and capital-asset inventory on its ICQ.
2. If necessary, OG should request guidance from OSC on these matters.

Auditee's Response

The Office of the Governor confirms that the Internal Control Questionnaire submitted for FY 2015 contained several inaccurate responses. The Office acknowledges that it relied on an employee and practices from the prior administration for that filing (which covered both the last six months of the Patrick Administration and the first six months of the Baker Administration), and that such reliance was misplaced. The Office takes the issues raised in this report very seriously, and when the OSA brought the errors to our attention, we took immediate action steps to meet expectations, including a change in the staff responsible for the ICQ.

We have made significant progress relative to the questions raised in connection with this limited-scope performance audit. Below is a list of the remedial measures we have taken:

- On October 21, 2015, we met with the Office of the State Comptroller for training based on its Internal Control Guide published in June 2015.*
- On December 9, 2015, the Governor appointed both a new and appropriate Internal Control Officer and Information Security Officer for the Office of the Governor.*
- By December 10, 2015, we had prepared an internal control plan for FY 2016. After review by the OSA, the final ICP has been approved by the Governor and distributed to all staff.*
- Also by December 10, 2015, we had formalized in writing specific office administration policies and procedures. Our Office anticipates that improvement in the documentation of operational policies and procedures will strengthen internal controls and further the retention of institutional knowledge of this important information, mitigating risk for not only this Administration, but also our successors.*
- On December 10, 2015, we completed our annual physical inventory of tangible and intangible capital assets and updated our Office, GAAP, and Non-GAAP asset inventory, including physical location confirmation.*
- To advance this Administration's commitment to risk management throughout the Executive Branch, we arranged for the Office of the State Comptroller to conduct a training session on January 12, 2016 for representatives of the Executive Department's secretariats and agencies to assist in updating their current internal control plans in accordance with the 2015 guidelines. Over 30 state employees attended.*

Auditor's Reply

Based on its response, we believe that OG is taking appropriate measures to address the concerns we identified.

OTHER MATTERS

1. The Office of the Governor’s capital-asset inventory records do not contain all required information.

The fiscal year 2015 inventory of capital (fixed) assets of the Office of the Governor (OG) was incomplete. It contained only the location and description, not the purchase date and acquisition cost, for 698 inventory items. Without including this information, OG cannot be sure that all of its capital assets are properly accounted for. The Office of the State Comptroller’s (OSC’s) Fixed Assets—Acquisition Policy requires that generally accepted accounting principles (GAAP) assets be recorded in the Fixed Asset Subsystem within the state’s Massachusetts Management Accounting and Reporting System and that non-GAAP capital assets be recorded in departments’ inventories. The inventory can be either electronic or on paper, as long as it records the date of purchase, amount, description, location, and disposal of an item.

2. OG did not perform an annual physical inventory of capital assets.

In the Capital Assets Inventory section of the fiscal year 2015 Internal Control Questionnaire (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?” OG did not respond to this question on the ICQ. During the audit, the office could not provide us with documentation that an annual physical inventory of capital assets had been conducted during fiscal year 2015. OSC’s Accounting and Management Policy and Fixed Assets—Acquisition Policy require an annual inventory of each department’s fixed assets, both GAAP and non-GAAP. Further, although they were outside our audit period, we noted that OG answered “yes” to this question on its ICQs for fiscal years 2013 and 2014.

3. OG did not submit its fiscal year 2015 ICQ by the due date.

OG submitted its fiscal year 2015 ICQ to OSC on September 11, 2015, approximately three months after OSC’s May 29 deadline. In its fiscal year 2015 memo to department heads, internal control officers, and chief fiscal officers (CFOs), dated May 6, 2015, OSC required the completion and submission of the ICQ by May 29, 2015. OG’s director of operations told us that the CFO had not informed him of the deadline until after it had passed. The untimely submission of ICQs may prevent OSC from effectively assessing the adequacy of OG’s internal control system for the purpose of financial reporting.

4. OG did not submit an annual Self-Assessment Questionnaire as required by Executive Order 504 for fiscal year 2015.

OG did not submit an information-security program or an electronic-security plan as required by Sections 3 and 4 of Executive Order 504. These documents help agencies identify all personal information residing on each of their application systems, as well as all security controls in effect to protect this information from unauthorized access and use. Without completing these documents, OG cannot be certain that it has taken the necessary measures to reasonably ensure the security, confidentiality, and integrity of personal information collected.

Further, OG did not submit its fiscal year 2015 annual EO504 Compliance Application, as required by the Executive Office of Administration and Finance, to the Massachusetts Office of Information Technology. Departments must use this application to report the results of a self-audit to assess their implementation of, and compliance with, their electronic-security plans.

Auditee's Response

- *The Office's electronic resources and data storage systems have been and will continue to be managed and administered by Administration and Finance Information Technology (ANF-IT), applying various enterprise security policies issued by Mass IT. The Office of the Governor and A&F executed an Interdepartmental Services Agreement to memorialize these responsibilities so that this Office can properly monitor and safeguard its technology and information.*
- *The Information Security Officer prepared, and the Governor approved, an information security program, which includes the electronic security plan and information security policies for the staff of the Office of the Governor, to meet the requirements of Executive Order No. 504, G.L. c. 93H, §3 and G.L. c. 93I. As mandated, we submitted our information security program and self-audit questionnaire to Mass IT in timely fashion—by December 18, 2015—and we distributed relevant policies and procedures to all employees.*
- *All employees of the Office of the Governor recently completed an online training on information security in accordance with the training outlined in EO504, Section 6.*
- *The annual risk assessment process required by the information security program is currently underway.*

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

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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**.