



The Commonwealth of Massachusetts

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**INDEPENDENT STATE AUDITOR'S REPORT ON
CERTAIN ACTIVITIES OF THE
MASSACHUSETTS MILITARY DIVISION -
MASSACHUSETTS NATIONAL GUARD
JULY 1, 2006 TO OCTOBER 31, 2007**

**OFFICIAL AUDIT
REPORT
JANUARY 27, 2009**

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The Massachusetts Military Division – Massachusetts National Guard (MMD) was established under the provisions of Chapter 33, Section 11, of the Massachusetts General Laws. The Massachusetts National Guard’s mission is to maintain properly trained and equipped military units available as needed to support the Department of Defense under the direction of the President of the United States and to provide trained and disciplined military forces for emergencies within the Commonwealth of Massachusetts under the direction of the Governor of Massachusetts. As of October 31, 2007, MMD had 71 state employees and approximately 7,500 soldiers and airmen serving in Air Force and Army units, in both combat and support roles. The Joint Force Headquarters for the Air National Guard and Army National Guard is located in Milford, Massachusetts and provides a ready command and control center to manage homeland defense operations.

In accordance with Chapter 11, Section 12, of the General Laws, the Office of the State Auditor conducted an audit of MMD for the period July 1, 2006 to October 31, 2007. The purpose of the audit was to determine whether MMD is efficiently and effectively administering all aspects of its operations, has an adequate Internal Control Plan (ICP), has complete and accurate accounting records, and is complying with applicable laws, rules, and regulations. The scope of our audit included an assessment of MMD’s internal controls over financial and management activities and a review of its accounting, reporting, and recording of program costs to determine their appropriateness and reasonableness. Our objectives were to determine whether adequate internal controls are in place over receipts and disbursements; payroll and personnel; administrative expenses, including travel, training, and consultant costs; purchasing and inventory functions; and contract procurement. We also reviewed MMD’s compliance with the Office of the State Comptroller’s (OSC) accounting and reporting requirements and Chapter 647 of the Acts of 1989, An Act Relative to Improving the Internal Controls within State Agencies.

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Our audit disclosed that MMD has prepared and developed an ICP that is partially in compliance with Chapter 647 of the Acts of 1989 and OSC guidelines. Chapter 647 of the Acts of 1989 requires that departments develop internal controls in accordance with OSC guidelines. However, our audit disclosed that MMD’s ICP was not supported by written policies and procedures specific to the functions of MMD and, therefore, could be improved upon or further enhanced. By improving and enhancing its ICP, MMD can ensure that it continues to address its mission and achieve its objectives efficiently, effectively, and in compliance with applicable state laws, rules, and regulations. In its response, MMD indicated that it concurred with our recommendations and that it was in the process of drafting a new ICP in accordance with OSC guidelines.

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Our audit disclosed that, contrary to Chapter 61 of the Acts of 2007 and Chapter 29, Section 31, of the General Laws, MMD employees provided budgetary, procurement, fiscal, and other administrative services for the Parole Board (PB) and the Sex Offender Registry Board (SORB). During fiscal year 2007, the administration of such budgetary, procurement, fiscal, human resources, payroll, and other administrative services of MMD fell under the authority of the Department of Correction (DOC). As of July 1, 2007, the four DOC employees responsible for providing budgetary, procurement, fiscal, and other administrative services for MMD, PB, and SORB became MMD employees. The language within Chapter 61 of the Acts of 2007 removes all administrative services of MMD from the DOC line item and places them under MMD's authority. However, the responsibility for the administration of these services for PB and SORB remained under DOC authority in fiscal year 2008. MMD officials explained that MMD agreed to continue these functions as a courtesy to DOC until DOC could replace these positions. In response to the audit report, MMD indicated that as of July 1, 2008 it no longer provides these services to the PB and SORB because they were transferred back to the respective departments.

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Our audit disclosed that MMD needed to improve its internal controls and monitoring over its furniture and equipment inventory. Specifically, contrary to OSC guidelines and Chapter 647 of the Acts of 1989, the inventory listing of MMD's non-Generally Accepted Accounting Principles (GAAP) fixed assets (assets with historical unit cost between \$1,000 and \$49,999) totaling \$45,228, was outdated and incomplete. Moreover, we found that MMD had not conducted a required annual physical inventory of its property and equipment. Our audit also disclosed that an annual reconciliation of the GAAP fixed assets totaling \$94,689,425, documented within the Commonwealth's Massachusetts Management Accounting and Reporting System to agency records, was not completed. As a result of these issues, MMD's inventory was vulnerable to theft, loss, or misuse, and asset values were potentially misreported in the Commonwealth's financial statements. In response to our audit report, MMD indicated that it concurs with our recommendation and that it is in the process of taking corrective action.

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INTRODUCTION

Background

The Massachusetts Military Division – Massachusetts National Guard (MMD) was established under the provisions of Chapter 33, Section 11, of the Massachusetts General Laws. MMD’s mission is to maintain properly trained and equipped military units available as needed to support the Department of Defense under the direction of the President of the United States and to provide trained and disciplined military forces for emergencies within the Commonwealth of Massachusetts under the direction of the Governor of Massachusetts. As of October 31, 2007, MMD had 71 state employees and approximately 7,500 soldiers and airmen serving in Air Force and Army units, in both combat and support roles. The Joint Force Headquarters for the Air National Guard and Army National Guard is located in Milford, Massachusetts and provides a ready command and control center to manage homeland defense operations.

Prior to fiscal year 2008, the administration of budgetary, procurement, fiscal, human resources, payroll, and other administrative services of MMD fell under the authority of the Department of Correction (DOC). DOC was responsible for providing these functions for three separate state agencies--MMD, the Parole Board (PB) and the Sex Offender Registry Board (SORB)--in accordance with DOC appropriation 8900-0001 of Chapter 139 of the Acts of 2006, which states, in part:

. . . provided further, that the department may expend funds appropriated in this item for the administration of budgetary, procurement, fiscal, human resources, payroll and other administrative services of the military division, the parole board and the sex offender registry board. . . .

As of July 1, 2007, the responsibility for providing the administration of budgetary, procurement, fiscal, human resources, payroll and other administrative services of MMD was removed from DOC’s budgetary appropriation and placed under MMD’s budget appropriation 8700-0001 by Chapter 61 of the Acts of 2007. Accordingly, MMD is now responsible for its own fiscal and administrative functions, whereas DOC remains responsible for the fiscal and administrative functions of PB and SORB.

For fiscal years 2007 and 2008, MMD received state maintenance appropriations of \$6,186,607 and \$7,345,030, respectively, to fund the operations of MMD. As described previously, the fiscal year

2007 MMD maintenance appropriation 8700-0001 does not include funds for the administration of budgetary, procurement, fiscal, human resources, payroll and other administrative services of MMD. For both fiscal years 2007 and 2008, MMD received \$400,000 in retained revenues (Armory Rental-Use Fees Retained) and \$500,000 in chargeback for armory rentals (Cost of Utilities/Maintenance for Intergovernmental Service Agreements). In addition to the state appropriations, MMD received \$19,043,867 in federal grants for both fiscal year 2007 and fiscal year 2008.

Audit Scope, Objectives, and Methodology

In accordance with Chapter 11, Section 12, of the General Laws, the Office of the State Auditor has conducted an audit of MMD for the period July 1, 2006 to October 31, 2007. The purpose of the audit was to determine whether MMD is efficiently and effectively administering all aspects of its operations, has an adequate internal control plan, has complete and accurate accounting records, and is complying with applicable laws, rules, and regulations. Our audit was conducted in accordance with applicable generally accepted government auditing standards. The scope of our audit included an assessment of MMD's internal controls over financial and management activities and a review of its accounting, reporting, and recording of program costs to determine their appropriateness and reasonableness. Our objectives were to determine whether adequate internal controls are in place over: receipts and disbursements; payroll and personnel; administrative expenses, including travel, training, and consultant costs; purchasing and inventory functions; and contract procurement. We also reviewed MMD's compliance with the Office of the State Comptroller's (OSC) accounting and reporting requirements and Chapter 647 of the Acts of 1989, An Act Relative to Improving the Internal Controls within State Agencies.

To accomplish our objectives, we:

- Reviewed applicable laws, OSC Internal Control Guides, and Chapter 647 of the Acts of 1989.
- Reviewed the budgetary process and the spending plan.
- Reviewed MMD's Internal Control Plan, risk assessment, and internal control structure along with existing verbal administrative and accounting policies and procedures.
- Interviewed various MMD officials.

- Reviewed selected revenue, expenditure, advance, and payroll transactions to verify that these transactions are appropriately accounted for, recorded, and safeguarded in accordance with established criteria.
- Examined the inventory control system for the furnishings and equipment that was in place during our audit period.

During our audit, we met and discussed the results of our review with the Assistant Adjutant General/Executive Officer and the Director of Administration and Finance.

Based upon our review, we determined that, except for the issues discussed in the Audit Results section of the report, MMD has adequate internal controls and has complied with applicable laws, rules, and regulations in those areas reviewed.

AUDIT RESULTS

1. INTERNAL CONTROL PLAN NEEDS IMPROVEMENTS

Our audit disclosed that the Massachusetts Military Division - Massachusetts National Guard (MMD) has prepared and developed an Internal Control Plan (ICP) that is partially in compliance with Chapter 647 of the Acts of 1989, an Act Relative to Improving the Internal Controls within State Agencies, and the Office of the State Comptroller (OSC) guidelines. However, our audit noted that this ICP was not supported by written policies and procedures specific to MMD's functions and, therefore, could be improved upon or further enhanced. Our audit also disclosed that certain areas of MMD's internal control structure needed to be updated in accordance with the OSC's revised guidelines, which were established on September 13, 2007.

Chapter 647 of the Acts of 1989 requires departments to develop internal controls in accordance with OSC guidelines, which refer to the need for lower-level detail of policies and procedures to support the ICP. Chapter 3 of the OSC's Internal Control Guide, revised on September 13, 2007, states, in part:

The Office of the Comptroller defines an internal control plan as a high level department-wide summarization of the department's risks and the controls used to mitigate those risks. This high level summary must be supported by lower level detail, i.e. departmental policies and procedures.

Our review of MMD's ICP disclosed that reference is made to existing policies and procedures. Specifically, MMD's ICP, Section 2, page 7, Supervision of Internal Controls, states, in part:

The adherence to established policies and procedures [MMD policies, Comptroller's Manual, MMARS guidelines, Operational Service Division purchasing guidelines, etc.] are mandatory to ensure proper internal controls. Qualified and continuous review and approval of assigned work must be provided to assure that such policies are followed. To this effect and effort everyone should establish clear lines of authority and responsibility.

Furthermore, MMD's general internal control philosophy, as documented in the executive summary of its ICP, states, in part:

The Military Division is committed to the development and maintenance of an Internal Control Plan that assists managers in the effective and efficient performance of the day-to-day operations of their respective area of control. While the plan provides an overview of how the agency will manage internal control, specific internal controls are identified in all agency policies, which are disseminated to staff as they are promulgated, and reviewed on an annual basis. These internal controls assist staff in successfully

achieving their goals while avoiding the critical problems of overspending, operational failures, and violations of law.

Discussions with the Director of Administration and Finance disclosed that there are no written policies and procedures specific to the functions of MMD. As noted in the Background section, prior to fiscal year 2008, the administration of budgetary, procurement, fiscal, human resources, payroll and other administrative services of MMD fell under the authority of the Department of Correction (DOC), which was responsible for providing these functions for three separate state agencies: MMD, the Parole Board (PB) and the Sex Offender Registry Board (SORB). During this time MMD followed the policies and procedures developed for DOC. However, as of July 1, 2007, the four DOC employees responsible for the administration of budgetary, procurement, fiscal, and other administrative services of MMD, PB, and SORB became MMD employees (see Audit Result No. 2). Due to this transition, MMD is in the process of developing its own written policies and procedures specific to its functions.

When we requested copies of MMD's written policies and procedures, we were referred to applicable General Laws, Commonwealth of Massachusetts Regulations, executive orders, guidelines established by oversight agencies, and all pertinent OSC manuals, such as the Massachusetts Management Accounting and Reporting System User's Guide, Procedures Manual, and the Human Resource Compensation Management System guidelines.

It is important for MMD to develop its own specific policies and procedures and update its ICP to include references to these policies and procedures in order to ensure the integrity and effectiveness of its internal control structure and to enhance its ability to respond to changes while maintaining its effectiveness. Documentation in the form of written policies, procedures, and the ICP are integral components of an agency's internal control structure. The OSC's Internal Control Guide, revised on September 13, 2007, stresses the importance of documentation that is complete and accurate by stating, in part:

The department's internal controls, for example, should be clearly documented and readily available for examination. This documentation provides guidance for implementing controls and, along with department policies and procedures, sets forth the fundamental framework and the underlying methods and processes that all employees rely on to do their jobs. It provides specific direction to staff, helps form the basis for daily decisions, and can serve as a basis for training new personnel. Further, it is a necessary reference tool when management and auditors must attest to internal control effectiveness.

Furthermore, with an adequate ICP in place, it is more likely that MMD will respond appropriately and rapidly to major changes in events affecting its overall internal control environment, including the implementation of new systems or a major change of key personnel, including the transition of an appointed official's position.

We also determined that, in addition to developing policies and procedures specific to its function, MMD needs to improve its ICP by enhancing certain areas of its internal control process. OSC's Internal Control Guide has added to the original five components of internal controls (control environment, risk assessment, control activities, information and communication, and monitoring) the following concepts related to Enterprise Risk Management (ERM):

Internal Environment, Objective Setting, Event Identification, Risk Assessment, Risk Response, Control Activities, Information & Communication and Monitoring.

By incorporating the above ERM components into its ICP, MMD can ensure that it continues to address its mission and achieve its objectives efficiently, effectively and in compliance with applicable laws, rules, and regulations. Moreover, a sound ICP will provide guidance in the event of administrative change or employee turnover and serve as a mechanism for properly safeguarding MMD assets against loss, theft, or misuse.

As a result of our audit, the MMD took immediate proactive steps to implement our recommendations for improving and enhancing its ICP, and it is currently working on the development of policies and procedures specific to its operations. While our audit was in progress, key MMD employees attended OSC training and workshops related to updating MMD's ICP.

Recommendation

MMD should develop written policies and procedures specific to its functions and reference these policies and procedures within its ICP. Moreover, MMD should update its ICP to include internal controls specific to its operations and incorporate the components of ERM as identified in OSC's revised Internal Control Guide. In addition, MMD should review and update the ICP annually in accordance with applicable laws, rules, and regulations.

Auditee's Response

The Military Division concurs with the Auditor's remarks regarding Internal Control Policies. The Division is drafting the new ICP and will incorporate the lower level detail as recommended and the ERM components in accordance with OSC's Internal Control Guide.

2. CONTINUED PROVISION OF SERVICES TO THE PAROLE BOARD AND THE SEX OFFENDER REGISTRY BOARD FOR THE DEPARTMENT OF CORRECTION

According to MMD's Director of Administration and Finance, during fiscal year 2007 the administration of budgetary, procurement, fiscal, human resources, payroll and other administrative services of MMD fell under the authority of DOC. At that time there were four DOC employees responsible for providing these budgetary, procurement, fiscal, and other administrative services to three separate agencies: MMD, the Parole Board (PB) and the Sex Offender Registry Board (SORB). The DOC appropriation 8900-0001 of Chapter 139 of the Acts of 2006 specifically identifies DOC's responsibility to provide these services to these three agencies by stating, in part:

. . . provided further, that the department may expend funds appropriated in this item for the administration of budgetary, procurement, fiscal, human resources, payroll and other administrative services of the military division, the parole board and the sex offender registry board. . . .

As of July 1, 2007, the four DOC employees responsible for providing budgetary, procurement, fiscal, and other administrative services of MMD, PB, and SORB became MMD employees. Although their office location and job responsibilities did not change, they now fell under MMD authority rather than DOC authority. The language contained within Chapter 61 of the Acts of 2007 for DOC appropriation 8900-0001 removes the responsibility for the administration of budgetary, procurement, fiscal, human resources, payroll and other administrative services of MMD from the DOC line item and places it under MMD appropriation 8700-0001. However, the responsibility for the administration of budgetary, procurement, fiscal, human resources, payroll and other administrative services of PB and SORB remained under DOC appropriation 8900-0001 in fiscal year 2008. The DOC appropriation 8900-0001 of Chapter 61 of the Acts of 2007 states, in part:

. . . provided further, that the department may expend funds appropriated in this item for the administration of budgetary, procurement, fiscal, human resources, payroll and other administrative services of the parole board and the sex offender registry board. . . .

Our audit disclosed that, contrary to the above-mentioned budgetary language, MMD employees were providing budgetary, procurement, fiscal, and other administrative services for PB and SORB. These MMD employees are not providing human resource or payroll functions for PB and SORB. In accordance with Chapter 61 of the Acts of 2007, appropriation 8900-0001, DOC ultimately has the responsibility for providing the budgetary, procurement, fiscal, human resources, payroll and other administrative services of PB and SORB. Furthermore, Chapter 29, Section 31, of the General Laws states, in part:

The comptroller shall require certification from each spending authority that each employee receiving a salary under the warrant is being paid for duties performed directly for the employing agency and not for duties performed for another state agency.

Therefore, DOC employees should be completing these budgetary, procurement, fiscal, and administrative services for PB and SORB. According to the above-mentioned budgetary language and General Laws, MMD employees have no authority or responsibility to be completing budgetary, fiscal, or administrative services for any other state agency.

MMD's Director of Administration and Finance explained that MMD agreed to continue these functions as a courtesy to DOC until DOC was able to replace these job positions. Additionally, DOC has informed MMD that PB is in the process of hiring employees to take over the administration of budgetary, procurement, fiscal, and other administrative services of PB and SORB.

Recommendation

A cost allocation plan should be developed and used in discussions with DOC regarding the possible reimbursement to MMD for the cost of the services MMD has been providing to DOC during fiscal year 2008.

Auditee's Response

The Military Division no longer provides these services to the Parole Board or Sex Offender Registry. The services were transferred back to their respective departments at the beginning of Fiscal Year 2009 on 7/1/2008. The Military Division is responsible for its own agency support operations. FY2008 support was provided at no cost to the DOC as agreed upon with EOPSS [Executive Office of Public Safety and Security] and the Military Division.

3. INVENTORY CONTROLS NEED IMPROVEMENTS

Our audit disclosed that MMD needed to improve its internal controls and monitoring over its furniture and equipment inventory. Specifically, contrary to OSC guidelines and Chapter 647 of the Acts of 1989, the inventory listing of MMD's non-Generally Accepted Accounting Principles (GAAP) fixed assets (assets with historical unit cost between \$1,000 and \$49,999) which in total were valued at \$45,228, was outdated and incomplete. Moreover, we found that MMD had not conducted a required annual inventory of its property and equipment. Our audit also disclosed that an annual reconciliation of the GAAP fixed assets totaling \$94,689,425 was not completed. As a result, MMD's inventory was vulnerable to theft, loss, or misuse and asset values were potentially misreported in the Commonwealth's financial statements.

Chapter 647 of the Acts of 1989 and OSC guidelines stress the importance of proper internal controls over inventory, the minimum requirements for recording inventory, and the need for annual physical inventory counts that are then reconciled to a department's inventory records. OSC's Fixed Assets-Acquisition Policy states, in part:

Non-GAAP Fixed Assets must be recorded in a Department's inventory and reconciled at least annually. This inventory can be either electronic or on paper, as long as it records the date of purchase, amount, description, location and disposition of an item.

Furthermore, OSC's Accounting and Management Policy states, in part:

There shall be an annual inventory taken of fixed assets owned by every Department. This inventory shall include, at a minimum, a verification of the existence and location of fixed assets owned by a Department. This inventory shall be done on or about June 30th of each year for GAAP and non-GAAP assets.

Our audit disclosed that MMD's furniture and equipment inventory listing has not been updated since fiscal year 2004. Moreover, 1,006 (94%) of the 1,075 items listed were missing an associated cost, 182 items (17%) did not have a tag number documented on the inventory list and all items were missing the purchase date and, when applicable, disposition. The 69 items (6%) that had an associated cost documented on the inventory list had a listed valued totaling \$45,228.

The non-GAAP fixed assets inventory list that MMD provided to us during audit fieldwork was the master inventory list, which includes items located at all MMD armories as well as items assigned to the four team leaders (Team 201, Team 202, Team 203, and Team 204). Team

leaders are individuals responsible for the maintenance of multiple armories, and one team leader can be responsible for between eight to 12 armory locations. Items documented on the inventory list under a team leader can be moved between any of the armory locations for which the team leader is responsible. For our testing we visited four armory locations (Milford, Framingham, Reading, and West Newton) and reviewed items under the responsibility of two team leaders (Team 201 and Team 203).

Our audit tests of the MMD furniture and equipment inventory found that five (11%) of the 45 items tested (fire safe, snow blower, microfilm reader, drill, automatic floor scrubber) did not have inventory tags affixed. Additionally, six items or 13% (drill hammer, two floor sweepers, snow blower, gas trimmer, buffer) that were documented on the master inventory list could not be located during our testing. Furthermore, our audit tests disclosed that the West Newton and Framingham armories had their own separate inventory lists that were not reconciled to the master inventory list. These separate inventory lists are maintained by the applicable team leader (West Newton or Framingham) and document the items located at the armory and the items that are under the control of the team leader. Our comparison of these team leader inventory lists to the master list disclosed that there were items documented on the master list that were not documented on the team leader lists, and there were items documented on the team leader lists that were not found on the master list. For example, one of the two floor sweepers that we could not locate during audit testing was documented on the master list as being located at the Framingham armory; however, the team leader responsible for the Framingham armory inventory list stated that such a floor sweeper was never at the Framingham armory and that therefore the master inventory list must be incorrect. The lack of annual physical inventories and reconciliation of team leader inventory lists to the master list leaves MMD's inventory vulnerable to theft, loss, and misuse.

In addition to updating its furniture and equipment inventory list and conducting annual physical inventories of its non-GAAP fixed assets, MMD should be completing an annual reconciliation of its GAAP fixed assets. Key MMD employees were unaware of the OSC regulation to reconcile GAAP fixed assets documented within the Massachusetts Management Accounting and Reporting System (MMARS) to agency records. Most of the GAAP fixed assets owned by MMD are land and buildings that were entered into MMARS by the Department of Capital Asset Management (DCAM). MMD staff were under the assumption that it was DCAM's

responsibility to track and reconcile these fixed assets based upon documentation (i.e., purchase and sales agreements) provided to DCAM by MMD.

Our audit disclosed that the current MMARS listing of MMD GAAP fixed assets with a total value of \$94,689,425 contains items, mostly land and buildings, located in 60 different cities and towns. However, discussions with MMD staff disclosed that there are only 40 active armories. We were provided with an agency list of 40 active armories and a list of 20 armories that are currently closed or in the process of being closed. We noted that the number of armories documented on the MMARS fixed assets list far exceeds the number of armories on the agency lists provided for our review. There were armories documented on the MMARS list that were not documented on either of the agency lists as active or closed. Additionally, the MMARS list appears to have duplicate line items. Therefore, the current MMD GAAP fixed assets list within MMARS is outdated and needs to be reconciled to agency records and updated. Because MMD did not update its inventory on an annual basis, its assets are vulnerable to theft, loss and misuse. Additionally, because MMD has not reconciled its GAAP-fixed assets listing within MMARS, the Commonwealth's financial statements are potentially overstated.

MMD staff currently responsible for MMD's fixed asset inventory indicated that the lack of resources and other priorities within MMD have prevented a physical inventory and reconciliation from being performed. MMD further stated that there was a workforce reduction in fiscal year 2004 that eliminated the State Property Officer, who would have been responsible for overseeing the annual physical inventories. MMD indicated that it is in the process of developing an updated inventory policy and procedures to ensure that annual physical inventories are completed in accordance with Chapter 647 and OSC guidelines.

Recommendation

To adequately control and monitor its fixed asset inventory, MMD should follow the policies and procedures detailed within the internal control guidelines and the directives issued by OSC and Chapter 647 of the Acts of 1989. MMD should immediately conduct a physical inventory of its fixed assets and update the master inventory list. Team leader inventory lists should be reconciled to the master inventory list on an annual basis as part of the annual physical inventory count. Any discrepancies that cannot be resolved should be reported to the Office of the State Auditor in accordance with Chapter 647. In the future, MMD should make staff aware of the

importance of adhering to the inventory regulations. MMD should immediately review and reconcile its GAAP fixed assets within MMARS with agency records, deleting items that are no longer in the care and control of MMD, and retaining the backup documentation for these transactions. Once the GAAP fixed assets listing is updated, it should be reconciled to agency records on an annual basis and updated, as necessary, in accordance with OSC guidelines.

Auditee's Response

The Military Division acknowledges that it needs to make improvements in the area of record keeping for Non-GAAP fixed assets.

The Military Division has reviewed the recommendations presented in the audit results and concurs that the recommendations are appropriate. Accordingly, all recommendations are in the process of being implemented or are complete at the time of this response.

The Military Division has updated the GAAP-fixed assets listing in MMARS to coincide with the actual listing of property being maintained. This correction was done at the end of FY2008 to insure that the Military Division's assets are correctly recorded and stated within the Commonwealth's financial statements.

The Military Division acknowledges that it was attempting to maintain inventory lists that were too extensive. The Military Division, by not increasing the threshold for inventories assets to the \$1,000 dictated by OSC Policy Memo No. 310, did increase the risk that discrepancies would occur in the maintenance of Non-GAAP perpetual inventories. The Military Division believed that it had sufficient control activities in place to mitigate the risk but now realizes that the inventory lists were far too burdensome to accurately maintain with existing resources.

The Military Division has reconciled the inventory lists as recommended and has 75% of the physical inventory completed at the time of this response. Inventory policy and procedures are being developed and will be issued to all stakeholders. It will also be incorporated into the Internal Control Policy. A bar code system for Non-GAAP inventory may be implemented to further strengthen our inventory control system.

APPENDIX

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

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Chapter 647

THE COMMONWEALTH OF MASSACHUSETTS

In the Year One Thousand Nine Hundred and Eighty-nine

AN ACT RELATIVE TO IMPROVING THE INTERNAL CONTROLS WITHIN STATE AGENCIES.

Be it enacted by the Senate and House of Representatives in General Court assembled, and by the authority of the same, as follows:

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

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include the specific conditions and terms under which authorizations are to be made.

(D) Key duties and responsibilities including (1) authorizing, approving, and recording transactions, (2) issuing and receiving assets, (3) making payments and (4), reviewing or auditing transactions, should be assigned systematically to a number of individuals to ensure that effective checks and balances exist.

(E) Qualified and continuous supervision is to be provided to ensure that internal control objectives are achieved. The duties of the supervisor in carrying out this responsibility shall include (1) clearly communicating the duties, responsibilities and accountabilities assigned to each staff member, (2) systematically reviewing each member's work to the extent necessary and (3), approving work at critical points to ensure that work flows as intended.

(F) Access to resources and records is to be limited to authorized individuals as determined by the agency head. Restrictions on access to resources will depend upon the vulnerability of the resource and the perceived risk of loss, both of which shall be periodically assessed. The agency head shall be responsible for maintaining accountability for the custody and use of resources and shall assign qualified individuals for that purpose. Periodic comparison shall be made between the resources and the recorded accountability of the resources to reduce the risk of unauthorized use or loss and protect against waste and wrongful acts. The vulnerability and value of the agency resources shall determine the frequency of this comparison.

Within each agency there shall be an official, equivalent in title or rank to an assistant or deputy to the department head, whose responsibility, in addition to his regularly assigned duties, shall be to ensure that the agency has written documentation of its internal accounting and administrative control system on file. Said official shall, annually, or more often as conditions warrant, evaluate the effectiveness of the agency's internal control system and establish and implement changes necessary to ensure the continued integrity of the system. Said official shall in the performance of his duties ensure that: (1) the documentation of all internal control systems is readily available for examination by the comptroller, the secretary of administration and finance and the state auditor, (2) the results of audits and recommendations to improve departmental internal controls are promptly evaluated by the agency management, (3) timely and appropriate corrective actions are effected

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by the agency management in response to an audit and (4), all actions determined by the agency management as necessary to correct or otherwise resolve matters will be addressed by the agency in their budgetary request to the general court.

All unaccounted for variances, losses, shortages or thefts of funds or property shall be immediately reported to the state auditor's office, who shall review the matter to determine the amount involved which shall be reported to appropriate management and law enforcement officials. Said auditor shall also determine the internal control weaknesses that contributed to or caused the condition. Said auditor shall then make recommendations to the agency official overseeing the internal control system and other appropriate management officials. The recommendations of said auditor shall address the correction of the conditions found and the necessary internal control policies and procedures that must be modified. The agency oversight official and the appropriate management officials shall immediately implement policies and procedures necessary to prevent a recurrence of the problems identified.

House of Representatives, December 21, 1989.

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

In Senate, December 22, 1989.

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

January 3, 1990.

Approved, *Richard H. Riordan*, Governor.