



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

*Making government work better*

Official Audit Report – Issued February 4, 2016

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## Bureau of the State House—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*

February 4, 2016

Ms. Tammy E. Kraus, Superintendent  
Bureau of the State House  
State House, Room 1  
Boston, MA 02133

Dear Ms. Kraus:

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

Sincerely,

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

Suzanne M. Bump  
Auditor of the Commonwealth

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## LIST OF ABBREVIATIONS

BSH	Bureau of the State House
CFO	chief fiscal officer
COSO	Committee of Sponsoring Organizations of the Treadway Commission
DCAMM	Division of Capital Asset Management and Maintenance
EOAF	Executive Office for Administration and Finance
ERM	enterprise risk management
GAAP	generally accepted accounting principles
ICP	internal control plan
ICQ	Internal Control Questionnaire
IT	information technology
MAC	Massachusetts State House Art Commission
MMARS	Massachusetts Management Accounting and Reporting System
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, single audit liaisons, and chief fiscal officers (CFOs) instructing departments to complete an Internal Control Questionnaire (ICQ) designed to provide an indication of the effectiveness of the Commonwealth's internal controls. In the Representations section of the questionnaire, the department head, CFO, and internal control officer confirm that the information entered in the questionnaire is accurate and approved.

In accordance with Section 12 of Chapter 11 of the Massachusetts General Laws, the Office of the State Auditor has conducted a limited-scope performance audit of certain information reported in the Bureau of the State House's (BSH's) ICQ for the period July 1, 2014 through June 30, 2015. The objective of our audit was to determine whether certain responses provided by BSH to OSC in 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>	BSH's 2015 ICQ had inaccurate responses on the subjects of its internal control plan (ICP), risk assessment, and capital-asset inventory. In addition, BSH 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. BSH 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, capital-asset inventory, and department representations on its ICQ. It should also retain a printed, approver-signed copy of its certification of its ICQ representations.</li><li>2. If necessary, BSH should request guidance from OSC on these matters.</li></ol>

### Post-Audit Action

BSH's superintendent told us that the agency is currently revising its ICPs and risk assessments to conform to the guidelines in the 2015 OSC Internal Control Guide. She also told us that the Massachusetts State House Art Commission's board of directors was taking actions to appraise and record all art acquired after July 1, 2001. Further, BSH has revised its inventory procedures to include recording, tagging, assignment/custody, monitoring, replacement, and disposal, as well as full documentation of future annual physical inventories.

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## OVERVIEW OF AUDITED ENTITY

The Bureau of the State House (BSH) was established within the Executive Office for Administration and Finance in accordance with Section 1 of Chapter 8 of the Massachusetts General Laws. On July 24, 2012, the Governor issued Executive Order 543,<sup>1</sup> which resulted in the restructuring and integration of most of the Bureau of State Office Buildings' facility-management operations (with the exception of its State House responsibilities) into the Division of Capital Asset Management and Maintenance. BSH was created to perform facility management for the State House. According to BSH's website,

*The Bureau of the State House is organized around several functional areas: Administration; Project Management; Safety and Security; Building Operations; ADA Compliance; the Art Commission; and Events Planning.*

Its mission is to

*uphold the statutory duties of the Commonwealth of Massachusetts General Laws, Chapter 8. Further, it is the responsibility of the Bureau to provide a safe, secure workplace and visitor destination for both employees and customers, ensuring that all who enter the Massachusetts State House have a pleasant, secure, safe and healthy environment. . . .*

BSH had a fiscal year 2015 budget of \$2,515,382. It is headed by a superintendent and has approximately 15 employees. BSH is located in Room 1 of the Massachusetts State House in Boston.

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1. Executive Order 543, Implementing Facilities Management in the Commonwealth, appointed the Commissioner of the Division of Capital Asset Management and Maintenance and an advisory council to develop and implement a guide to integrating the Commonwealth's facilities management and maintenance services.

## AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY

In accordance with Section 12 of Chapter 11 of the Massachusetts General Laws, the Office of the State Auditor (OSA) has conducted a limited-scope performance audit of certain information reported in the Bureau of the State House's (BSH's) Internal Control Questionnaire (ICQ)<sup>2</sup> for the period July 1, 2014 through June 30, 2015. However, because of issues identified during our audit, we expanded our audit period to include ICQs submitted to the Office of the State Comptroller (OSC) before July 1, 2014 solely to review, and report on, the accuracy of responses concerning the areas of our audit for prior fiscal years. We also extended our audit period past June 30, 2015 to obtain the most recent available capital-asset values reported in the state's Massachusetts Management Accounting and Reporting System.

We conducted this limited-scope performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The overall objective of our audit was to determine whether BSH 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 BSH's responses to specific questions pertaining to ICQ sections that we determined to be significant to the agency's overall internal control system. Below is a list of the relevant areas, indicating the conclusion we reached regarding each objective and, if applicable, where each objective is discussed in this report.

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

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2. Each year, OSC issues a memo (Fiscal Year Update) to internal control officers, single audit liaisons, and chief fiscal officers instructing departments to complete an Internal Control Questionnaire designed to provide an indication of the effectiveness of the Commonwealth's internal controls. In the Representations section of the questionnaire, the department head, chief fiscal officer, and internal control officer confirm that the information entered in the questionnaire is accurate and approved.

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Objective	Conclusion
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 BSH had submitted the 2015 ICQ to OSC without certifying the accuracy of its responses in accordance with OSC instructions (Finding 1f).

Our analysis of the information in the ICQ was limited to determining whether agency documentation adequately supported selected responses submitted by BSH in 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 BSH in 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 BSH was based on our interviews and document reviews. Our review was limited to what we considered appropriate when determining the cause of inaccurate ICQ responses.

In order to achieve our objectives, we performed the following audit procedures:

- We reviewed the instructions for completing the fiscal year 2015 ICQ distributed by OSC to all state departments (Appendix B).
- We reviewed the September 2007 version of the OSC Internal Control Guide (the version effective during the audit period) to obtain an understanding of the requirements for preparing an ICP.
- We reviewed Section 3 of Chapter 93H of the General Laws, and Massachusetts Executive Order 504, to obtain an understanding of the requirements pertaining to the safeguarding and security of confidential and personal information and to providing notification of breaches to appropriate parties.
- We reviewed Chapter 93I of the General Laws to obtain an understanding of the requirements pertaining to the disposal and destruction of electronic and hardcopy data records.

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- 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>3</sup> conducted by OSC for BSH.
  - We interviewed BSH’s superintendent to gain an understanding of BSH’s ICQ process and requested and obtained documentation to support the responses in its ICQ for the 12 questions we selected for review.
  - We interviewed BSH’s superintendent to ask whether BSH 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?

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3. 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.

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- Are information system and data security policies included as part of the department's internal controls?
  - Is the department complying with Section 3 of Chapter 93H of the General Laws, and Executive Order 504, regarding notification of data breaches?
  - Are stored personal data, both electronic and hardcopy, secured and properly disposed of in accordance with Chapter 93I of the General Laws and in compliance with the Secretary of State's record-conservation requirements?
  - Are sensitive data, as defined in policy and the General Laws, secured and restricted to access for job-related purposes?

To determine whether the responses that BSH provided to OSC for the above 12 questions were accurate, we performed the following procedures:

- We requested and reviewed BSH's ICP to determine whether it complied with OSC requirements.
- We requested and reviewed any department-wide risk assessments conducted by BSH.
- We conducted interviews with BSH managers to determine the procedures used to prepare and update the ICP and conduct an annual capital-asset inventory.
- We requested and reviewed BSH's policies and procedures for PII to determine whether policies were in place and addressed the provisions of (1) Section 3 of Chapter 93H of the General Laws, and Executive Order 504, regarding notification of data breaches and (2) Chapter 93I of the General Laws regarding storing electronic and hardcopy personal data.
- We requested documentation for the last annual physical inventory conducted by BSH.
- We requested and reviewed all documentation available to support BSH's certification of the accuracy of its responses on the fiscal year 2015 ICQ.

In addition, we assessed the data reliability of OSC's PartnerNet, the electronic data source used for our analysis, by extracting copies of the ICQ using our secured system access and comparing their data to the ICQ data on the source-copy ICQ on file at BSH 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 Bureau of the State House (BSH) 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 BSH indicated that it was complying with OSC guidelines in all the areas we reviewed, its internal control plan (ICP) did not fully document its controls used to mitigate risks; its ICP was not based on guidelines issued by OSC; it could not document that it had conducted an organization-wide risk assessment that included fraud; it could not document that it performed an annual physical inventory of its capital assets; and it did not have procedures encompassing all phases of the inventory process. In addition, BSH 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, BSH may not be able to achieve its mission and objectives effectively; efficiently; and in compliance with applicable laws, rules, and regulations. Further, inaccurate information in the ICQ prevents OSC from effectively assessing the adequacy of BSH's internal control system for the purpose of financial reporting. In addition, without properly identifying its capital assets, performing and documenting an annual physical inventory, and establishing procedures that encompass all phases of the inventory process, BSH 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, BSH 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, BSH's ICP did not document its controls used to mitigate risks.**

In the Internal Control Plans section of the fiscal year 2015 ICQ, departments were asked, "Does the Department have an internal control plan that documents its goals, objectives, risks, and controls used to mitigate those risks?" In response to this question, BSH answered "yes," but our analysis of BSH's

ICPs<sup>4</sup> indicated that the BSH ICP did not document control activities that management had established through policies and procedures to mitigate risks.

**b. Contrary to what its ICQ indicated, BSH's ICPs were not based on guidelines issued by OSC.**

In the Internal Control Plans section of the fiscal year 2015 ICQ, departments were asked, "Is the internal control plan based on guidelines issued by the Comptroller's Office?" In its ICQ, BSH answered "yes," but the ICPs for BSH and the Massachusetts State House Art Commission (MAC) did not fully comply with these guidelines. BSH's ICP did not consider or adequately identify five of the eight components of enterprise risk management (ERM): Risk Assessment, Risk Response, Control Activities, Information and Communication, and Monitoring. MAC's ICP did not consider or adequately identify two of the eight components of ERM: Risk Assessment and Risk Response.

**c. Contrary to what its ICQ indicated, BSH had not conducted an organization-wide risk assessment including the risk of fraud.**

In the Internal Control Plans section of the fiscal year 2015 ICQ, departments were asked, "Has the Department conducted an organization-wide risk assessment that includes the consideration of fraud?" In its ICQ, BSH answered "yes"; however, although its ICPs identified risks, BSH could not provide documentation that these risks had been identified as a result of conducting an organization-wide risk assessment or that the risk of fraud had been considered in developing the ICP. A risk assessment includes an estimate of each identified risk's likelihood and impact and a risk response to address it (e.g., avoidance, reduction, sharing, or acceptance of risk). Developing a risk assessment is important because it enables management to focus its attention on the most important entity risks and to manage risks within defined tolerance thresholds.

**d. Contrary to what its ICQ indicated, BSH had not documented an annual physical inventory of capital assets.**

In the Capital Assets Inventory section of the fiscal year 2015 ICQ, departments were asked, "Does the Department take an annual physical inventory of tangible and/or intangible capital assets including additions, disposals and assets no longer in service?" In its ICQ, BSH answered "yes," but during our audit, BSH could not provide us with documentation to support this assertion for fiscal year

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4. The Massachusetts State House Art Commission (MAC), a functional area of BSH, maintains a separate ICP.

2015. Although BSH provided us with its fiscal-year inventory schedule, it could not provide us with supporting documentation to show that an annual inventory had been conducted. Further, although it was outside our audit period, we noted that BSH answered "yes" to this question in its ICQs for fiscal years 2012 through 2014.

**e. BSH does not have documented procedures encompassing all phases of the inventory process.**

In the Internal Control Plans section of the fiscal year 2015 ICQ, departments were asked, "Are there procedures that encompass all phases of the inventory process: acquisition, recording, tagging, assignment/custody, monitoring, replacement and disposal, as well as the assignment of the roles of responsibility to personnel?" In its ICQ, BSH answered "yes," but during our audit, BSH and MAC could not provide us with documentation of procedures encompassing all phases of the inventory process. Further, although they were outside our audit period, we noted that BSH also responded "yes" to the question for fiscal years 2013 and 2014, the first two years this question was included in the ICQ.

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

Contrary to OSC guidance, BSH's department head (who is also the chief fiscal officer, or CFO) and its internal control officer did not certify that they had read and approved each statement presented on the ICQ.

**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 "Instructions for Completing the FY2015 Internal Control Questionnaire" (Appendix B), the department head, CFO, and internal control officer 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.

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In its document *Enterprise Risk Management—Integrated Framework*, or *COSO II*, the Committee of Sponsoring Organizations of the Treadway Commission (COSO) defines ERM as “a process, effected by the entity’s board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage the risks to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives.” To comply with OSC internal control guidelines, an ICP must contain information on the eight components of ERM: Internal Environment, Objective Setting, Event Identification, Risk Assessment, Risk Response, Control Activities, Information and Communication, and Monitoring. COSO guidance states that all components of an internal control system must be present and functioning properly and operating together in an integrated manner in order to be effective. In addition, OSC’s Internal Control Guide requires ICPs to include a risk assessment.

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

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

The BSH superintendent told us that BSH management was not aware of the OSC Internal Control Guide's requirements regarding the ERM framework, organization-wide risk assessment, and documentation of controls used to mitigate risks. She also stated that she was unaware that inventory procedures had to be documented, but that procedures would be developed. Finally, she stated that BSH was unaware of OSC’s requirement that the department head, CFO, and internal control officer certify the responses on the ICQ by signing and dating the form and retaining a signed copy on file as confirmation of its accuracy.

BSH’s director of operations stated that, although an annual physical inventory had been performed by an intern assigned to BSH, it was not documented.

### **Recommendations**

1. BSH 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, capital-asset inventory, and department representations on its ICQ. It should also retain a printed, approver-signed copy of its certification of its ICQ representations.
2. If necessary, BSH should request guidance from OSC on these matters.

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## Auditee's Response

*We look forward to working with your staff and the Office of the Comptroller to gain a better understanding of the requirements and we will address the issues and implement the changes accordingly.*

- *With assistance from OSC, BSH is weighing the option of contracting with an Internal Controls specialist to ensure that we have a plan that better documents our goals, objectives, risks and the controls to mitigate risks.*
- *BSH and the MAC have begun meetings with OSC to educate ourselves to be in full compliance with OSC's guidelines related to both ICP's. BSH and MAC will be consolidating the two ICP's into one for 2016.*
- *BSH and the MAC will be working with both an IC specialist and OSC to develop a detailed risk assessment to assist BSH management to identify risks and tolerance thresholds.*
- *OSC is currently trying to resolve the errors associated with the unsuccessful transferring One Ashburton Place, the Springfield Transportation Building and the Hurley / Lindemann Building from BSH / [the Bureau of State Office Buildings] to [DCAMM]. There have been over two thousand error messages received by DCAMM finance and the transactions remain as "rejected" in MMARS related to BSH's fixed assets inventory.*
- *BSH is in the process of writing the documented procedures encompassing all phases of the inventory process. The annual inventory will be conducted during a specified time during each fiscal year. BSH's curator is in the process of seeking replacement costs from artists for all artwork acquired after 2001. For inventory purposes, MMARS access will be granted to the BSH curator allowing her access to record artwork acquired after 2001 into the MMARS system.*

## Auditor's Reply

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

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## OTHER MATTERS

In addition to the findings discussed in this report, our audit identified other control weaknesses and limitations within the Bureau of the State House's (BSH's) inventory process. Specifically, the State House Art Collection was not recorded in the state's Massachusetts Management Accounting and Reporting System (MMARS), its inventory records were not complete, and an annual physical inventory of its information technology (IT) assets had not been conducted, as discussed below.

### 1. Inventory Issues (Capital Assets)

#### a. The State House Art Collection was not recorded in MMARS.

Section 20 of Chapter 6 of the Massachusetts General Laws charges the Massachusetts State House Art Commission, a functional area of BSH, with the "custody and care of all works of art and historical artifacts in the state house art collection." The collection is composed of approximately 278 paintings, sculptures, plaques, and reliefs and had a total value of \$3,273,600 when it was last appraised, in 1987. The Office of the State Comptroller's (OSC's) Fixed Assets—Acquisition Policy requires that "all works of art and historical treasures, regardless of cost, acquired or donated to a department" after July 1, 2001 be recorded in MMARS at acquisition cost or appraisal value on the date of donation. BSH had not appraised, or recorded in MMARS, 20 works of art that were donated or otherwise acquired after July 1, 2001.

Finally, 17 works of art listed on BSH's internal Acquisitions by Year Report were not included on BSH's internal Inventory of Art and Artifacts Collections Report, and conversely, 9 items on the Inventory of Art and Artifacts Collections Report were not listed on the Acquisitions by Year Report. OSC's Fixed Assets—Acquisition Policy requires a reconciliation of assets at least once a year and states that internal inventory reports should include the purchase date, amount, description, location, and disposal of an item.

We discussed this matter with BSH's management, who concurred that the items in the art collection that were donated or otherwise acquired after July 1, 2001 should be recorded in the MMARS Fixed Asset Subsystem and stated that they would take corrective actions on this and the other issues identified.

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**b. BSH’s capital-asset inventory is not properly stated in MMARS, and its inventory records do not contain all required information.**

The MMARS Fixed Asset Subsystem reported that as of September 30, 2015, BSH had capital assets totaling \$259.1 million in the following categories: Buildings, Land, Equipment, and Construction in Process. Included in this amount was \$135.4 million in assets that are required to be transferred to the Division of Capital Asset Management and Maintenance (DCAMM) as a result of the restructuring of the Bureau of State Office Buildings in 2012. We discussed this issue with BSH management, who stated that they would collaborate with DCAMM and OSC to resolve this issue.

Our review of BSH’s fixed-asset inventory list for fiscal year 2015 showed that the purchase dates and acquisition costs of individual assets were not recorded as required by OSC policy. Without recording this information, BSH cannot be sure that its capital assets are properly classified and reconciled. The OSC Fixed Assets—Acquisition Policy requires that generally accepted accounting principles (GAAP) assets be recorded in the MMARS Fixed Asset Subsystem and that non-GAAP fixed assets be recorded in a department’s inventory. This inventory can be either electronic or on paper, as long as it records the date of purchase, amount, description, location, and disposal of an item. The policy also requires that all land, regardless of cost; all equipment with an acquisition cost above \$49,999; and all buildings with an acquisition cost above \$99,999 must be depreciated in accordance with GAAP and recorded in the MMARS Fixed Asset Subsystem.

The OSC Accounting and Management Policy for fixed assets requires an annual physical inventory and states,

*There shall be a **reconciliation of the fixed asset inventory** against the books and records maintained by the department, either on the Fixed Asset Subsystem or other documented methods. This reconciliation is to be done, at a minimum, on an annual basis. . . . Internal records must reconcile to the records available on the Fixed Asset Subsystem.*

**2. Inventory Issues (IT): Annual physical inventories of IT assets were not conducted.**

On May 9, 2011, the Governor issued Executive Order No. 532. This order superseded Executive Order 510, which transferred the responsibility of accounting for the IT assets of executive departments, including BSH, to the Executive Office for Administration and Finance (EOAF). One of EOAF’s responsibilities under both orders was to perform annual physical inventories of BSH’s IT assets in

accordance with the state Information Technology Division's Enterprise IT Asset and Risk Management Policy, dated March 6, 2014. This policy states,

*Secretariats and their respective agencies are required to . . . annually conduct a physical audit of IT assets and reconcile the audit with the IT asset inventory. Agencies must investigate and resolve discrepancies between the physical audit of IT assets and the IT asset inventory.*

As part of our current audit, we asked whether an annual physical inventory of BSH's IT assets had been conducted. BSH personnel told us that they believed that EOAF had conducted a physical inventory during fiscal year 2015; however, BSH could not provide us with documentation to support this assertion. We discussed this issue with EOAF's bureau chief of Technical Services, who is responsible for the management of IT assets for departments under EOAF. He stated that because of limited resources and time constraints, physical inventories are not conducted annually; rather, EOAF conducts its physical inventory of IT assets at the end of its three-year lease. He further stated that corrective action would be taken to ensure annual physical inventories of BSH's IT assets.

Without performing and documenting a physical inventory or establishing procedures that encompass all phases of the inventory process, BSH is not ensuring that its capital assets are properly safeguarded against loss, theft, and misuse and that its inventory records are complete and accurate.

Although the above matters were outside the scope of this audit, they show that BSH should strengthen the controls over its inventory process.

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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.*

## APPENDIX B

### Office of the State Comptroller's Memorandum Internal Control Questionnaire and Department Representations



MARTIN J. BENISON  
COMPTROLLER

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

From: Martin J. Benison, Comptroller

Date: May 6, 2015

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

Comptroller Memo # FY2015-25

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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](#) .

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**.