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INDEPENDENT STATE AUDITOR'S REPORT ON
CERTAIN ACTIVITIES OF THE
CAPE AND ISLANDS DISTRICT ATTORNEY'S
OFFICE
JULY 1, 2007 TO MARCH 31, 2008

OFFICIAL AUDIT
REPORT
OCTOBER 29, 2008

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The Cape and Islands District Attorney's Office (CIDA) was established under the provisions of Chapter 12, Section 13, of the Massachusetts General Laws (MGL), which provides for the administration of criminal law and the defense of civil actions brought against the Commonwealth in accordance with MGL Chapter 258 (claims and indemnity procedures for the Commonwealth, its municipalities, counties, districts, officers, and employees). As of March 31, 2008, the CIDA had 59 employees, including 24 prosecutors/assistant district attorneys, with offices located in Barnstable, Falmouth, and Orleans. The CIDA's jurisdiction covers all of Barnstable, Dukes, and Nantucket Counties and includes court cases that are adjudicated in various District Courts that are located in the aforementioned towns, as well as on the Islands of Nantucket and Martha's Vineyard. Barnstable Superior Court is located in West Barnstable, MA, adjacent to CIDA's principal administrative and accounting office.

In accordance with Chapter 11, Section 12, of the General Laws, the Office of the State Auditor has conducted an audit of the CIDA for the period July 1, 2007 to March 31, 2008. The purpose of the audit was to review internal controls over financial and program activities at the CIDA to determine whether financial records are accurate, up-to-date, and maintained in accordance with established criteria; costs and expenditures, including payroll and administrative costs, are appropriate and reasonable; controls over revenues, including forfeited funds, are proper and adequate; and the internal control structure is suitably designed and implemented to safeguard the CIDA's assets in compliance with the Office of the State Comptroller's (OSC) Internal Control Guide and Chapter 647 of the Acts of 1989, An Act Relative to Improving the Internal Controls within State Agencies.

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Our audit disclosed that the CIDA has prepared and developed an Internal Control Plan (ICP) that is generally in compliance with Chapter 647 of the Acts of 1989 and the Office of the State Comptroller's (OSC) requirements. However, specific improvements and enhancements to the ICP are necessary to provide better assurance that the CIDA will successfully achieve its fundamental mission and business-related goals and objectives through the guidance of meaningful and comprehensive internal controls. Specifically, within the ICP, the CIDA needs to better define its control environment and include statements of the requirements on integrity and ethical values expected of all staff, including top management; update and expand its risk assessment to include all identified risks associated with its various financial, accounting, and administrative activities; identify corresponding control activities that are in place to mitigate all identified programmatic, financial, accounting, and administrative risks; identify information and communication systems in place; identify related compliance monitoring activities in place; and include certain requirements of Chapter 647 not currently addressed in the ICP. Also, the CIDA must ensure the implementation of existing internal controls over certain significant aspects of its operations, including payroll

processing, through more effective compliance monitoring. In this regard, audit testing revealed that there was inadequate documentation of the supervisory signatures of approval on 20 of the 48 summary attendance sheets reviewed. Lastly, the CIDA must develop and implement an effective employee performance evaluation system. In response to the audit report, the CIDA indicated that it was actively working toward improving the ICP.

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INTRODUCTION

Background

The Cape and Islands District Attorney's Office (CIDA) was established under the provisions of Chapter 12, Section 13, of the Massachusetts General Laws (MGL), which provides for the administration of criminal law and the defense of civil actions brought against the Commonwealth in accordance with MGL Chapter 258 (claims and indemnity procedures for the Commonwealth, its municipalities, counties, districts, and officers and employees). As of March 31, 2008, the CIDA consisted of 59 employees, including 24 prosecutors/assistant district attorneys and other program and administrative staff. The CIDA's jurisdiction covers all of Barnstable, Dukes, and Nantucket Counties and includes criminal and civil court cases that are adjudicated in the various District Courts that are located in Barnstable, Falmouth, and Orleans, as well as on the Islands of Nantucket and Martha's Vineyard, and the Barnstable Superior Court, which is located in West Barnstable, MA, adjacent to the CIDA's principal administrative and accounting office.

The primary mission of the CIDA is to fairly represent the citizens within its jurisdiction in the prosecution of alleged criminal activities perpetrated within the District, including matters associated with misdemeanors and felonies. CIDA also provides mandated and other services to the victims and witnesses of the alleged crimes. In addition, CIDA administers various programs, including Juvenile Diversion, Domestic Violence Prosecution, Senior Assistance, and the Child Abuse Prosecution Programs, as well as providing oversight for ongoing law enforcement investigations.

As of March 31, 2008, the CIDA received fiscal year 2008 (FY08) state maintenance appropriations totaling \$3,689,361 to fund its general administrative and programmatic operations. In addition, for FY08, the CIDA had \$773,729 available in special state appropriations funding to support various other activities, including state police overtime for investigations.

Pursuant to Massachusetts General Laws Chapter 94C, Section 47, the State Forfeiture of Property Law, the CIDA deposited \$82,059 during the period July 1, 2007 to March 31, 2008 in court-awarded forfeited funds with the Office of the State Treasurer. In this regard, each court case must be fully adjudicated before the asset is considered forfeited. These funds may be used for many purposes as set forth in Chapter 94C, such as defraying the costs of protracted investigations, providing the CIDA with technical equipment or expertise, providing matching funds to obtain

federal grants, or such other law enforcement purposes as the District Attorney deems appropriate. The District Attorney may also expend up to 10% of the funds and proceeds for drug rehabilitation, drug education, and other anti-drug or neighborhood crime watch programs that further law enforcement purposes.

Audit Scope, Objectives, and Methodology

In accordance with Chapter 11, Section 12, of the General Laws, the Office of the State Auditor has conducted an audit of the CIDA for the period July 1, 2007 to March 31, 2008. Our audit was conducted in accordance with applicable generally accepted government auditing standards. The purpose of our audit was to review the existing internal controls over the CIDA's financial and program activities. In doing so, we sought to determine whether (1) financial records were accurate, up-to-date, and maintained in accordance with established criteria; (2) office costs and expenditures, including payroll and administrative costs, were appropriate and reasonable; (3) internal controls over revenues, including forfeited funds, were proper and adequate; and (4) CIDA's internal control structure was suitably designed and implemented to safeguard the Commonwealth's assets and complied with the Comptroller's Internal Control Guide and Chapter 647 of the Acts of 1989, An Act Relative to Improving the Internal Controls within State Agencies.

To accomplish our objectives, we:

- Reviewed all applicable criteria, including MGLs, OSC Internal Control Guide, and Chapter 647 of the Acts of 1989, An Act Relative to Improving the Internal Controls within State Agencies.
- Reviewed selected MMARS accounting and reporting processes.
- Reviewed various elements of the CIDA's Internal Control Structure, including its Internal Control Plan (ICP) with risk assessments, along with existing verbal and written administrative and accounting policies and procedures.
- Interviewed various administrative and accounting personnel.
- Reviewed selected revenue (forfeited funds), expenditure, advance, and payroll transactions to verify that these transactions were allowable, reasonable, accurately accounted for, and supported with sufficient documentation.
- Examined the inventory control system in place for all furnishings and equipment, with special attention paid to information technology.

Our recommendations are intended to assist the CIDA in developing, implementing, and/or improving its internal controls over certain financial and administrative operations to ensure that systems operate in an economical, efficient, and effective manner, and in compliance with applicable rules, regulations, and laws.

Except for the internal control issues presented in the Audit Results section of this report, we have determined that for the areas tested, CIDA's financial records are accurate, up-to-date, and maintained in accordance with established criteria; costs and expenditures are appropriate and reasonable; controls over revenue are proper and adequate; and the internal control structure is suitably designed to safeguard the Commonwealth's assets in compliance with OSC's Internal Control Guide and Chapter 647 of the Acts of 1989.

AUDIT RESULTS

IMPROVEMENTS NEEDED IN INTERNAL CONTROL PLAN

Our audit disclosed that the Cape and Island's District Attorney's Office (CIDA) has prepared and developed an Internal Control Plan (ICP) that is generally in compliance with Chapter 647 of the Acts of 1989 and the Office of the State Comptroller's (OSC) requirements. However, specific improvements and enhancements to the ICP are necessary to provide better assurance that the agency will successfully achieve its fundamental mission and business-related goals and objectives through the guidance of meaningful and comprehensive internal controls. Specifically, within the ICP, the CIDA needs to better define its control environment and include statements of the requirements on integrity and ethical values expected of all staff, including top management; update and expand its risk assessment to include all identified risks associated with its various financial, accounting, and administrative activities; identify corresponding control activities that are in place to mitigate all identified programmatic, financial, accounting, and administrative risks; identify information and communication systems in place; identify related compliance monitoring activities in place; and include certain requirements of Chapter 647 not currently addressed in the ICP. Also, the CIDA must ensure the implementation of existing internal controls over certain significant aspects of its operations, including payroll processing, through more effective compliance monitoring. In this regard, audit testing revealed that there was inadequate documentation of supervisory signatures of approval on 20 of the 48 summary attendance sheets reviewed. Lastly, the CIDA must develop and implement an effective employee performance evaluation system.

According to Generally Accepted Accounting Principles (GAAP), entities such as the CIDA should establish and implement an adequate internal control system within the organization to ensure that goals and objectives are met in the most economical and efficient manner; resources are used in compliance with laws, regulations, and policies; assets are safeguarded against waste, loss, and misuse; and financial data are maintained, reported, and fairly disclosed in reports.

Further, Chapter 647 of the Acts of 1989, An Act Relative to Improving the Internal Controls within State Agencies, requires that departments develop an ICP in accordance with OSC guidelines. The OSC's Internal Control Guide, dated September 13, 2007, states, in part:

The Office of the Comptroller defines an internal control plan as, "a high level department-wide summarization of the department's risks and the controls used to

mitigate those risks. This high level summary must be supported by lower level detail, i.e., departmental policies and procedures."

With regard to the CIDA developing this high-level summarization of the department's risks, we noted that although the CIDA had done a sufficient job in defining its mission in clear, concise, and practical terms and identified risks as they relate to the administration of the criminal law (for example, the CIDA identified a risk of failing "to hold offenders accountable for criminal activities due to inadequate case preparation and presentation"), the underlying written policies and procedures within the ICP were unrelated to the stated risks as they primarily involved the CIDA's fiscal and administrative activities, including MMARS transaction processing (i.e., payroll, accounts payable) and inventory control. In summary, we found little if any relationship between the identified risks in the CIDA's ICP and the control activities that are necessary for the agency to implement in order to mitigate those risks. A more thorough job must be done to identify all fiscal- and accounting-related risks, in addition to the stated programmatic risks, with references to the underlying detailed policies and procedures that have been developed to mitigate those risks.

For the ICP to be considered an effective "high-level summarization," five interrelated standards or components of effective internal control must be present: (1) control environment, (2) risk assessment, (3) control activities, (4) information and communication, and (5) monitoring. We will briefly discuss each of these components below:

CONTROL ENVIRONMENT

The CIDA's ICP should contain within its high-level summarization direct statements from top management on the expectations of staff concerning integrity and requirements of high ethical standards, as well as definitive and supportive statements that set the tone for the importance of internal controls within the organization. Moreover, written statements defining the Authority's control environment and linking management's attitude, supervision, and organizational structure within the ICP should be made clear. Key factors to be aware of to accomplish this goal include:

- Integrity and Ethical Values (i.e., through formal codes of conduct, disciplinary actions taken)
- Commitment to Competence (i.e., through updated job descriptions, job training)
- Management's Philosophy and Operating Style (i.e., performance based management)

- Organizational Structure
- Assignment of Authority and Responsibility
- Human Resource Policies and Practices (i.e., supervision, employee performance evaluations)
- Responsiveness to Oversight Groups

The OSC's Internal Control Guide, dated September 13, 2007, elaborates on the importance of management's tone, as follows:

Management's attitude, actions, and values set the tone of an organization, influencing the control consciousness of its people. Internal controls are likely to function well if management believes that those controls are important and communicates that view to employees at all levels. If management views internal controls as unrelated to achieving its objectives, or even worse, as an obstacle, this attitude will also be communicated. Employees are aware of the practices followed by upper management including those that circumvent internal controls. Despite policies to the contrary, employees who note that their managers frequently override controls, will also view internal controls as "red tape" to be "cut through" to get the job done. Management can show a positive attitude toward internal control by such actions as complying with their own policies and procedures, discussing internal controls at management and staff meetings, and rewarding employees for following good internal control practices. Although it is important to establish and implement policies and procedure, it is equally important to follow them.

In addition, the OSC's Internal Control Guide, dated September 13, 2007, stresses the importance of ethics by stating:

An organization's culture evolves from the values of its members and the culture, in turn, exerts a strong influence on the actions, decisions, and behaviors of all employees.

As such we would advise that the ICP include a brief statement regarding the integrity and ethical values expected of all staff, and especially, the ethical values top management expects of itself.

However, notwithstanding the absence of these defining statements in the ICP, our review disclosed that the CIDA does have language and other elements present within other documents it had developed that identify the philosophy of CIDA in holding employees to high ethical standards and that outline the CIDA's organizational structure. These documents include its organization chart and the Personnel Policy Manual that should be written into, referenced, or quoted as part of this requirement to define its control environment. In addition, CIDA can further enhance its ICP by

adding a brief explanation of how the structure, policies, and procedures act to control and link all units and segments of the CIDA's operation.

RISK ASSESSMENT

The OSC defines a department-wide risk assessment as the "identification and analysis of the risks that could prevent the department from attaining its goals and objectives." Risk assessments are an integral part of an internal control plan because they identify and analyze risks and assist management in prioritizing those activities where controls are most needed. Management is responsible for evaluating and implementing, at least annually or as conditions warrant, any changes necessary to maintain the integrity and effectiveness of the internal control system.

A precondition to risk assessment is the establishment of clear, consistent agency goals and objectives at both the entity level and the activity / program level. Once the objectives have been set, the CIDA needs to identify the risks that could impede the efficient and effective achievement of those objectives. Internal control should provide for an assessment of the risks the agency faces from both internal and external sources along with their possible effects. Management then has to decide upon the internal control activities required to mitigate those risks. In performing risk assessments, certain control activity factors should be considered, including:

- The Establishment of Entity-wide Objectives (i.e., mission, goals, and objectives; a "strategic plan")
- The Establishment of Activity / Program Level Objectives (include measurement criteria)
- Risk Identification (i.e., inherent in the nature of the activities undertaken)
- Risk Analysis (i.e., possible effects on operations)
- Managing Risk During Change

Risks should be mitigated with control activities identified in the agency's ICP with regard to funding and general accounting practices, staffing procedures, personnel, cash, accounts receivables, checking accounts, cash management, document processing, record retention, and financial reporting under Generally Accepted Accounting Principles (GAAP).

CIDA's ICP, dated July 1, 2007, includes the identification of only six programmatic risks, including the following:

1. Failure to hold offenders accountable for criminal activities due to inadequate case preparation and presentation.
2. Holding non-offenders responsible for criminal activities due to inadequate case preparation.
3. Failure to identify victims and witnesses in need of services.
4. Failure to provide mandated and other needed services to identified victims and witnesses of criminal activities.
5. Lack of adequate funding to meet agency's mandate.
6. Lack of adequate controls to properly manage all cases.

First, the CIDA needs to more accurately and comprehensively define how these identified program risks will be mitigated. This can be achieved either by improving references to existing control activities related to the areas of risk specified in its ICP, or providing new or additional control activities. Second, the CIDA needs to develop additional risks as they relate to its more significant financial, accounting, and administrative functions.

Instead of identifying control activities associated with the identified programmatic risks, the CIDA's ICP included control activities and related policies and procedures primarily related to fiscal and administrative functions, including those associated with MMARS Accounting and Reporting, Records Management, Fiscal Operations, Budget Process, Investigatory Draws, Advance Accounts, Renditions, Travel Reimbursement, Forfeitures, Purchasing, Attendance, Payroll, and Contracts. However, the CIDA did not clearly identify the risks that these activities were intended to mitigate.

Control Activities

Chapter 647 of the Acts of 1989, An Act Relative to Improving the Internal Controls within State Agencies, states, in part:

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 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.

Internal control activities are the policies, procedures, techniques, and mechanisms that help ensure that management's directives to mitigate risks identified during the risk assessment process are carried out. They include approvals, authorizations, verifications, reconciliations, performance reviews, security activities, and the production of records and documentation. Some control activity factors include:

- The Development of Detailed Policies and Procedures over Control Activities.
- The Implementation of such Policies and Procedures (i.e., through supervisory review)
- Top-Level Reviews of Actual Performance against Budgets and Prior Period Results.
- Management Performance Based Reviews of Financial and Operational Activities
- Review of "Human Capital" Strategic Plan (i.e., shared employee goals, mission, training, motivation, succession planning)
- Control Activities over Information Processing (i.e., restrict access to data, edit checks)
- Physical Control and Safeguarding of all Assets (i.e., cash equivalents, facilities, and equipment)
- Performance Measures and Indicators
- Segregation of Duties, and
- General and Application Control over Information Technology Systems, Including Controls over Security, Access, Software, and Service Continuity.

Once managers identify and assess risks, they need to evaluate and develop methods to minimize these risks. These methods are considered control activities, the third component of internal control. By control activities, we mean the structure, policies, and procedures that an organization establishes so that identified risks do not prevent the organization from reaching its objectives.

Our audit disclosed that the CIDA does have extensive procedures and policies in place, separate from the ICP, in its operating units for Case Management and Court Activities, Victim Witness Protection, and Domestic Violence and Child Advocacy. These units are primarily responsible for implementing controls to mitigate identified programmatic CIDA risks as noted above; however, no

mention is made of these units or linking their control activities to the key program risks identified in the ICP. The effectiveness of these units has been publicly recognized in meeting risks associated with prosecution, victim witness rights, and prevention and prosecution of child abuse. Identifying these units' controls for mitigating risks either by inclusion or reference is needed to improve and further enhance the ICP. Linking or identifying these units' control activities for mitigating these risks within the ICP ensures that internal control activities are properly defined and in place within the organization.

Identifying the correlation of these activities, several of which were critical in nature to support CIDA's mission, and any identifying risks mitigated by their activities can only enhance the overall quality of the ICP. Other specific risks that were not identified in these units or service areas should be assessed and considered as to how they could impede CIDA's achievement of goals and objectives. This assessment should be done during the next annual review of the ICP.

Our review further disclosed that the CIDA's fiscal and administrative control activities, along with accompanying detailed policies and procedures, were comprehensive in nature, generally adhered to, and functioning as intended. However, we did identify two exceptions, both of which were associated with human resources/personnel – one dealing with payroll and the other with employee evaluations.

Although we determined that the CIDA's payroll system was both accurate and reliable as processed through the state's HR/CMS payroll system in terms of CIDA personnel being properly paid and accrued leave balances being accurately maintained, certain internal control deficiencies were noted during our review. First, we determined that the CIDA's own internal written "Attendance" and "Payroll" policies and procedures were inadequate in that individual employee time sheets were neither required of nor completed by any of the CIDA's 58 employees. Second, we determined that employee payroll was not always processed in accordance with the CIDA's own internal written "Attendance" and "Payroll" policies and procedures, which we consider to be "minimally acceptable standards" for documenting employee time and attendance in order to support the processing of the agency's payroll through the state's accounting system.

In regard to the CIDA's written internal attendance/payroll related policies and procedures, there are four primary requirements, as stated below:

(1) CIDA Written Policy: "Designated individuals in each job site will record employees' attendance on a daily basis. Supervisors are expected to inform the appropriate designated individual of employees' absences and reasons (vacation, sick, personal) thereof. These designated individuals will forward the daily attendance records to the Fiscal Administrative Officer [FAO] on a weekly basis."

Our payroll test revealed that informal daily attendance was in fact taken at the various CIDA sites/units, documented by "tick" marks (like a check) each day next to the employee's name on weekly summary attendance sheets that were forwarded to the FAO.

(2) CIDA Written Policy: "All exceptions to the daily attendance, i.e., sick leave, vacation leave, personal leave, etc., will be initialed on a weekly basis by employees."

According to CIDA Personnel, although the CIDA's current payroll system does not require individually signed affirmations of hours worked, individual employees are required to initial the weekly summary attendance sheet on an "exception basis," that is, if and when they are absent from work and where leave balances (i.e., sick, vacation, personal) must be adjusted.

Our test revealed that, for the most part, employees properly initialed the weekly summary attendance sheets on an "exception basis."

(3) CIDA Written Policy: "All weekly attendance sheets will be signed and approved by the unit's immediate supervisor as follows:

District Court personnel Chief District Court Prosecutor

Superior Court attorneys First Assistant District Attorney

Victim / Witness personnel Victim Witness Program Director

Superior Court support staff First Assistant District Attorney

Administrative Staff First Assistant District Attorney

Of the three bi-weekly pay periods (which included six weeks of summary employee attendance sheets for the various CIDA sites/units), we found that there was inadequate documentation of supervisory signatures of approval on 20 of the 48 summary attendance sheets. That is, we found 20 instances where the summary attendance sheets were not approved with a formal, complete, and legible signature. For example, a majority of the summary sheets in question were simply initialed by the supervisor at the very bottom of the page without objective clarity of ownership and authenticity. Further, we found that summary attendance sheets for one group of seven attorneys

working out of the Barnstable Office included each of the employees' first names with only their last initials and included only notations as to days absent, with no tick marks for days in attendance.

(4) CIDA Written Policy: "The First Assistant District Attorney or Chief of Operations will sign the final 'Payroll Expenditure Approval Form' issued by the Office of the Comptroller".

In all three of the payroll periods tested, the District Attorney's designated Signatory Authority (belonging to either the First Assistant District Attorney or the Chief of Operations) signed off on the final "Payroll Expenditure Approval Form" as issued by the Office of the State Comptroller.

Payroll-related expenditures for CIDA totaled \$2,909,541 in fiscal year (FY) 2007, representing approximately 71% of CIDA's entire FY state appropriation.

In regard to employee work appraisals, our review disclosed that CIDA had neither developed nor implemented a formal employee performance evaluation system. From a human resources internal control perspective, performance appraisals are a valuable tool that can be used to document the strengths and weaknesses of an employee while also identifying training and developmental needs.

Information and Communication

For an agency to run and control its operations, it must have relevant, reliable information, both financial and non-financial, relating to external as well as internal events. That information should be recorded and communicated to management and others within the agency who need it and in a form and within a time frame that enables them to carry out their internal control and operational responsibilities. Such control activity factors include:

- Identification and Distribution of Pertinent Financial and Operational Information,
- Open and Effective Communication within the Agency - from all Levels and Directions, and
- Effective Management Communications with Pertinent External Groups (i.e., Independent Auditors)

The CIDA's ICP could be improved by identifying and incorporating more specific references to information and communication data in place, such as systems used during the daily activities of its operations (e.g., District Attorney Management Information Office Network Application System (DAMION) and any other management information systems (MIS), including any information technology (ITD) unit system in use). General statements to the application and relationship of

these various systems to the CIDA risks and corresponding control activities would serve to improve and enhance its ICP.

Information and communication consists of the identification, capture, and exchange of information in a form and time frame that enables people to carry out their responsibilities. Effective internal control requires that “pertinent information be stored, captured and communicated both within the organization and to external parties,” such as state agencies, trustees, vendors, and others. Communication must be ongoing both within and between various levels and activities of the organization.

Monitoring

Internal Control Monitoring should assess the quality of performance over time and ensure that findings of audits and other reviews are promptly resolved. Both “ongoing” monitoring activities and separate evaluations of the internal control system, or portions thereof, should be considered. Ongoing monitoring occurs during normal operations and includes regular management and supervisory activities, comparisons, reconciliations, and other actions people take in performing their duties. Separate evaluations are a way to take a fresh look at internal control by focusing directly on the controls’ effectiveness at a specific time. In addition, monitoring includes policies and procedures for ensuring that any audit and review findings and recommendations are brought to the attention of management and resolved promptly. The control activity factors can be summarized as:

- Ongoing Internal Monitoring of Internal Controls
- Separate Internal Evaluations of Internal Controls
- Audit Resolution Mechanisms

The CIDA’s ICP discusses some monitoring/oversight procedures (e.g., monitoring within its Personnel Policy Manual and fiscal procedures by the Chief Financial Officer and Fiscal Administrative Officer over budget review and analysis, program reviews and surveys, ongoing management, reporting within fiscal operations, and personnel management areas), and contains other references to monitoring authority. However, there is no specific reference to accountability either by responsibility or employee monitoring roles within the Case Management and Court Activities, Victim Witness Protection, and Domestic Violence and Child Advocacy units identified

as having key program risks. How these units monitor control activities needs to be identified and should be stated in the ICP. The CIDA needs to identify monitoring activities and responsibilities that, upon successful application, will ensure that controls to mitigate the program risks are effective and function as intended.

In addition, the ICP does not mention or refer to the roles and responsibilities of the Elder Abuse and Persons with Disabilities, Information Technology, Community Education, and Consumer Protection units. Acknowledgement of their existence as viable operating units of the CIDA and reference to each unit as having control activities with monitoring steps either by inclusion or appendix reference will serve to further strengthen the ICP.

Monitoring is a process that assesses the quality of the internal control performances over time. The effectiveness of internal controls needs to be monitored periodically to ensure that controls continue to be adequate and function properly. This is accomplished through ongoing management and supervisory activities.

Chapter 647 Compliance

Among the minimum criteria for evaluating a department's internal control system are various internal control components outlined in Chapter 647 and OSC guidelines, which are inherent to establishment and reporting within an ICP.

Our review of the CIDA's ICP indicated that components or elements key to effective implementation of an internal control plan were not included or referenced in the ICP. The following key elements were not identified and are required for compliance with Chapter 647:

- Indication that system evaluations are conducted annually, or more often as conditions warrant, of the internal control system, and that all necessary changes are made to the system to ensure its integrity.
- Indication that documentation of the system is readily available for review by the OSC, the Executive Office for Administration and Finance, and the Office of the State Auditor.

Inclusion of these elements and the identification of staff responsibility for their implementation and execution via the ICP should be made during the next update of the ICP by CIDA.

Improvements and updates made to CIDA's ICP are important for the agency to ensure the integrity and effectiveness of its internal control system and to enhance its ability to respond to changes while maintaining the system's effectiveness. Annual updating and monitoring will ensure that the CIDA continues to achieve its objectives efficiently, effectively, and in compliance with applicable state laws, rules, and regulations, and that its assets are properly safeguarded against loss, theft, or misuse. In addition, with an adequate ICP in place, it is more likely that the CIDA will continue to respond appropriately and rapidly to major changes in events affecting its overall control environment, including the implementation of new systems or major changes in key personnel, such as transition of an elected official's position.

In regard to the improvements needed in the CIDA's ICP, agency officials were extremely responsive to our recommendations as they were eager to work towards fully complying with the applicable internal control-related state regulations and OSC guidelines. In fact, the CIDA has arranged to sponsor an ICP development and implementation training program that will be provided by personnel from OSC's Quality Assurance Bureau on August 14, 2008. According to CIDA officials, this training will serve as the "launching pad" for all future improvements and enhancements made to the CIDA's ICP.

In regard to payroll, CIDA officials assured us that the agency intends to enforce, through more effective monitoring measures, its existing controls over the documentation of employee time and attendance. Specifically, the CIDA's Chief Financial Officer provided us with the following response in a memorandum dated May 28, 2008:

It is clear from our own internal evaluation of the [employee time and attendance] system and your valuable input that we need to make certain changes...While we believe the system has supported and continues to support an accurate measure of time and attendance, all such systems should entail some redundancy in an effort to ensure not only the accuracy of the payroll system itself, but to reduce the potential risk associated with a lapse...As a result we are analyzing the system and will soon implement changes that will ensure both the system's modernization and accuracy, but also will provide employees and supervisor's alike with a user friendly, accurate method of maintaining time and attendance. These changes should take effect within 6 months.

In regard to employee performance evaluations, the CIDA's Chief Financial Officer provided us with the following response from the aforementioned memorandum:

...[the CIDA's] office is committed to identifying and implementing a performance evaluation system that is comprehensive, fair, and appropriate....[and that] provides the

feedback critical to any organization's mission and success...It is our expectation that the system will be in place within the next six months.

The significance of a state agency's internal controls for program, administrative, and fiscal operations cannot be overstated. Properly utilized, documented, and updated internal controls assist managers in protecting the Commonwealth's assets and maintaining the public trust.

Recommendation

The CIDA should immediately consider enhancing and improving the content of its ICP to better define its internal control environment by including statements of its philosophy on integrity and ethical values expected of all staff, including top management; updating and expanding its risk assessments to include identifying control activities in place to mitigate all identified fiscal, administrative, and more importantly, programmatic risks; identifying information and communication systems in place within the operation; including identification of monitoring roles and responsibilities in the ICP; and ensuring compliance with all provisions of Chapter 647 of the Acts of 1989 and the guidelines established by OSC.

Once the ICP is developed, the CIDA should regularly update and improve the ICP to ensure that it continues to address its mission and achieve its objectives efficiently, effectively, and in compliance with applicable laws, rules, and regulations. Updating its ICP is important for the CIDA to ensure the integrity and effectiveness of its internal control system and to enhance its ability to respond to changes while maintaining the system's effectiveness. In addition, with an adequate internal control plan in place, it is more likely that the agency will be able to respond appropriately and rapidly to major changes in events affecting its overall control environment, including the implementation of new systems or a major change of key personnel, including the transition of a key administrator's or manager's position.

By complying with existing policies and procedures documented within the ICP, as well as annually updating its current plan with additional agency information regarding its operational activities, the CIDA can ensure that it continues to address its mission and achieve its objectives efficiently, effectively, and in compliance with applicable laws and regulations. A sound plan will provide guidance in the event of administrative change or employee turnover and serve as a mechanism for properly safeguarding assets against loss, theft, or misuse.

Specifically, the CIDA should:

- Utilize definitive language that clarifies how the CIDA's control environment, operating structure, policies, and procedures act to control the risks (control activities), and link these statements through the ICP.
- Update and revise its ICP to include a more comprehensive identification of its control activities used to mitigate its program risks identified in the areas of criminal case management and victim witness protection.
- Upon adding any updates or changes, re-visit the CIDA's identified risks to assess the need for modifying or adding additional risks identified within other areas of the agency's programmatic, fiscal, and administrative operations. If deemed necessary, further develop and implement additional written internal controls to mitigate any new identified risks, providing management the means to identify future control risks.
- Identify and incorporate more specific references to information and communication systems in place that facilitate the daily activities within CIDA operations.
- Identify to whom the plan is to be distributed internally and add language ensuring the availability of the ICP to all parties required by Chapter 647.

Auditee's Response

In response to this issue, CIDA's Chief of Operations stated, in part:

We concur that our operations and financial systems are in general compliance with the laws, rules and regulations of the Commonwealth.

We have reviewed your recommendations and appreciate the cooperative suggestions for improvement. As you note, many of your recommendations are in areas that we have been focused on for some time. We are actively working toward bolstering our Internal Control Plan (ICP) as well as human resource management and measurement systems.

APPENDIX**Chapter 647, Acts of 1989 An Act Relative to Improving the Internal Controls within State Agencies**

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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 ensure 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

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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 weaknesses 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.

House of Representatives, December 21, 1989.

Passed to be enacted, *George Luvaan*, Speaker.

In Senate, December 22, 1989.

Passed to be enacted, *William W. Budge*, President.

January 3, 1990.

Approved, *Richard K. Hahn*, Governor.