



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

*Making government work better*

Official Audit Report – Issued July 6, 2016

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## Massachusetts Maritime Academy—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*

July 6, 2016

Rear Admiral Francis X. McDonald, USMS, President  
Massachusetts Maritime Academy  
101 Academy Drive  
Buzzards Bay, MA 02532

Dear Admiral McDonald:

I am pleased to provide this performance audit of the Massachusetts Maritime Academy. 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 Maritime Academy for the cooperation and assistance provided to my staff during the audit.

Sincerely,

A handwritten signature in blue ink, appearing to read "SMB", written over a light blue circular watermark.

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
ERM	enterprise risk management
GAAP	generally accepted accounting principles
ICO	internal control officer
ICP	internal control plan
ICQ	Internal Control Questionnaire
MMA	Massachusetts Maritime Academy
OSA	Office of the State Auditor
OSC	Office of the State Comptroller
PII	personally identifiable information

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## EXECUTIVE SUMMARY

Each year, the Office of the State Comptroller (OSC) issues a memorandum (Fiscal Year Update) to internal control officers (ICOs), 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 ICO 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 Maritime Academy's (MMA's) ICQ for the period July 1, 2014 through June 30, 2015. The objective of our audit was to determine whether certain responses that MMA 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.

<b>Finding 1</b> <b>Page <a href="#">7</a></b>	MMA's 2015 ICQ had inaccurate responses on the subjects of its internal control plan (ICP), risk assessment, and capital-asset inventory. In addition, MMA did not certify the accuracy of the responses on its ICQ before submitting it to OSC.
<b>Recommendations</b> <b>Page <a href="#">10</a></b>	<ol style="list-style-type: none"><li>1. MMA 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. It should also retain a printed, approver-signed copy of its certification of its ICQ representations.</li><li>2. If necessary, MMA should request guidance from OSC on these matters.</li></ol>

### Post-Audit Action

MMA has taken corrective action in response to one of the issues we identified during our audit: it has established an asset accounting policy that includes the purchasing, recording, monitoring, reconciliation, and disposal of all of its assets.

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## OVERVIEW OF AUDITED ENTITY

Originally founded as the Massachusetts Nautical Training School under Section 1 of Chapter 402 of the Acts of 1891, the Massachusetts Maritime Academy (MMA) was authorized by Section 9 of Chapter 15A of the Massachusetts General Laws, which originally placed it within the Commonwealth's Division of State Colleges. It currently operates under the oversight of the Board of Higher Education. MMA is the second-oldest maritime academy in the United States. It offers undergraduate degrees in maritime transportation and engineering, environmental protection and safety, facilities engineering, international maritime business, emergency management, and energy systems engineering, as well as graduate degrees and professional studies.

MMA is governed by a board of trustees that reports to the Commonwealth's Secretary of Education. The board has 11 members: 9 appointed by the Governor, 1 by alumni, and 1 by the students. MMA's president reports to the board of trustees and is the administrative head of the academy. According to its website,

*The mission of the Massachusetts Maritime Academy is to provide a quality education for graduates serving in the merchant marine, the military services, and those who serve the interests of the Commonwealth, Nation and global marketplace. The Academy does so by combining a rigorous academic program with a regimented lifestyle that instills honor, responsibility, discipline, and leadership.*

MMA had a fiscal year 2015 budget of \$14,734,703 and had approximately 200 full-time employees and 60 part-time employees during our audit period. It is located at 101 Academy Drive in Buzzards Bay.

## 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 Maritime Academy's (MMA'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 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 MMA 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 MMA'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 each question we intended our audit to answer; the conclusion we reached regarding each objective; and, if applicable, where each objective is discussed in the audit findings.

Objective	Conclusion
1. On its 2015 ICQ, did MMA give accurate responses in the following areas?	
a. internal control plan (ICP)	No; see Findings <a href="#">1a</a> and <a href="#">1b</a>
b. capital-asset inventory, for both generally accepted accounting principles (GAAP) and non-GAAP assets	No; see Findings <a href="#">1c</a> and <a href="#">1d</a>
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

In the course of our audit, we also determined that MMA had submitted the 2015 ICQ to OSC without certifying the accuracy of its responses in accordance with OSC instructions (Finding 1e).

Our analysis of the information on the ICQ was limited to determining whether agency documentation adequately supported selected responses submitted by MMA 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 MMA 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 MMA 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<sup>1</sup> conducted by OSC for MMA.
- We interviewed MMA's internal control officer (ICO) to gain an understanding of MMA's ICQ process, and we requested and obtained documentation to support the responses on its ICQ for the 12 questions we selected for review.

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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 MMA’s ICO to ask whether MMA 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 MMA provided to OSC for the above 12 questions were accurate, we performed the following procedures:

- We requested and reviewed MMA's ICP to determine whether it complied with OSC requirements.
- We requested and reviewed any department-wide risk assessments conducted by MMA.
- We conducted interviews with MMA managers to determine the procedures used to prepare and update the ICP and conduct an annual capital-asset inventory.
- We requested and reviewed MMA'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 MMA.
- We requested and reviewed all documentation available to support MMA'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 MMA 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.

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## 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 Maritime Academy (MMA) 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 MMA 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; it had not conducted an organization-wide risk assessment that included fraud; 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. In addition, MMA had not certified that the representations reported to OSC on its ICQ were accurate and complete.

Without establishing an ICP in accordance with OSC guidelines, MMA 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 MMA's internal control system for the purposes of financial reporting. In addition, without performing an annual physical inventory and establishing formal inventory policies and procedures, MMA 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, without properly certifying the accuracy of the ICQ, MMA 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, MMA'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, MMA answered "yes," but its ICP did not fully comply with these guidelines. Specifically, it did not consider or adequately identify one of the eight components of enterprise risk management (ERM): risk assessment.

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**b. Contrary to what its ICQ indicated, MMA had not conducted an organization-wide risk assessment that included 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, MMA answered "yes," but we found that it had not conducted an organization-wide risk assessment to identify 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.

**c. Contrary to what its ICQ indicated, MMA 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, MMA answered "yes," but during our audit, MMA officials told us that it had not conducted an annual physical inventory of its capital assets since 2009 at the latest. MMA's inventory list included generally accepted accounting principles (GAAP) assets valued at \$104,975,862, including buildings and improvements valued at \$72,055,895 and equipment valued at \$23,845,854. It also included non-GAAP capital assets valued at \$7,795,343, including computers and electronics valued at \$1,880,784, motor vehicles valued at \$769,735, water crafts valued at \$478,000, and other high-risk<sup>2</sup> capital assets valued at a total of \$346,374. Further, although they were outside our audit period, we noted that with the exception of the fiscal year 2011 ICQ, MMA answered "yes" to this question on its ICQs for fiscal years 2009 through 2014.

**d. Contrary to what its ICQ indicated, MMA 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, MMA answered "yes," but its Inventory Control System

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2. MMA defines high-risk assets as property valued at less than \$1,000 that has a high risk of loss or theft.

policy, which it gave us during our audit, did not include monitoring, replacement and disposal, or assignment of the roles of responsibility to personnel. Further, although they were outside our audit period, we noted that on its ICQs for fiscal years 2013 and 2014, MMA answered “yes” to this question.

**e. MMA submitted its 2015 ICQ without certifying the accuracy of its responses as required by OSC instructions.**

Contrary to OSC guidance, MMA's department head, chief fiscal officer (CFO), and controller did not sign and file a printed copy of the ICQ. They did tell us that they had read and approved each statement on the questionnaire, but without a signed copy, there is no assurance that MMA's management has reviewed the ICQ and ensured that the information that the agency is providing to OSC is complete and accurate.

### **Authoritative Guidance**

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

In its document Enterprise Risk Management—Integrated Framework, or COSO II, the Committee of Sponsoring Organizations of the Treadway Commission (COSO) defines ERM as “a process, effected by the entity's board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage the risks to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives.” 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

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Assessment, Risk Response, Control Activities, Information and Communication, and Monitoring. COSO guidance states that all components of an internal control system must be present, functioning properly, and operating together in an integrated manner in order to be effective. In addition, OSC's Internal Control Guide lists fraud as one of the risks that entities 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.

### **Reasons for Inaccurate or Unsupported Information**

MMA's ICO stated that although risk assessment is discussed at a retreat of the board of trustees and other management meetings, MMA does not have a formal risk assessment process in place that would include measuring risk in terms of likelihood and impact and assessing the risk of fraud.

The vice president of Finance and the controller stated that MMA performs rolling inventories of small samples of randomly selected fixed assets throughout the year, but had not conducted complete annual physical inventories of its capital assets since 2009 or earlier. They stated that this was because of insufficient staffing and the loss of funding to hire a temporary inventory worker to assist with the annual inventory, as they had done in the past. They further stated that they assumed that the rolling inventories, combined with complete biannual physical inventories of MMA's Yacht and Boat Donation Program assets, would be sufficient to comply with OSC's fixed-asset policies.

The ICO stated that she was unaware of OSC's requirement that the department head, CFO, and ICO 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. MMA 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. It should also retain a printed, approver-signed copy of its certification of its ICQ representations.
2. If necessary, MMA should request guidance from OSC on these matters.

## **Auditee's Response**

*Massachusetts Maritime Academy (MMA) does not contest the findings identified in the draft audit report on MMA covering the period July 1, 2014 to June 30, 2015 and is taking immediate action to incorporate the audit recommendations into its business practice.*

*MMA will accurately report information provided on its Internal Control Questionnaire (ICQ) to the Office of the State Comptroller (OSC). Going forward, MMA will file a printed copy of the ICQ which will be signed by the President, Vice President of Finance, Controller and the Internal Control Officer. MMA acknowledges it did not identify one of the eight components of enterprise risk management (ERM) in its Internal Control Plan (ICP) and is in the process of revising its ICP to fully comply with the guidelines issued by OSC.*

*MMA's Internal Control Officer is developing procedures for a documented organization-wide risk assessment process which includes the risk of fraud.*

*MMA has launched a complete review of its inventory management policies and procedures to include all phases of the inventory process for both GAAP and non-GAAP assets. We are researching software programs that will accommodate our needs and we are working in a collaborative effort with the other state universities to address similar inventory issues.*

*We anticipate development of the policies and procedures related to risk assessment and inventory management to be finalized in FY17 for implementation in FY18.*

## **Auditor's Reply**

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

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## OTHER MATTERS

### **The Massachusetts Maritime Academy's capital-asset inventory records were inaccurate and did not include required information.**

In addition to the findings in this report, our audit identified other control weaknesses within the Massachusetts Maritime Academy (MMA). Specifically, its capital-asset inventory records were inaccurate and incomplete and did not contain all the information required by the Office of the State Comptroller (OSC). MMA's non-generally accepted accounting principles (GAAP) inventory list did not include the purchase date, amount, description, location, and disposal information for all of its assets as required by the OSC Fixed Assets—Acquisition Policy. This policy requires that all non-GAAP capital (fixed) assets be recorded in departments' inventories. Inventories can be either electronic or on paper, as long as they record the purchase date, amount, description, location, and disposal of all inventory items.

Furthermore, MMA's non-GAAP inventory list contained 6,785 assets with a total value of \$7,795,343. This list included 441 assets without dollar values recorded; 1,303 items, together valued at \$1,942,135, that had been disposed of; and 8 GAAP assets, together valued at \$641,151, that were not included in MMA's GAAP inventory or the audited financial statements it filed with OSC for inclusion in the Comprehensive Annual Financial Report.<sup>3</sup>

As a result of these issues, MMA cannot be sure that all of its capital assets are properly accounted for and accurately reported. MMA's controller stated that the inventory list had data-integrity problems caused by (1) data-transfer problems when MMA changed from its old inventory system to its new one and (2) errors by the former procurement director, who was responsible for maintaining the inventory systems, in recording inventory transactions such as purchases and deletions. She added that MMA was taking corrective action to ensure the reliability of MMA's current inventory system.

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3. This report is an audited annual financial report of the Commonwealth prepared on the GAAP basis of accounting. It shows the financial position of the state as a whole, including certain independent authorities, as component units for a given fiscal year.

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## 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.*

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## 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

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#### 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.**

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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](#).<sup>1</sup>

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 3<sup>rd</sup> 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**.