Commonwealth of Massachusetts
Office of the State Auditor
Suzanne M. Bump
Making government work better

Official Audit Report – Issued April 21, 2016

State Ethics Commission—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

April 21, 2016

Ms. Karen Nober, Executive Director
State Ethics Commission
One Ashburton Place, Room 619
Boston, MA 02108

Dear Ms. Nober:

I am pleased to provide this limited-scope performance audit of the State Ethics Commission. 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 State Ethics Commission for the cooperation and assistance provided to my staff during the audit.

Sincerely,

Suzanne M. Bump
Auditor of the Commonwealth

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LIST OF ABBREVIATIONS

CFO	chief financial 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
OSA	Office of the State Auditor
OSC	Office of the State Comptroller
PII	personally identifiable information
SEC	State Ethics Commission

EXECUTIVE SUMMARY

Each year, the Office of the State Comptroller (OSC) issues a memorandum (Fiscal Year Update) to internal control officers, single audit liaisons, and chief fiscal officers instructing departments to complete an Internal Control Questionnaire (ICQ) designed to provide an indication of the effectiveness of the Commonwealth's internal controls. In the Representations section of the questionnaire, the department head, chief fiscal officer, and internal control officer confirm that the information entered 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 limited-scope performance audit of certain information reported in the State Ethics Commission's (SEC's) ICQ for the period July 1, 2014 through June 30, 2015. The objective of our audit was to determine whether certain responses that SEC provided to OSC in its fiscal year 2015 ICQ were accurate.

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

Finding 1 **Page 7**	SEC's 2015 ICQ had inaccurate responses on the subjects of its internal control plan (ICP), risk assessment, and capital-asset inventory.
Recommendations **Page 10**	1. SEC 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, SEC should request guidance from OSC on these matters.

Post-Audit Action

In response to issues we identified during our audit, SEC revised its inventory list to comply with OSC's Fixed Assets—Acquisition Policy.

OVERVIEW OF AUDITED ENTITY

The State Ethics Commission (SEC) was established in 1978 under Section 2 of Chapter 268B of the Massachusetts General Laws. According to its website, SEC "is a non-partisan, independent state agency responsible for interpreting and civilly enforcing the conflict of interest law and financial disclosure laws."

SEC has a five-member board of commissioners, of which three members (including the chair) are appointed by the Governor, one by the Secretary of State, and one by the Attorney General. The commissioners serve staggered five-year terms. SEC is managed by an executive director who oversees its administrative operations.

SEC had a fiscal year 2015 budget of $1,960,456 and has approximately 24 employees. It is located at One Ashburton Place 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 State Ethics Commission's (SEC'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 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 SEC 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 SEC'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 SEC give accurate responses in the following areas?	
a. internal control plan (ICP)	**No; see Findings 1a and 1b**
b. capital-asset inventory, for both generally accepted accounting principles (GAAP) and non-GAAP assets	**No; see Findings 1c and 1d**
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**

Our analysis of the information on the ICQ was limited to determining whether agency documentation adequately supported selected responses submitted by SEC 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 SEC 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 SEC 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 reviews[1] conducted by OSC for SEC.
- We interviewed SEC's chief financial officer (CFO) to gain an understanding of SEC's ICQ process, and we requested and obtained documentation to support the responses on its ICQ for the 12 questions we selected for review.
- We interviewed SEC's CFO to ask whether SEC 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.

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

- We requested and reviewed SEC's ICP to determine whether it complied with OSC requirements.
- We requested and reviewed any department-wide risk assessments conducted by SEC.

- We conducted interviews with SEC managers to determine the procedures used to prepare and update the ICP and conduct an annual capital-asset inventory.
- We requested and reviewed SEC'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 SEC.
- We requested and reviewed all documentation available to support SEC'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 SEC 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 State Ethics Commission (SEC) 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 SEC indicated that it was complying with OSC guidelines in all the areas we reviewed, its internal control plan (ICP) was not based on guidelines issued by OSC; its organization-wide risk assessment did not include the risk of fraud; it could not document that it performed 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, SEC 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 SEC's internal control system for the purpose of financial reporting. In addition, without performing and documenting an annual physical inventory and establishing procedures encompassing all phases of the inventory process, SEC is not ensuring that its capital assets are properly safeguarded against loss, theft, and misuse and that its inventory records are complete and accurate.

The problems we found are detailed in the sections below.

a. Contrary to what its ICQ indicated, SEC'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?" In its ICQ, SEC answered "yes," but its ICP did not fully comply with these guidelines. Specifically, although SEC's ICP identified seven of the eight components of enterprise risk management (ERM), it did not consider or adequately identify the Internal Environment component.

b. SEC's ICQ response was inaccurate with regard to conducting an organization-wide risk assessment that includes 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?" In its ICQ, SEC answered "yes"; however, we found that although it had conducted an organization-wide risk assessment, the risk assessment did not consider the risk of fraud. Developing a risk assessment that includes fraud is important because it enables management to focus its attention on the most important entity risks and to manage risks within defined tolerance thresholds.

c. Contrary to what its ICQ indicated, SEC had not documented 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, SEC answered "yes," but during our audit, it could not provide us with documentation to support its assertion that it had done so in fiscal year 2015. SEC's inventory list included a generally accepted accounting principles (GAAP) asset (computer software) valued at $75,477, as well as non-GAAP capital assets such as servers, computers, and printers valued at $31,846 and office furniture and equipment valued at $19,080. Further, although they were outside our audit period, we noted that SEC answered "yes" to this question on its ICQs for fiscal years 2013 and 2014.

d. Contrary to what its ICQ indicated, SEC does 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?" In its ICQ, SEC answered "yes," but during our audit, SEC could not provide us with documentation of such procedures. Moreover, although they were outside our audit period, we noted that SEC 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 responses 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. The guide lists fraud as one of a number of risks that entities might face.

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.

Reasons for Inaccurate or Unsupported Information

SEC's executive director told us she believed that the agency's ICP, last updated in January 2013, was consistent with OSC's 2007 Internal Control Guide and that OSC's guide did not clearly speak to the risk of fraud. She said that the agency had considered the risk of fraud, but concluded that it was negligible.

The chief financial officer (CFO) stated that although the agency has performed annual physical inventories of its non-GAAP and GAAP assets, no documentation of these inventories is maintained. Further, because the SEC did not acquire any non-GAAP assets and disposed of a limited number of worthless assets in fiscal year 2015, only its GAAP assets were inventoried in fiscal year 2015, and the results were provided to OSC. The CFO said that, going forward, SEC would conduct and document an annual physical inventory regardless of whether any assets were acquired or disposed of in the fiscal year. Lastly, the CFO stated that, because of the small size of the agency and the limited number of assets, documented inventory procedures were not essential.

Recommendations

1. SEC 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, SEC should request guidance from OSC on these matters.

Auditee's Response

Finding 1a

The SEC's ICP dated November 2007 was substantially revised in January 2013, based on the OSC's 2007 Internal Control Guide (the version in effect at that time). The ICP was prepared in accordance with the various headings listed on page 1 of the 2007 Guide. While there were a couple of references to the eight components of enterprise risk management (ERM), including the "Internal Environment" component, in the 2007 OSC Internal Control Guide, those references were not featured prominently. Therefore, it was not at all clear that the ICP should be organized based on those eight categories. The 2015 version of the Guide is much clearer as to the fact that all eight components must be addressed in the ICP for it to be considered compliant, and also includes clear guidance as to what a discussion of those components should include.

Although the SEC's 2013 ICP does not contain a section entitled "Internal Environment," the ICP does in fact address many of the principles that fall within that category, as set forth in the 2015 OSC Guide. Specifically, the 2013 ICP includes the SEC's mission statement, a description of the organizational structure, and discussion of the agency's commitment to competence as well as what we have done to ensure effectiveness and efficiency. These topics were all based on the headings set forth on p. 1 of the 2007 Internal Control Guide. Moreover, the SEC's primary function is to administer and enforce the state conflict of interest and financial disclosure laws. We did not therefore explicitly address standards of conduct and commitment to integrity and ethical values because that is implicit in our agency's mission, which is to foster integrity in public service and promote the public's trust and confidence in that service.

Going forward, we will revise our ICP to conform with the 2015 Internal Control Guide, which provides much clearer guidance as to what the ICP should cover, including the various factors that should be addressed in each of the eight components of the ERM.

Finding 1b

Our 2013 ICP included a section entitled "Risk Assessment," which was consistent with the guidance provided by the 2007 OSC Guide. The 2007 Guide did not specifically reference the risk of fraud. . . . In responding to the ICQ, I had a discussion with the Commission's General Counsel and Chief Financial Officer in which we considered the risk of fraud, but concluded it was negligible, given the following facts: the limited equipment and other assets of value that the agency possesses could not easily be removed from the agency

and any such loss would be noticed immediately; we do not conduct credit card transactions; we have very small amounts of petty cash on hand; our CFO is the only staff person with routine access to the state's payroll and accounting applications (a limited number of other staff have some access to those applications); and all financial transactions are presented by the CFO to the Executive Director for review and approval on a regular basis. We were not aware of any requirement to document that discussion, and, therefore, did not do so. As noted above, the 2007 OSC Guide did not require any discussion of the risk of fraud in our ICP. We also note that, in that same section of the ICQ, another question specifically asked about whether we had an ICP that documents the SEC's goals, objectives, risks and controls to mitigate those risks. Insofar as the ICQ simply asked if we had "conducted an organization-wide risk assessment that includes the consideration of fraud" without any reference to documentation, we believe our response was accurate. We understand the 2015 OSC Guide does require documentation of the SEC's assessment of the risk of fraud, and, going forward, our ICP will include such documentation.

Finding 1c

The SEC has historically kept an inventory of all assets, regardless of value. This inventory list was not updated in FY15 due to the SEC's limited asset acquisition and disposal during FY15. Specifically, in FY15 the SEC did not acquire any non-GAAP assets (assets valued between $1,000 and $49,999) and disposed of a limited number of worthless assets. All IT equipment disposed of in FY15 was documented, and the Commission's IT inventory list was updated to reflect these disposals of minor items. Going forward, we will prepare and maintain documentation of our annual physical inventory of capital assets.

The SEC appropriately reported all capital (GAAP) fixed assets to the Comptroller for FY15.

Finding 1d

Given the small size of the agency, the CFO is the sole employee responsible for ensuring that all phases of the inventory process are implemented correctly. We answered yes on the ICQs for FYs 2013 and 2014 because we did in fact conduct such inventories, and procedures were in fact being followed. It is, however, correct that those procedures were not documented in writing. Going forward, we will prepare and maintain such documentation.

Auditor's Reply

While we agree that the OSC 2007 Internal Control Guide does not explicitly require that entities maintain documentation of an agency-wide risk assessment that includes the risk of fraud, the guide implies that the risk of fraud, as part of an entity's risk assessment, should be documented for the same reasons that entities develop and maintain documentation of their internal control systems. Documentation provides evidence of the conduct of a complete risk assessment, enables proper monitoring, and supports

reporting on the organization's overall risk response and specific actions, particularly when evaluated by other parties interacting with the agency, such as regulators and auditors.

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

OTHER MATTERS

1. The State Ethics Commission had not updated its internal control plan within the past year.

In the Internal Control Plans section of the fiscal year 2015 Internal Control Questionnaire, departments were asked, "Has the department updated its internal control plan within the past year?" In its response, the State Ethics Commission (SEC) answered "no." This was correct: SEC's internal control plan (ICP) was last updated on January 23, 2013. However, because SEC has not updated its ICP at least annually, it cannot ensure the effectiveness of its internal control system and implement any changes that are necessary to maintain the integrity of its system. In addition, the Office of the State Comptroller's (OSC's) Internal Control Guide states, "Departments must update the ICP as often as changes occur in management, level of risk, program scope, etc., but at least annually."

2. SEC's capital-asset inventory list does not contain all required information.

SEC's inventory of non–generally accepted accounting principles (GAAP) capital (fixed) assets for fiscal year 2015 was incomplete. It contained only the location and description—not the purchase date, acquisition cost, and any disposal information—for 245 inventory items, mostly furniture. Without this information, SEC cannot be sure that all of its capital assets are properly accounted for. In addition, OSC's Fixed Assets—Acquisition Policy requires that non-GAAP capital (fixed) 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.

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

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

MARTIN J. BENISON
COMPTROLLER

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.**