



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

*Making government work better*

Official Audit Report – Issued September 2, 2016

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## Massachusetts Military Division: Massachusetts National Guard—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*

September 2, 2016

Major General Gary Keefe, Adjutant General  
Massachusetts National Guard, Joint Force Headquarters  
2 Randolph Road  
Hanscom Air Force Base  
Bedford, MA 01731

Dear Major General Keefe:

I am pleased to provide this performance audit of the Massachusetts Military Division: Massachusetts National Guard. This report details the audit objectives, scope, methodology, findings, and recommendations for the audit period, July 1, 2014 through June 30, 2015. My audit staff discussed the contents of this report with management of the agency, whose comments are reflected in this report.

I would also like to express my appreciation to the Massachusetts Military Division for the cooperation and assistance provided to my staff during the audit.

Sincerely,

A handwritten signature in blue ink, appearing to read "SMB", written in a cursive style.

Suzanne M. Bump  
Auditor of the Commonwealth

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## LIST OF ABBREVIATIONS

CFO	chief financial officer
COSO	Committee of Sponsoring Organizations of the Treadway Commission
CPO	chief procurement officer
EOPSS	Executive Office of Public Safety and Security
ERM	enterprise risk management
GAAP	generally accepted accounting principles
ICP	internal control plan
ICQ	Internal Control Questionnaire
IT	information technology
MMARS	Massachusetts Management Accounting and Reporting System
MMD	Massachusetts Military Division
OSA	Office of the State Auditor
OSC	Office of the State Comptroller
PII	personally identifiable information
USPFO	United States Property and Fiscal Office

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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 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, chief fiscal officer, 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 (OSA) has conducted a performance audit of certain information reported on the Massachusetts Military Division's (MMD's) ICQ for the period July 1, 2014 through June 30, 2015. The objective of our audit was to determine whether certain responses that MMD provided to OSC on its fiscal year 2015 ICQ were accurate.

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

<b>Finding 1</b> <b>Page <a href="#">7</a></b>	MMD's 2015 ICQ had inaccurate responses on the subjects of its internal control plan (ICP), risk assessment, and capital-asset inventory. In addition, MMD did not certify the accuracy of the responses on its ICQ before submitting it to OSC.
<b>Recommendations</b> <b>Page <a href="#">11</a></b>	<ol style="list-style-type: none"><li>1. MMD should take the measures necessary to address the issues we identified during our audit and should ensure that it adheres to all of OSC's requirements for developing an ICP and accurately reporting information about its ICP, risk assessment, and capital-asset inventory on its ICQ. It should also review all ICQ questions for accuracy before completing the certification section and electronically submitting its ICQ to OSC.</li><li>2. If necessary, MMD should request guidance from OSC on these matters.</li></ol>

### Post-Audit Action

MMD told OSA that it had conducted an inventory of its generally accepted accounting principles (GAAP) and non-GAAP fixed assets, updated its records based on this inventory, submitted required reports to OSA, begun a review of its ICP, and planned to consult with OSC to ensure that its ICP adhered to OSC guidelines. In addition, MMD stated that it would formalize in writing its policies and procedures for ensuring compliance with Chapter 647 of the Acts of 1989 and distribute them to its senior staff and management.

## OVERVIEW OF AUDITED ENTITY

The Massachusetts Military Division (MMD) was established under Section 11 of Chapter 33 of the Massachusetts General Laws and is one of 19 state agencies under the general oversight of the Executive Office of Public Safety and Security. MMD is made up of the Massachusetts Army National Guard, the Massachusetts Air National Guard, and the State Staff.

According to its website,

*The Massachusetts National Guard has a dual mission: to maintain properly trained and equipped units available for prompt mobilization for war or national emergency; and to provide trained and disciplined forces for domestic emergencies or as otherwise required by state law.*

MMD is administered by the Adjutant General of the Massachusetts National Guard, who is appointed by the Governor and is responsible for the strategic direction, administration, and operation of MMD's workforce, as well as oversight of all funding appropriated by the Legislature or received through revenue, federal grants, trusts, and capital appropriations to support National Guard operations and programs. Programs include National Guard Cooperative Agreement grants that support Army and Air National Guard facilities, electronic security, information management, anti-terrorism, emergency management, fire protection, and family support programs. In addition, the agency administers the Massachusetts National Guard Tuition and Fee Waiver Program and Servicemen Group Life Insurance reimbursements to its members.

MMD had a fiscal year 2015 budget of \$55,180,834. During our audit period, it had approximately 275 state employees and 8,200 soldiers and airmen serving in Air Force and Army units in combat and support roles. It maintains 44 facilities in 38 communities across the Commonwealth. MMD is headquartered at Hanscom Air Force Base in Bedford.

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## AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY

In accordance with Section 12 of Chapter 11 of the Massachusetts General Laws, the Office of the State Auditor (OSA) has conducted a performance audit of certain information reported on the Massachusetts Military Division's (MMD'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 MMD 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 MMD'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 MMD give accurate responses in the following areas?	
a. internal control plan (ICP)	<b>No; see Findings <u>1a</u>, <u>1b</u>, <u>1c</u>, and <u>1d</u></b>
b. capital-asset inventory, for both generally accepted accounting principles (GAAP) and non-GAAP assets	<b>No; see Finding <u>1e</u></b>
c. personally identifiable information (PII)	<b>Yes</b>
d. audits and findings (reporting variances, losses, shortages, or thefts of funds or property immediately to OSA; see Appendix A)	<b>Yes</b>

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

Our analysis of the information on the ICQ was limited to determining whether agency documentation adequately supported selected responses that MMD submitted 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 MMD 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 MMD 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.
- We interviewed the director of OSC's Quality Assurance Bureau to obtain an understanding of OSC's role in the ICQ process and to obtain and review any departmental quality assurance reviews<sup>1</sup> conducted by OSC for MMD.
- We interviewed MMD's chief financial officer (CFO) and contract administrator to gain an understanding of MMD's ICQ process, and we requested and obtained documentation to support the responses on its ICQ for the 12 questions we selected for review.

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

- We interviewed MMD's CFO and contract administrator to ask whether MMD 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 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 MMD provided to OSC for the above 12 questions were accurate, we performed the following procedures:

- We requested and reviewed MMD's ICP to determine whether it complied with OSC requirements.
- We requested and reviewed any department-wide risk assessments conducted by MMD.
- We conducted interviews with MMD's CFO 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 MMD'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 MMD.
- We requested and reviewed all documentation available to support MMD'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 MMD 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 Massachusetts Military Division (MMD) 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 MMD indicated that it was complying with OSC guidelines in all of the areas we reviewed, its internal control plan (ICP) did not document its risks; its ICP was not based on guidelines issued by OSC; it had not documented that it had conducted an organization-wide risk assessment that included fraud; it had not updated its ICP within the past year; and it had not performed a complete annual physical inventory of its capital assets. In addition, MMD had not certified that the representations on its ICQ were accurate and complete.

Without establishing an ICP in accordance with OSC guidelines and updating it at least once a year, MMD 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 MMD's internal control system for the purposes of financial reporting. In addition, without performing and documenting an annual physical inventory, MMD 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, MMD 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, MMD's ICP did not document its 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, MMD answered "yes," but its ICP did not document the risks related to all its state-funded operations, such as administration and finance, fire protection, historical services and military records, and property management.

**b. Contrary to what its ICQ indicated, MMD'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, MMD answered "yes," but its ICP did not fully comply with the guidelines in OSC's Internal Control Guide. Specifically, it did not consider or adequately identify three of the eight components of enterprise risk management (ERM): event identification, risk assessment, and risk response.

**c. Contrary to what its ICQ indicated, MMD had not performed an organization-wide risk assessment that included the risk of fraud.**

In the Internal Control Plans section of the fiscal year 2015 ICQ, departments were asked, "Has the Department conducted an organization-wide risk assessment that includes the consideration of fraud?" On its ICQ, MMD answered "yes"; however, MMD had not performed its own risk assessment. Various risk assessments had been performed by the United States Property and Fiscal Office (USPFO) for specific National Guard operations but were not identified or referred to in the ICP. Moreover, these federal risk assessments were not sufficient to meet OSC requirements, because they did not consider MMD's state operations (such as administration and finance, fire protection, historical services and military records, and property management) or the risk of fraud. Developing risk assessments 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, MMD had not updated its ICP within the past year.**

In the Internal Control Plans section of the fiscal year 2015 ICQ, departments were asked, "Has the department updated its internal control plan within the past year?" On its ICQ, MMD answered "yes," but the ICP did not list the date it was prepared or dates of any updates. The chief financial officer (CFO) told us that the plan had not been updated in approximately two years. Further, although it was outside our audit period, we noted that MMD answered "yes" to this question on its ICQ for fiscal year 2014.

**e. Contrary to what its ICQ indicated, MMD had not performed a complete 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, MMD answered “yes,” but during our audit, MMD management stated that they had not completed an annual physical inventory of capital assets in fiscal year 2015. According to agency records, MMD’s generally accepted accounting principles (GAAP) assets had a value of \$135,453,804 and comprised buildings and improvements valued at \$107,157,056; construction in process valued at \$14,155,949; historical treasures valued at \$4,088,400; and land valued at \$10,052,399. MMD also had 140 non-GAAP assets with a value of \$567,921, which consisted of maintenance equipment (snow blowers, lawn equipment, and miscellaneous other equipment). Among the 140 assets were 10 assets, together valued at \$29,107, that had been either disposed of or transferred. In addition, MMD had 12 motor vehicles valued at \$208,902. Further, although they were outside our audit period, we noted that MMD answered “yes” to this question on its ICQs for fiscal years 2013 and 2014.

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

MMD’s department head, CFO, and internal control officer told us that they had read and approved each statement presented on the ICQ, but they did not sign and file a printed copy as required by OSC’s instructions. If this step is not conducted, there is no assurance that MMD’s management has reviewed the ICQ and ensured that the information that the agency is providing to OSC is complete and accurate.

### **Authoritative Guidance**

The ICQ is a document designed by OSC that is sent to departments each year requesting information and department representations on their internal controls over 12 areas: management oversight, accounting system controls, budget controls, revenue, procurement and contract management, invoices and payments, payroll and personnel, investments held by the Commonwealth, material and supply inventory, capital-asset inventory, federal funds, and information-technology security and personal data. The department head, CFO, and internal control officer of each department must certify the responses provided in the Representations section of the ICQ as required by OSC’s Memorandum—Internal Control

Questionnaire and Department Representations (Appendix B).<sup>2</sup> 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. In addition, OSC's Internal Control Guide requires ICPs to include risk assessments.

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 GAAP and non-GAAP.

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

The CFO and chief procurement officer (CPO) told us that because MMD's ICP was based on federal standards, they thought it was appropriate to respond “yes” to questions regarding compliance with OSC guidelines. (However, they added that they were not familiar with the ERM internal control components required by OSC.) They also told us they believed the National Guard risk assessments performed by USPFO would support “yes” answers to questions regarding risk assessment on the ICQ, but agreed that MMD's risk assessment should include state operations and be integrated into the ICP.

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2. Effective May 11, 2016, OSC has eliminated this requirement. Instead, on the fiscal year 2016 ICQ and future ICQs, each department will be required to indicate approval and submit the ICQ electronically after all questions are reviewed with the department head.

The CFO stated that the MMD believed that its annual update of standard operating procedures, a supplement to the ICP, and internal control reviews performed by grantors were sufficient to support a "yes" answer to the ICQ question of whether MMD had updated its ICP in the past year.

The CPO and the inventory program coordinator stated that MMD had not performed a complete annual physical inventory in fiscal year 2015 because MMD's inventory specialist retired during the inventory period and a replacement could not be found to complete the inventory before the end of the fiscal year. The CFO stated that he had answered "yes" on the ICQ at the time of its May 29 submission deadline under the assumption that the inventory would be completed by other MMD personnel by the end of the fiscal year.

The CFO stated that he was unaware of OSC's requirement that the department head, chief fiscal officer, and internal control officer certify the responses on the ICQ by signing and dating the form and retaining a copy on file as confirmation of its accuracy.

## Recommendations

1. MMD should take the measures necessary to address the issues we identified during our audit and should ensure that it adheres to all of OSC's requirements for developing an ICP and accurately reporting information about its ICP, risk assessment, and capital-asset inventory on its ICQ. It should also review all ICQ questions for accuracy before completing the certification section and electronically submitting its ICQ to OSC.
2. If necessary, MMD should request guidance from OSC on these matters.

## Auditee's Response

*Massachusetts Military Division (MMD) does not contest the findings identified in the draft audit report and is taking immediate action to incorporate the audit recommendations. MMD will accurately report information provided on its Internal Control Questionnaire (ICQ) to the Office of the State Comptroller (OSC). MMD acknowledges it did not identify all of the eight components of enterprise risk management (ERM) in its ICP and is in the process of revising its ICP to fully comply with the guidelines issued by OSC. MMD will meet with OSC to develop an ICP that will document risks as detailed in their guideline. These risks will be developed upon their impact on the management of the \$55M under [MMD's] authority and its impact upon MMD administration and finance, fire protection, historical services, military records and facilities management. MMD will also develop an organization wide risk assessment that includes the consideration of fraud on its state operations to include; administration and finance, fire protection, historical services, military records and facilities management. In addition, at the beginning of each fiscal year, MMD's Agency Head will issue a memo along with the ICP to senior staff and managers stating the importance of internal controls and highlighting the risks, assessments and MMD's response to mitigate those risks. Each year the Agency Head, CFO and Internal Control Officer will review and approve each*

*statement on the ICQ as required by OSC and follow up on key items that were addressed in this audit review.*

### **Auditor's Reply**

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

## OTHER MATTERS

### **Inventory Issues (Capital Assets)**

The Massachusetts Military Division's (MMD's) non-generally accepted accounting principles (non-GAAP) capital asset inventory list was inaccurate. Specifically, the list included 10 assets, together valued at \$29,107, that had been disposed of or transferred. The chief financial officer (CFO) stated that this was an administrative oversight. Without following its Fixed Asset and Inventory Control Policy, which would help it properly classify and record assets that have been transferred or disposed of, MMD is not ensuring that its non-GAAP inventory list is complete and accurate.

### **Inventory Issues (Reporting Historical Treasures)**

MMD recorded \$4,088,044 of historical treasures in the Massachusetts Management Accounting and Reporting System (MMARS) Fixed Asset Subsystem in June 2002 without a subsidiary inventory listing that provides a description and dollar value for each item. The CFO told us that the valuation was an estimated value provided by MMD's director of Historical Services. At our request, the CFO contacted the director, who stated that MMD had been unable to create an inventory listing with asset values because of a staffing shortage and insufficient funds to determine historical treasure valuations or to obtain appraisals. As a result, MMD cannot validate the \$4,088,044 of historical treasures reported in MMARS. Moreover, the Office of the State Comptroller's Financial Reporting and Accounting Bureau obtains information from MMARS for GAAP reporting purposes; if fixed assets are not reported correctly, the Commonwealth's Comprehensive Annual Financial Report<sup>3</sup> will also be misstated.

### **Inventory Issues (Chapter 647 Reporting of Historical Treasures)**

During our audit, MMD's Adjutant General told us that service medals and other historical treasures with a total value of \$62,500 were stolen on May 31, 2013 while being transported from the Worcester National Guard armory to the National Guard museum in Concord. MMD's CFO stated that MMD had reported the incident to the Massachusetts State Police, but had not reported it to the Office of the State Auditor (OSA) as required by Chapter 647 of the Acts of 1989. Chapter 647 requires agencies to immediately report "all unaccounted for variances, losses, shortages or thefts of funds or property" to

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

OSA. Although MMD's internal control plan requires all thefts to be reported to OSA, MMD officials explained that they believed Chapter 647 only applied to state-owned property and that they could not determine whether the stolen items were federal or state property at the time the theft occurred. After our discussion, MMD took actions to determine that the items were state-owned property. It filed a Chapter 647 form with OSA on July 13, 2016.

### **Inventory Issues (Information Technology)**

On May 9, 2011, the Governor issued Executive Order 532. This order superseded Executive Order 510, which transferred the responsibility for accounting for the information-technology (IT) assets of executive departments, including MMD, to the Executive Office of Public Safety and Security (EOPSS). One of EOPSS's responsibilities under both orders was to perform annual physical inventories of MMD'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 inventory of MMD's IT assets had been conducted. MMD personnel told us that they did not know whether EOPSS had conducted its annual physical inventory for fiscal year 2015.

Although this matter was outside the scope of this audit, we contacted EOPSS's chief information officer, who is responsible for managing IT assets for departments under EOPSS. He explained that EOPSS was engaged in the deployment of a new agency-wide asset inventory system during fiscal year 2015 and did not schedule MMD for a comprehensive audit of IT assets during that time. IT capital assets in MMD's possession at the time of our audit consisted of 58 desktop and 14 laptop computers.

### **Auditee's Response**

*GAAP and non-GAAP inventory was . . . addressed by MMD immediately during the audit review. The turnover of MMD personnel related to retirements in key positions was the primary cause of the incomplete inventory. MMD has performed a complete inventory of its GAAP and non-GAAP assets for FY15 and FY16. MMARS fixed asset records were also updated to reflect these actions. MMD has also developed a process to insure a complete review of GAAP and Non-GAAP inventory is completed, as required, by the close of each fiscal year.*

*Part of the audit review addressed inventory as it related to information technology. OSA contacted the EOPSS chief information [officer] to discuss the responsibilities of conducting a complete physical inventory as part of the state's IT Assets and Risk Management Policy. It was explained that a comprehensive audit was not done because EOPSS was engaged in the deployment of a new agency-wide asset inventory system during fiscal year 2015 and did not schedule MMD for a comprehensive audit. Under the direction of the chief information officer, a complete and comprehensive inventory was taken immediately and results completed before the end of this audit.*

*In addition, MMD has also removed the \$4,088,044 record of historical treasures reported in MMARS. The current collection of historical records consists of assets that belonged to various Army and Air National Guard Units. These assets are mostly paper records. Some other assets include medals, flags, plaques and various equipment that were not acquired outside of the organization and have always been part of the MMD.*

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## APPENDIX A

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

*Notwithstanding any general or special law to the contrary, the following internal control standards shall define the minimum level of quality acceptable for internal control systems in operation throughout the various state agencies and departments and shall constitute the criteria against which such internal control systems will be evaluated. Internal control systems for the various state agencies and departments of the commonwealth shall be developed in accordance with internal control guidelines established by the office of the comptroller.*

- (A) Internal control systems of the agency are to be clearly documented and readily available for examination. Objectives for each of these standards are to be identified or developed for each agency activity and are to be logical; applicable and complete. Documentation of the agency's internal control systems should include (1) internal control procedures, (2) internal control accountability systems and (3), identification of the operating cycles. Documentation of the agency's internal control systems should appear in management directives, administrative policy, and accounting policies, procedures and manuals.*
- (B) All transactions and other significant events are to be promptly recorded, clearly documented and properly classified. Documentation of a transaction or event should include the entire process or life cycle of the transaction or event, including (1) the initiation or authorization of the transaction or event, (2) all aspects of the transaction while in process and (3), the final classification in summary records.*
- (C) Transactions and other significant events are to be authorized and executed only by persons acting within the scope of their authority. Authorizations should be clearly communicated to managers and employees and should include the specific conditions and terms under which authorizations are to be made.*
- (D) Key duties and responsibilities including (1) authorizing, approving, and recording transactions, (2) issuing and receiving assets, (3) making payments and (4), reviewing or auditing transactions, should be assigned systematically to a number of individuals to insure that effective checks and balances exist.*
- (E) Qualified and continuous supervision is to be provided to ensure that internal control objectives are achieved. The duties of the supervisor in carrying out this responsibility shall include (1) clearly communicating the duties, responsibilities and accountabilities assigned to each staff member, (2) systematically reviewing each member's work to the extent necessary and (3), approving work at critical points to ensure that work flows as intended.*
- (F) Access to resources and records is to be limited to authorized individuals as determined by the agency head. Restrictions on access to resources will depend upon the vulnerability of the resource and the perceived risk of loss, both of which shall be periodically assessed. The agency head shall be responsible for maintaining accountability for the custody and*

*use of resources and shall assign qualified individuals for that purpose. Periodic comparison shall be made between the resources and the recorded accountability of the resources to reduce the risk of unauthorized use or loss and protect against waste and wrongful acts. The vulnerability and value of the agency resources shall determine the frequency of this comparison.*

*Within each agency there shall be an official, equivalent in title or rank to an assistant or deputy to the department head, whose responsibility, in addition to his regularly assigned duties, shall be to ensure that the agency has written documentation of its internal accounting and administrative control system on file. Said official shall, annually, or more often as conditions warrant, evaluate the effectiveness of the agency's internal control system and establish and implement changes necessary to ensure the continued integrity of the system. Said official shall in the performance of his duties ensure that: (1) the documentation of all internal control systems is readily available for examination by the comptroller, the secretary of administration and finance and the state auditor, (2) the results of audits and recommendations to improve departmental internal controls are promptly evaluated by the agency management, (3) timely and appropriate corrective actions are effected by the agency management in response to an audit and (4), all actions determined by the agency management as necessary to correct or otherwise resolve matters will be addressed by the agency in their budgetary request to the general court.*

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

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## APPENDIX B

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



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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**.