



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

*Making government work better*

Official Audit Report – Issued November 10, 2015

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## Appellate Tax Board— 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*

November 10, 2015

Mr. Thomas W. Hammond Jr., Chair  
Appellate Tax Board  
100 Cambridge Street, Suite 200  
Boston, MA 02114

Dear Chairman Hammond:

I am pleased to provide this limited-scope performance audit of the Appellate Tax Board. 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 Appellate Tax Board 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

ATB	Appellate Tax Board
CFO	chief fiscal officer
COSO	Committee of Sponsoring Organizations of the Treadway Commission
EOAF	Executive Office for Administration and Finance
ERM	enterprise risk management
GAAP	generally accepted accounting principles
ICP	internal control plan
ICQ	Internal Control Questionnaire
IT	information technology
OSA	Office of the State Auditor
OSC	Office of the State Comptroller
PII	personally identifiable information

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## EXECUTIVE SUMMARY

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

In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, the Office of the State Auditor has conducted a limited-scope performance audit of certain information reported in the Appellate Tax Board's (ATB's) ICQ for the period July 1, 2014 through June 30, 2015. The objective of our audit was to determine whether certain responses provided by ATB to OSC in its fiscal year 2015 ICQ were accurate.

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

<b>Finding 1</b> <b>Page <a href="#">7</a></b>	ATB's 2015 ICQ had inaccurate responses on the subjects of its internal control plan (ICP), risk assessment, and capital-asset inventory. In addition, ATB 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. ATB should take the measures necessary to address the issues we identified during our audit and should ensure that it adheres to all of OSC's requirements for developing an ICP and accurately reporting information about its ICP, risk assessment, capital-asset inventory, and department representations in its ICQ. It should also retain a printed, approver-signed copy of its certification of its ICQ representations.</li><li>2. If necessary, ATB should request guidance from OSC on these matters.</li></ol>

## **OVERVIEW OF AUDITED ENTITY**

The Appellate Tax Board (ATB) was established in 1929 under Chapter 58A, Section 1, of the Massachusetts General Laws, which states that it is a quasi-judicial agency within the Executive Office for Administration and Finance, “but not subject to its control in the conduct of its adjudicatory functions.” According to its website, the board is “devoted exclusively to hearing and deciding cases on appeal from any state and local taxing authority.” These appeals are related primarily to state and local property taxes.

ATB had a fiscal year 2015 budget of \$2,286,342 and has approximately 18 employees. It is located at 100 Cambridge Street in Boston.

## AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY

In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, the Office of the State Auditor (OSA) has conducted a limited-scope performance audit of certain information reported in the Appellate Tax Board's (ATB's) Internal Control Questionnaire (ICQ)<sup>1</sup> for the period July 1, 2014 through June 30, 2015. However, because of issues identified during our audit, we expanded our audit period to include ICQs submitted to the Office of the State Comptroller (OSC) before July 1, 2014 solely to review, and report on, the accuracy of responses concerning the areas of our audit for prior fiscal years.

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

The overall objective of our audit was to determine whether ATB accurately reported certain information about its overall internal control system to OSC in its 2015 ICQ. Accordingly, our audit focused solely on reviewing and corroborating ATB'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 those areas, indicating the conclusion we reached regarding each objective and, if applicable, where each objective is discussed in this report.

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

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

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Objective	Conclusion
c. personally identifiable information (PII)	Yes
d. audits and findings (reporting variances, losses, shortages, or thefts of funds or property immediately to OSA; see Appendix A)	Yes

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

Our analysis of the information in the ICQ was limited to determining whether agency documentation adequately supported selected responses submitted by ATB in its ICQ for the audit period; it was not designed to detect all weaknesses in the agency's internal control system or all instances of inaccurate information reported by ATB in the ICQ. Further, our audit did not include tests of internal controls to determine their effectiveness as part of audit risk assessment procedures, because in our judgment, such testing was not significant within the context of our audit objectives or necessary to determine the accuracy and reliability of ICQ responses. Our understanding of internal controls and management activities at ATB 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 Chapter 93H, Section 3, 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>2</sup> conducted by OSC for ATB.
- We interviewed ATB’s chairman, chief fiscal officer, and general counsel to gain an understanding of ATB’s ICQ process and requested and obtained documentation to support the responses on its ICQ for the 12 questions we selected for review.
- We interviewed ATB’s general counsel to ask whether ATB 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?

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2. 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.

- Is the department complying with Chapter 93H, Section 3, 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 ATB provided to OSC for the above 12 questions were accurate, we performed the following procedures:

- We requested and reviewed ATB's ICP to determine whether it complied with OSC requirements.
- We requested and reviewed any department-wide risk assessments conducted by ATB.
- We conducted interviews with ATB's managers to determine the procedures used to prepare and update the ICP and conduct an annual capital-asset inventory.
- We requested and reviewed ATB's policies and procedures for PII to determine whether policies were in place and addressed the provisions of (1) Chapter 93H, Section 3, 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 ATB.
- We requested and reviewed all documentation available to support ATB's certification of the accuracy of its responses on the fiscal year 2015 ICQ.

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

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## DETAILED AUDIT FINDINGS WITH AUDITEE'S RESPONSE

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

Some of the information that the Appellate Tax Board (ATB) 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 ATB indicated that it was complying with OSC guidelines in all of the areas we reviewed, its internal control plan (ICP) had not fully documented its goals, objectives, risks, and controls used to mitigate those risks; its ICP was not based on guidelines issued by OSC; it did not conduct an organization-wide risk assessment that included fraud; it inaccurately stated that it did not own capital assets subject to OSC's Accounting and Management Policy and Fixed Assets—Acquisition Policy; it did not perform an annual physical inventory of its capital assets; and it did not have procedures encompassing all phases of the inventory process. In addition, ATB had not certified that the representations reported to OSC in this ICQ were accurate and complete.

Without establishing an ICP in accordance with OSC guidelines, ATB may not be able to achieve its mission and objectives effectively; efficiently; and in compliance with applicable laws, rules, and regulations. Further, inaccurate information in the ICQ prevents OSC from effectively assessing the adequacy of ATB's internal control system for the purposes of financial reporting. In addition, without properly recording capital assets, performing and documenting an annual physical inventory, or establishing procedures encompassing all phases of the inventory process, ATB 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, ATB 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, ATB's ICP did not document its goals, objectives, risks, and controls used to mitigate those 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, ATB answered "yes," but its ICP did not

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document these items. Instead, the ICP was limited to a summary of the agency's administrative and fiscal activities; it did not include key operational activities related to case management or ATB's appeal, resolution, and settlement processes.

**b. Contrary to what its ICQ indicated, ATB'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?" In its ICQ, ATB answered "yes," but its ICP did not fully comply with the guidelines in OSC's Internal Control Guide. The ICP consisted of a compilation of ATB's administrative and financial activities and did not consider, or adequately identify, the eight components of enterprise risk management (ERM): Internal Environment, Objective Setting, Event Identification, Risk Assessment, Risk Response, Control Activities, Information and Communication, and Monitoring.

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

In the Internal Control Plans section of the fiscal year 2015 ICQ, departments were asked, "Has the Department conducted an organization-wide risk assessment that includes the consideration of fraud?" In its ICQ, ATB answered "yes," but we found that it had not conducted an organization-wide risk assessment that identified potential risks concerning its financial, operational, and compliance activities or the risk of fraud. Developing a risk assessment is important because it enables management to focus its attention on the most important entity risks and to manage risks within defined tolerance thresholds.

**d. Contrary to what its ICQ indicated, ATB had capital assets with a useful life of more than one year.**

In the Capital Assets Inventory section (GAAP and Non-GAAP) of the fiscal year 2015 ICQ, departments were asked, "Does the Department have singular tangible and/or intangible capital assets with a useful life of more than one year?" In its ICQ, ATB answered "no," but it did have such assets: eight courtroom benches, costing a total of \$16,638, purchased in June 2011. These items should have been accounted for, managed, and inventoried annually in accordance with OSC's Fixed Assets—Acquisition Policy and Accounting and Management Policy. Further, although it was outside

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our audit period, we noted that ATB answered “no” to this question in its ICQs for fiscal years 2012 through 2014.

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

In the Internal Control Plans section of the fiscal year 2015 ICQ, departments were asked, “Are there procedures that encompass all phases of the inventory process: acquisition, recording, tagging, assignment/custody, monitoring, replacement and disposal, as well as the assignment of the roles of responsibility to personnel?” In its ICQ, ATB did not provide an answer to this question or a comment on this section; however, during our audit, management confirmed that the agency did not have such procedures for capital assets. Moreover, although they were outside our audit period, we noted that ATB also did not respond to the question for fiscal years 2013 and 2014, the first two years this question was included in the ICQ.

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

ATB's department head, chief fiscal officer (CFO), and internal control officer told us that they had read and approved each statement presented on the ICQ, but had not signed and filed a printed copy as required by OSC's instructions.

**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. 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.” For an ICP to be compliant with OSC internal control guidelines, the ICP must contain information on the eight components of ERM: Internal Environment, Objective Setting, Event Identification, Risk Assessment, Risk Response, Control Activities, Information and Communication, and Monitoring. COSO guidance states that all components of an internal control system must be present and functioning properly and operating together in an integrated manner in order to be effective. In addition, OSC’s Internal Control Guide requires ICPs to include a risk assessment. Lastly, ATB should update its ICP as often as changes in management, level of risk, program scope, and other conditions warrant, but at least annually.

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

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

ATB’s CFO stated that agency management was not aware of the OSC Internal Control Guide’s requirements regarding the ERM framework; organization-wide risk assessment; and documentation of its goals, objectives, risks, and controls used to mitigate risks. She attributed this oversight to the agency’s fiscal year 2009 reduction in workforce, after which personnel responsible for maintaining the ICP were no longer employed and ICP responsibilities were not delegated to existing personnel.

The CFO stated that she had believed ATB did not have capital assets that had to be recorded in its inventory according to OSC’s Accounting and Management Policy and Fixed Assets—Acquisition Policy and that therefore she had assumed ATB did not need to conduct annual physical inventories or develop capital-asset procedures.

Further, the CFO stated that ATB was not aware of the Representations section of the OSC 2015 ICQ instructions, which required certain agency officials to print, sign, and retain a copy of the final ICQ as documentation that all required parties had reviewed and approved the responses.

## Recommendations

1. ATB 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 retain a printed, approver-signed copy of its certification of its ICQ representations.
2. If necessary, ATB should request guidance from OSC on these matters.

## Auditee's Response

- *Because of unexpected retirements and layoffs in 2009, the individuals responsible for the ICQ and the internal control plan ("ICP") are no longer with the ATB and did not transition their duties prior to their departure. Remaining staff were required to fill a number of roles concerning the core functions of the ATB and were not made sufficiently aware of the importance of the ICQ and the ICP.*
- *There was confusion within the ATB concerning the requirements of the ICP and the Continuity of Operations Plan ("COOP"). Although we now understand the distinction based on our conversations with you and your team, we were under the impression that preparation of the COOP satisfied one or more of the requirements of the ICQ.*
- *Although a complete physical inventory of assets and equipment was conducted years ago, we believed that most of the equipment had essentially salvage value only, given its age and condition. With respect to the hearing room benches which the ATB purchased, we did not consider these capital assets because they were physically installed in the hearing rooms; not only did we assume that they were fixtures and not tangible personal property given their attachment to the floor, but we also assumed that the risk of theft was remote. However, based on the draft audit report, we will include them in our physical inventory going forward.*

*We look forward to adopting your recommendations concerning the ICQ and ICP and working with the Comptroller's guidelines going forward.*

## Auditor's Reply

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

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## OTHER MATTERS

### Inventory Issues (Information Technology)

On May 9, 2011, the Governor issued Executive Order No. 532. This order superseded Executive Order 510, which transferred the responsibility for accounting for the information-technology (IT) assets of executive departments, including the Appellate Tax Board (ATB), to the Executive Office for Administration and Finance (EOAF). One of EOAF's responsibilities under both orders was to perform annual physical inventories of ATB's IT assets in accordance with the state Information Technology Division's Enterprise IT Asset and Risk Management Policy, dated March 6, 2014. This policy states,

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

As part of our current audit, we asked whether an annual physical inventory of ATB's IT assets had been conducted. ATB personnel told us that they believed that EOAF had conducted a physical inventory during fiscal year 2015.

Although this matter was outside the scope of this audit, we discussed this issue with EOAF's bureau chief of Technical Services, who is responsible for the management of IT assets for departments under EOAF. He stated that because of limited resources and time constraints, physical inventories are not conducted annually; rather, EOAF conducts its physical inventory of IT assets at the end of its three-year lease. He further stated that corrective action would be taken to ensure annual physical inventories of ATB's IT assets.

### Inventory Issues (Capital Assets)

In the Capital Assets inventory section of the fiscal year 2015 Internal Control Questionnaire (ICQ), departments were asked, "Does the Department take an annual physical inventory of tangible and intangible capital assets including additions, transfers, disposals, and assets no longer in service?" In its ICQ, ATB did not provide a response to this question or a comment on this section. However, during our audit, ATB gave us documentation confirming the purchase of office furniture, which should have been accounted for, managed, and subject to an annual physical inventory. Moreover, although they were outside our audit period, we noted that in its ICQs for fiscal years 2012 through 2014, ATB also did not respond to this question.

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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



MARTIN J. BENISON  
COMPTROLLER

The Commonwealth of Massachusetts  
Office of the Comptroller  
One Ashburton Place, Room 901  
Boston, Massachusetts 02108

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

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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**.