



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

Making government work better

Official Audit Report – Issued May 20, 2016

Department of Fire Services—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

May 20, 2016

Mr. Peter Ostroskey, State Fire Marshal
Department of Fire Services
1 State Road
Stow, MA 01775

Dear Mr. Ostroskey:

I am pleased to provide this performance audit of the Department of Fire Services. 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 Department of Fire Services 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

CFO	chief fiscal officer
COSO	Committee of Sponsoring Organizations of the Treadway Commission
DFS	Department of Fire Services
ERM	enterprise risk management
GAAP	generally accepted accounting principles
ICP	internal control plan
ICQ	Internal Control Questionnaire
OSA	Office of the State Auditor
OSC	Office of the State Comptroller
PII	personally identifiable information

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 on the questionnaire is accurate and approved.

In accordance with Section 12 of Chapter 11 of the Massachusetts General Laws, the Office of the State Auditor has conducted a performance audit of certain information reported in the Department of Fire Services' (DFS's) ICQ for the period July 1, 2014 through June 30, 2015. The objective of our audit was to determine whether certain responses that DFS provided to OSC on its fiscal year 2015 ICQ were accurate.

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

Finding 1 Page 7	DFS's 2015 ICQ had inaccurate responses on the subjects of its internal control plan (ICP), capital-asset inventory, and Chapter 647 compliance.
Recommendations Page 10	<ol style="list-style-type: none">1. DFS 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, capital-asset inventory, and compliance with Chapter 647 of the Acts of 1989 on its ICQ.2. If necessary, DFS should request guidance from OSC on these matters.

OVERVIEW OF AUDITED ENTITY

The Department of Fire Services (DFS) was established under Section 109 of Chapter 151 of the Acts and Resolves of 1996 (the Commonwealth's fiscal year 1997 appropriation act). This act added Chapter 22D to the Massachusetts General Laws, establishing DFS and its divisions under the direction of the State Fire Marshal within the Executive Office of Public Safety and Security. According to its website:

The mission of the Department of Fire Services is . . . to provide the citizens of Massachusetts with the ability to create safer communities; to assist and support the fire service community in the protection of life and property; to promote and enhance firefighter safety; and to provide a fire service leadership presence in the Executive Office of Public Safety and Security in order to direct policy and legislation on all fire related matters.

DFS statutorily consists of the Division of Training, which includes the Massachusetts Fire Training Council and the Massachusetts Firefighting Academy; the Division of Fire Safety; and the Division of Hazardous Materials. In addition, the department includes the Fire and Explosion Investigation Section and the Administrative Services Unit.

DFS, which is located at 1 State Road in Stow, had a fiscal year 2015 budget of \$21,387,373. During our audit period, it had approximately 80 full-time employees.

AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY

In accordance with Section 12 of Chapter 11 of the Massachusetts General Laws, the Office of the State Auditor (OSA) has conducted a performance audit of certain information reported in the Department of Fire Services' (DFS's) Internal Control Questionnaire (ICQ) for the period July 1, 2014 through June 30, 2015. Because of issues identified during our audit, we expanded our audit period to include ICQs submitted to the Office of the State Comptroller (OSC) before July 1, 2014 solely to review, and report on, the accuracy of responses concerning the areas of our audit for prior fiscal years.

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

The overall objective of our audit was to determine whether DFS 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 DFS'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 our audit objectives, indicating each question we intended our audit to answer; the conclusion we reached regarding each objective; and, if applicable, where each objective is discussed in the audit findings.

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

Our analysis of the information on the ICQ was limited to determining whether agency documentation adequately supported selected responses submitted by DFS on its ICQ for the audit period; it was not designed to detect all weaknesses in the agency's internal control system or all instances of inaccurate information reported by DFS on the ICQ. Further, our audit did not include tests of internal controls to determine their effectiveness as part of audit risk assessment procedures, because in our judgment, such testing was not significant within the context of our audit objectives or necessary to determine the accuracy and reliability of ICQ responses. Our understanding of internal controls and management activities at DFS was based on our interviews and document reviews. Our audit 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 our previous audit report (No. 2008-0012-3S) to determine whether any weaknesses in internal controls had been identified that pertained to our current audit objectives.
- We reviewed Section 3 of Chapter 93H of the General Laws, and Massachusetts Executive Order 504, to obtain an understanding of the requirements pertaining to the safeguarding and security of confidential and personal information and to providing notification of breaches to appropriate parties.
- We reviewed Chapter 93I of the General Laws to obtain an understanding of the requirements pertaining to the disposal and destruction of electronic and hardcopy data records.
- We interviewed the director of OSC's Quality Assurance Bureau to obtain an understanding of OSC's role in the ICQ process and to obtain and review any departmental quality assurance reviews¹ conducted by OSC for DFS.

1. According to OSC, the primary objective of the quality assurance reviews is to validate (through examination of transactions, supporting referenced documentation, and query results) that internal controls provide reasonable assurance that Commonwealth departments adhere to Massachusetts finance law and the policies and procedures issued by OSC. The quality assurance review encompasses the following areas: internal controls, security, employee and payroll status, and various accounting transactions. The internal control review determines whether the department has a readily available updated ICP.

-
- We interviewed DFS’s director of Administrative Services to gain an understanding of DFS’s ICQ process, and we requested and obtained documentation to support the responses on its ICQ for the 12 questions we selected for review.
 - We interviewed DFS’s director of Administrative Services to ask whether DFS had any instances of variances, losses, shortages, or thefts of funds or property to determine compliance with Chapter 647 of the Acts of 1989’s requirement of reporting to OSA.
 - We reviewed the fiscal year 2015 ICQ and selected questions pertaining to (1) the ICP, (2) Chapter 647 requirements, (3) capital-asset inventory (GAAP and non-GAAP), and (4) PII. We selected these areas using a risk-based approach and prior OSA reports that noted inconsistencies with departmental supporting documentation and agency ICQ responses submitted to OSC. Accordingly, we selected the following ICQ questions:
 - Does the department have an ICP that documents its goals, objectives, risks, and controls used to mitigate those risks?
 - Is the ICP based on the guidelines issued by OSC?
 - Has the department conducted an organization-wide risk assessment that includes the risk of fraud?
 - Has the department updated its ICP within the past year?
 - Does the department require that all instances of unaccounted-for variances, losses, shortages, or thefts of funds be immediately reported to OSA?
 - Does the department have singular tangible and/or intangible capital assets with a useful life of more than one year?
 - Does the department take an annual physical inventory of tangible and intangible capital assets, including additions, transfers, disposals, and assets no longer in service?
 - Are there procedures that encompass all phases of the inventory process—acquisition, recording, tagging, assignment/custody, monitoring, replacement, and disposal—as well as the assignment of the roles of responsibility to personnel?
 - Are information system and data security policies included as part of the department’s internal controls?
 - Is the department complying with Section 3 of Chapter 93H of the General Laws, and Executive Order 504, regarding notification of data breaches?
 - Are stored personal data, both electronic and hardcopy, secured and properly disposed of in accordance with Chapter 93I of the General Laws and in compliance with the Secretary of State’s record-conservation requirements?
 - Are sensitive data, as defined in policy and the General Laws, secured and restricted to access for job-related purposes?

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

- We requested and reviewed DFS's ICP to determine whether it complied with OSC requirements.
- We requested and reviewed any department-wide risk assessments conducted by DFS.
- We conducted interviews with DFS managers to determine the procedures used to prepare and update the ICP; conduct an annual capital-asset inventory; and, if applicable, report unaccounted-for variances, losses, shortages, or thefts of funds immediately to OSA.
- We requested and reviewed DFS'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 DFS.
- We requested and reviewed all documentation available to support DFS's certification of the accuracy of its responses on the fiscal year 2015 ICQ.

In addition, we assessed the data reliability of OSC's PartnerNet, the electronic data source used for our analysis, by extracting copies of the ICQ using our secured system access and comparing OSC's data to the ICQ data on the source-copy ICQ on file at DFS during our subsequent interviews with management. ICQ questions are answered entirely with a "Yes," "No," or "N/A" checkmark. By tracing the extracted data to the source documents, we determined that the information was accurate, complete, and sufficiently reliable for the purposes of this audit.

DETAILED AUDIT FINDINGS WITH AUDITEE'S RESPONSE

1. Information reported regarding internal controls was inaccurate or unsupported by documentation.

Some of the information that the Department of Fire Services (DFS) 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 DFS indicated that it was complying with OSC guidelines in all the areas we reviewed, its internal control plan (ICP) did not document its organizational objectives; its ICP was not based on guidelines issued by OSC; it had not documented an annual physical inventory of its capital assets; and it had not immediately reported all instances of unaccounted-for variances, losses, shortages, or thefts of funds to the Office of the State Auditor (OSA).

Without establishing an ICP in accordance with OSC guidelines, DFS may not be able to achieve its mission and objectives effectively; efficiently; and in compliance with applicable laws, rules, and regulations. Further, inaccurate information on the ICQ prevents OSC from effectively assessing the adequacy of DFS's internal control system for the purpose of financial reporting. In addition, without performing and documenting an annual physical inventory, DFS 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, not reporting unaccounted-for variances, losses, shortages, or thefts immediately to OSA could prevent OSA from determining the internal control weakness that contributed to or caused the problems and from making the necessary recommendations to address them.

The problems we found are detailed in the sections below.

a. Contrary to what its ICQ indicated, DFS's ICP did not document its organizational objectives.

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, DFS answered "yes," but although its ICP contained goals, risks, and controls to reduce identified risks, it did not document organizational objectives.

b. Contrary to what its ICQ indicated, DFS's ICP was not based on guidelines issued by OSC.

In the Internal Control Plans section of the fiscal year 2015 ICQ, departments were asked, "Is the internal control plan based on guidelines issued by the Comptroller's Office?" On its ICQ, DFS answered "yes," but its ICP did not fully comply with these guidelines. Specifically, it did not consider or adequately identify two of the eight components of enterprise risk management (ERM): Internal Environment and Objective Setting.

c. Contrary to what its ICQ indicated, DFS had not documented an annual physical inventory of capital assets.

In the Capital Assets Inventory section of the fiscal year 2015 ICQ, departments were asked, "Does the Department take an annual physical inventory of tangible and/or intangible capital assets including additions, transfers, disposals and assets no longer in service?" On its ICQ, DFS answered "yes," but during our audit, it could not provide us with documentation to support this assertion for fiscal year 2015.² Although it provided us with its fiscal-year inventory list and other supporting documents, it could not provide supporting documentation that an annual inventory had been conducted. Further, although they were outside our audit period, we noted that DFS answered "yes" to this question on its ICQs for fiscal years 2013 and 2014.

d. Contrary to what its ICQ indicated, DFS did not report a theft of funds to OSA as required by Chapter 647 of the Acts of 1989.

In the Internal Control Plans section of the fiscal year 2015 ICQ, departments were asked, "Does the department require that all instances of unaccounted-for variances, losses, shortages, or thefts of funds or property be immediately reported to the State Auditor's Office?" On its ICQ, DFS answered "yes," but a theft of funds had occurred in May 2014 that was not reported to OSA.

As a result of our audit, DFS filed a Chapter 647 report with our office in February 2016.

2. Our prior audit report (2008-0012-3S), issued on October 19, 2010, also noted that DFS was not fully compliant with OSC inventory control guidelines and its own control procedures for inventory. Specifically, DFS had not consistently conducted annual physical inventory counts and had inconsistencies within its inventory list, such as multiple items without purchase dates or amounts listed and numerous items documented or identified as missing. Furthermore, the items documented as missing on the DFS inventory list were not reported to OSA, contrary to Chapter 647 of the Acts of 1989.

Authoritative Guidance

The ICQ is a document designed by OSC that is sent to departments each year requesting information and department representations on their internal controls over 12 areas: management oversight, accounting system controls, budget controls, revenue, procurement and contract management, invoices and payments, payroll and personnel, investments held by the Commonwealth, material and supply inventory, capital-asset inventory, federal funds, and information-technology security and personal data. The purpose of the ICQ is to provide an indication of the effectiveness of the Commonwealth's internal controls. External auditors use department ICP and ICQ responses, along with other procedures, to render an opinion on the internal controls of the Commonwealth as a whole.

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

OSC's Accounting and Management Policy and Fixed Assets—Acquisition Policy require an annual inventory of each department's fixed assets.

Chapter 647 of the Acts of 1989 requires that all unaccounted-for variances, losses, shortages, or thefts of funds or property be immediately reported to OSA.

Reasons for Inaccurate or Unsupported Information

The director of Administrative Services and the chief financial officer stated that they believed that the ICP contained sufficient control-environment information and that the goals stated in the ICP were sufficient for objective setting. The director of Capital Asset Management stated that a physical inventory was conducted, but not documented as required by DFS's Fixed Asset Policy and Procedures.

Finally, the director of Administrative Services stated that the theft was not reported to OSA according to DFS's established procedures because of an administrative oversight on her part.

Recommendations

1. DFS 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, capital-asset inventory, and compliance with Chapter 647 of the Acts of 1989 on its ICQ.
2. If necessary, DFS should request guidance from OSC on these matters.

Auditee's Response

Finding 1a

DFS annually establishes strategic goals, objectives, performance indicators and monitors and reports monthly on progress against these performance benchmarks. The Internal Control Plan documents the agency's goals at a high level and DFS will incorporate greater detail on its objectives into the Internal Control Plan. DFS will additionally improve the Internal Control Plan narrative to more readily demonstrate the linkage between the risk controls and objectives.

Finding 1b

DFS recognizes the importance of identifying the Internal Environment as a key component to lend structure to risk management. While the DFS Internal Control Plan identified several key principles in describing its Internal Environment, such as a commitment to integrity and ethical values, oversight responsibilities, and the organizational structure, the plan did not fully identify the agency's commitment to competence. The DFS is committed and can readily demonstrate its commitment to ensuring the competency of its staff through such activities as established formal job descriptions, certifications and training. The Internal Control Plan will be updated to specifically acknowledge these components of the DFS Internal Control Environment.

Finding 1c

Over the past several years, DFS has instituted significant changes in inventory control, such as building a secure warehouse, acquiring modern IT equipment and software for inventory tracking, hiring staff, and issuing policies and procedures. DFS recognizes that additional training and quality assurance monitoring is necessary to ensure the annual physical inventory is promptly and accurately performed and the inventory policies and procedures are being followed. Since October, 2015, DFS has formed an Inventory Committee charged with the responsibility to monitor compliance with the DFS Fixed Asset Policies and Procedures. As a result of that committee, staff training has been conducted on the Intelli-track inventory computer system and data improvements have been made to this electronic database, allowing the agency to migrate away from the

mix of paper and electronic record-keeping. Additionally, the DFS Inventory Committee is monitoring the activities of the annual physical count and ensuring written documentation is compiled and retained as each stage of the process, as each division's physical count is completed. Ongoing monitoring and the identification of procedural improvements will continue to be conducted by the DFS Inventory Committee. The DFS Capital Asset Management Division has additionally scheduled agency-wide training on Fixed Assets Policies and Procedures, for which participation will be mandatory. This training will be conducted at the conclusion of this year's physical count.

Finding 1d

The Department of Fire Services remains committed to compliance with reporting requirements of Chapter 647 and, as acknowledged in the draft audit report, the Internal Control Officer has corrected the administrative oversight on this issue by submitting the on-line report to the Office of the State Auditor. It should be noted that in 2014, the Department of Fire Services did fully report the incident to the State Comptroller's Office, Office of Technology Information Services, and the [Massachusetts Office of Information Technology], and DFS fully cooperated in the investigation. In an effort to further institute safeguards to ensuring such reporting oversights are not repeated, the Internal Control Officer will be required to copy the General Counsel and the Chief Financial Officer on any and all future Chapter 647 filings to the State Auditor.

In its written response to our report, DFS also stated,

In April, 2016, the Office of the Comptroller presented Risk Management and Internal Control training to all DFS senior managers and key operational staff and supervisors. Additionally, the Comptroller's Quality Assurance staff conducted a courtesy review of the DFS Internal Control Plan and provided feedback and guidance to the Internal Control Officer. DFS will continue to consult with the Office of the Comptroller's staff for guidance and expertise, as needed. . . .

The Department of Fire Services is strongly committed to implementing each of the recommendations contained in the Auditor's Report and to accurately completing the annual Internal Control Questionnaire. The Department of Fire Services recognizes the importance of risk management and will continue to institute and monitor risk controls to protect the Commonwealth's assets and successfully achieve our mission.

Auditor's Reply

Because DFS's response did not specifically address reporting all unaccounted-for variances, losses, shortages, or thefts of funds or property immediately to OSA, we recommend that it implement a process to ensure that this is done without delay for all Chapter 647 filings.

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

OTHER MATTERS

The Department of Fire Services' capital-asset inventory records were inaccurate and did not include required information.

In addition to the findings discussed in this report, our audit identified other control weaknesses within the Department of Fire Services (DFS). Specifically, its capital-asset inventory records were inaccurate and incomplete and did not contain all the information required by the Office of the State Comptroller (OSC). DFS gave us a list of its capital (fixed) assets as of June 30, 2015, containing 4,434 individual assets with a total value of \$28,572,748. Our review of the list identified 634 individual assets, worth a total of \$388,829, that were erroneously duplicated and 1,804 (41%) individual assets without acquisition costs.

Furthermore, although the DFS inventory records usually provided assets' purchase dates, acquisition costs, locations, and descriptions, the records did not have disposal information on any assets that were no longer in service. OSC's Fixed Assets—Acquisition Policy requires inventories to include the date of purchase, amount, description, location, and disposal of each item.

As a result of these issues, DFS cannot be sure that all of its capital assets are properly accounted for and accurately reported. DFS's director of Administrative Services stated that the department was still transitioning to its new fixed-asset system (Intelli-track), that all the information had been updated, and that the agency would take corrective action to include all required information on its inventory list.

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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Phone (617) 727-5000
Fax (617) 727-2163
INTERNET: <http://www.mass.gov/osc>

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

From: Martin J. Benison, Comptroller

Date: May 6, 2015

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

Comptroller Memo # FY2015-25

Executive Summary

This memo announces the FY2015 *Internal Control Questionnaire (ICQ)*. **The ICQ application is located on our intranet site, [Comptroller Intranet](#), under PartnerNet. See the attached *Instructions for Completing the FY2015 Internal Control Questionnaire for details*. Departments should complete the ICQ on or before May 29, 2015. Auditors, and staff from the Comptroller's Quality Assurance Bureau review ICQ responses and may contact departments to follow up on specific answers. Department management is responsible for implementing and maintaining effective internal controls based on prescribed statutes, regulations and policies. The ICQ's Representations Section confirms this for the Commonwealth.**

The user must first enter PartnerNet to access the ICQ for both data entry and review. Chief Fiscal Officers, (CFOs) Single Audit Liaisons and Internal Control Officers (ICOs) already have access to both PartnerNet and the ICQ. Once these users log on to PartnerNet, they will be presented with a link to the ICQ application. Department Security Officers can request access for additional users by submitting a [PartnerNet Security Request Form](#) .

The ICO, the Single Audit Liaison, and the CFO should work closely with senior management to identify appropriate staff for providing responses to every section of the ICQ. Please collect and review all responses, then

enter them into the ICQ application no later than May 29, 2015. **Instructions on completing and submitting the ICQ are attached.**

The ICQ is designed to provide an indication of the effectiveness of the Commonwealth's internal controls. During the Single Audit, auditors from KPMG, as well as Comptroller staff, will review the internal controls of several departments in more depth. They will also visit departments to follow-up on prior year findings, review compliance with federal and state regulations, test selected transactions, and review cash and encumbrances. The auditors use department Internal Control Plans and ICQ responses, along with other procedures, to render an opinion on the internal controls of the Commonwealth as a whole.

The Office of the State Auditor also refers to ICQ responses and Internal Control Plans when conducting their audits of state agencies.

Departments Using Centralized Business Units

Some departments use centralized business units to perform functions for multiple departments such as human resources, payroll, accounting, and procurement. These departments should answer the questions as if they used a contractor to perform these functions. In the comments field of each relevant section, briefly describe the arrangement.

Representations

The last section of the questionnaire is the department's certification of the accuracy of responses.

The Department Head, CFO, and ICO must read and approve each statement. Then, enter the approvers' names, official titles, and approval dates. **Finally, print this section, have each person sign and date it, and keep the signed copy on file as your department's certification of the representations.**

Internal controls are critical in creating an environment that is accountable to the public, while being responsive to the needs and direction of senior management. The Internal Control Act, Chapter 647 of the Acts of 1989, mandates that each department document its internal controls in accordance with guidelines established by the Office of the Comptroller – see: [Internal Control Guide](#) 

The completed ICQ is due on or before **May 29, 2015**. Staff should plan to provide a copy to any auditors or regulators, federal or state, who conduct a review of your agency. If you have any questions, contact the Comptroller's Help Line at (617) 973-2468. Thank you in advance for your time and cooperation.

Attachments: [Instructions for Completion](#)

cc:

Single Audit Liaisons,

MMARS Liaisons

Payroll Directors

General Counsels

Internal Distribution

Instructions for Completing the FY2015 Internal Control Questionnaire

The Office of the Comptroller (CTR) collects Internal Control Questionnaire (ICQ) data electronically. Please submit the completed questionnaire no later than **May 29, 2015**. Each section includes an area for optional comments at the end. The *Comments* blocks accept up to 500 characters.

ACCESS

1. The questionnaire is accessed through PartnerNet.
2. From the CTR portal, click on the [Comptroller Intranet](#) button. [PartnerNet](#) is the 3rd selection under "Applications." Select the link to access the PartnerNet login screen.
3. Log in to PartnerNet using your Commonwealth UAID and your password (if you do not have or do not know your UAID or your password, contact your department security officer for assistance).
4. If this is your first time in PartnerNet, you will be presented with the requirement of creating your own password. After successfully changing your password, the My Home link will be available. If you are already a PartnerNet user, the login procedure will have presented you with the My Home application page.
5. Once at the *My Home* page, test the *ICQ* link under the Applications heading. If nothing happens, review the error bar across the top of your screen, "*Pop-up blocked.*" You can set your browser to "*Always Allow Pop-ups from This Site*" by clicking the error bar, and selecting the "Allow" option (you need do this only on the first visit). Click the link to the ICQ application again.
6. Step 5 will bring you to your department's 2015 ICQ selection screen. Maximize your browser window.
7. Choose Fiscal Year: 2015 with the *Select* button.
8. If the text displayed does not wrap properly and you are using an Internet Explorer browser, select the Tools button on the toolbar and select "Compatibility View."
9. Data from our files was entered for the first five items of the Department Information Section. Please enter or correct information where necessary. Then continue with the rest of the questionnaire.

10. To view last year's ICQ responses, click the *Printing and Status* link located on the Top Menu Bar. A link to the 2014 ICQ is found under the heading: **Archived**.

COMPLETING QUESTIONS AND SAVING YOUR WORK: Each department must answer all questions applicable to its operations. To save a partially completed ICQ, click on the *Save and Proceed* button located at the end of each section. This will save your work and bring you directly to the following section. After your work is saved, click on the red *Exit* button located at the top of each section.

The section menu on the left navigation panel allows you to navigate between sections. However, each section must be saved (*Save and Proceed* button) before exiting or the information will be lost.

Save frequently. If you have not "saved" or otherwise interacted with the system for *five minutes*, the system will log you out. **If you did not "save" data entered before being logged out, you will lose that information.**

PRINT. After logging in, users may find it useful to print the questionnaire and distribute sections to the appropriate business area managers. The questionnaire can be printed from the *Printing and Status* page (the link is located at the top-right of the masthead). *Printing and Status* displays all of the responses for all sections of the ICQ. Select the *Print* button to print the entire document.

STATUS. The Printing and Status page will also display the ICQ status (Complete/Incomplete) and the last user's ID.

SECTIONS OR QUESTIONS THAT DO NOT APPLY TO YOU: Not all sections or questions apply to all departments. Please do not skip a section. Enter "No" or "Not Applicable" to the first question of the section. For example: *Does the department receive or manage any federal funds?* Selecting "No" will inactivate all related questions in this section. Simply go to the next available question to continue the questionnaire. If you discover that you inactivated questions by mistake, changing the original response from "No" to "Yes" will activate all related questions.

REPRESENTATIONS: The Representations Section operates differently than other ICQ Sections. In this section, the Department Head, CFO, and Internal Control Officer confirm that the information entered into the questionnaire is accurate and approve the representations listed. After they have reviewed the representations, enter their names, official titles, and the approval dates in the appropriate fields. Print this section, have each approver sign it, and file it as your department's certification of the representations. Do not select Save and Submit until you have completed the entire questionnaire, including the representations by the Department Head, CFO and Internal Control Officer.

SUBMIT TO THE OFFICE OF THE COMPTROLLER.

When the ICQ is complete, select *Save and Submit* and click the *Done* button.

After the ICQ is successfully submitted, the questionnaire will be stored in the Comptroller's ICQ database. Once submitted, your department will no longer be able to change the document. If you have accidentally or prematurely submitted the questionnaire and need to make corrections, contact the Comptroller's Help Line (617 973-2468) to unlock your questionnaire. *Save and Submit* the completed ICQ no later than **May 29, 2015**.