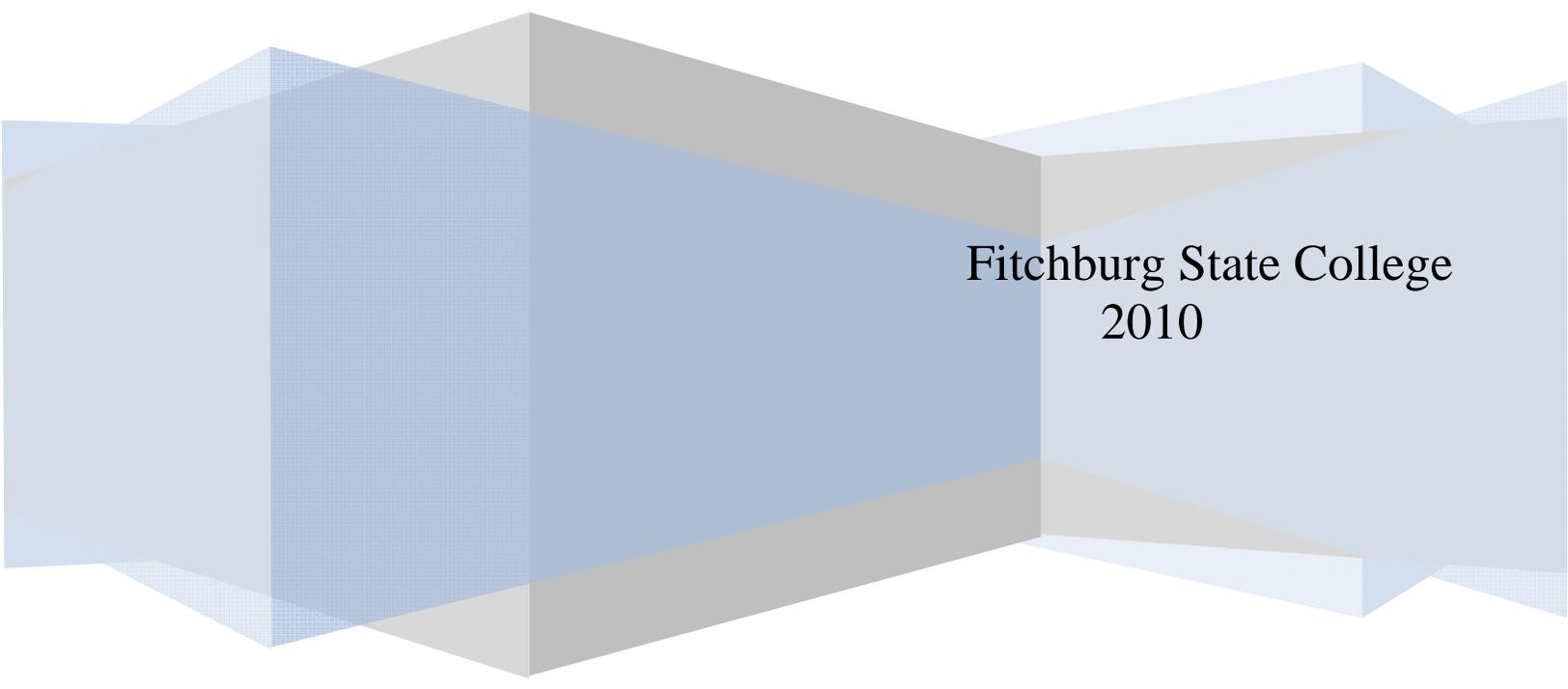


Internal Control Plan

Fitchburg State College
2010



FITCHBURG STATE COLLEGE INTERNAL CONTROL PLAN

To the College Community

Chapter 647 of the Acts of 1989, *An Act Relative to Improving Internal Controls Within State Agencies*, establishes the minimum level of quality acceptable for the Internal Control System in operation throughout state departments, agencies and colleges. The Office of the State Auditor and the Office of the State Comptroller are legislatively mandated to enforce the state law. The internal control process has five components: control environment, risk assessment, control activities, information and communication, and monitoring. Managers must develop internal controls for each activity for which they are responsible. The internal controls exercised over individual activities, when taken collectively, become the internal controls of the program or administrative function of which they are part. The internal controls for each department's programs and administrative functions, when combined with overall department controls, comprise the College's internal control documentation. This documentation, or high level overview describing, referencing, and summarizing the documentation is the College's *Internal Control Plan*.

Management's role is to provide the leadership that the College needs to achieve its goals and objectives. Internal controls are the structure, policies and procedures used to ensure that management accomplishes its objectives and meets its responsibilities effectively and efficiently while at the same time assuring compliance with applicable rules, regulations and laws. Thus it is imperative that the Internal Control Plan be reviewed and updated. Each manager is responsible for reviewing and updating his/her section of the Internal Control Plan at least on an annual basis and as conditions warrant.

Any questions or comments may be directed to the College's Internal Control Officer, Sheila R. Sykes, Vice President for Finance and Administration.

Sincerely,



Robert V. Antonucci
President

Overview of Internal Controls

Introduction

Chapter 647 of the Acts of 1989, *An Act Relative to Improving Internal Controls Within State Agencies*, establishes the minimum level of quality acceptable for Internal Control System in operation throughout state departments, agencies and colleges. The Office of the State Auditor and the Office of the State Comptroller are legislatively mandated to enforce this state law.

The Committee of Sponsoring Organization (COSO) of the Treadway Commission developed the current official definition of internal control. In its report, *Internal Control – Integrated Framework*, the Commission defines internal control as follows:

“Internal control is a process, effected by an entity’s board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations.
- Reliability of financial reporting.
- Compliance with applicable laws and regulations.

This definition reflects certain fundamental concepts:

- Internal control is a process. It is a means to an end, not an end itself.
- Internal control is affected by people. It is not policy manuals and forms, but people at every level of an organization.
- Internal control can be expected to provide only reasonable assurance, not absolute assurance, to an entity’s management and board.
- Internal control is geared to the achievement of objectives in one or more separate but overlapping categories.

A less technical definition might state that:

Internal controls are tools that help managers be effective and efficient while avoiding serious problems such as overspending, operational failures, and violations of law.

Goals & Objectives

The goals and objectives of the Fitchburg State College Internal Control Plan is to provide the Board of Trustees and other outside federal and state agencies with reasonable assurance that the College is efficiently and effectively meeting the goals and objectives outlined in the strategic plan. The Internal Control Plan further strives to identify and summarize department wide risks and the controls in place to mitigate those risks. Department wide risks can be broadly defined in four categories: academic quality, student life issues, capital assets/facilities and safety issues, and financial resource issues.

- Academic Quality

Teaching and learning form the core of Fitchburg State College's mission. The College has a long history in the region of North Central Massachusetts and enjoys a solid reputation as an affordable public college with strong academic programs. Maintaining academic quality not only ensures that enrollment targets are met but it also allows the College to continue to fulfill its obligation as a public institution addressing the needs of the state, the region and the students it serves.

The strategic plan outlines how the College will define, assess and enhance academic quality at the institutional, department, program and major levels. The plan includes procedures for systematically assessing academic quality, reviewing core curriculum for relevancy and effectiveness and formalizing campus wide communication.

- Student Life Issues

Fitchburg State College is committed to fostering an intimate, friendly, student centered community. The College offers a wide variety of services and co curricular programming that reaches beyond the traditional classroom. Fitchburg State College provides campus housing, parking services, recreation and other student activities. The College is dedicated to providing these services in a safe and healthy environment that enriches the student experience.

The College adheres to policies and procedures that protect student confidentiality and insure a safe and healthy learning environment for our students. Various reporting tools exist for reporting concerns or situations affecting students. Judicial procedures exist for more serious student issues. Survey tools help identify areas needing improvement.

- Capital Assets/Facilities and Safety Issues

Capital assets include buildings and improvements, computers, software, equipment, furniture, vehicles and works of art. The acquisition of capital assets, represent a significant investment of public funds. The renovation and maintenance of existing buildings and the construction of new facilities has significant impact on the financial resources of any institution. The condition of the facilities also has an environmental impact which could potentially affect public safety.

The College has developed a comprehensive Facilities Master Plan which establishes an umbrella under which all potential capital projects fall. The Master Plan serves as a guide when prioritizing projects. Major capital projects involving debt issues are specifically approved by the Board of Trustees. All other capital projects are presented to the Board for review. Property considered College assets are received in a central location, tagged and entered into an inventory management system. Disposal of assets is governed by state statute. The College participates in environmental program audits to assure compliance with environmental regulations.

- Financial Resource Issues

The category of risk that impacts all others is that of not having adequate financial resources to support the mission of the College. As a department of the Commonwealth of Massachusetts, the College receives a significant portion of its operating funds from the state. The College is also mindful of the fact that it has custody of taxpayer and student monies. It is the goal of the College to fulfill this fiduciary role with prudence and integrity to insure that funds are appropriately received and disbursed.

A strong budgetary process that focuses on planning ensures the thoughtful use of limited resources. Effective monitoring and oversight ensures that revenue projections are adequate and that funds are spent in accordance with applicable laws, regulations and guidelines.

Components of Internal Controls

Per the COSO Report, there are five interrelated components to internal control. They are as follows:

1. **Control Environment** – The organization’s culture, philosophy and ethical values.
2. **Risk Assessment** – Identifying, analyzing and managing the potential risks that could hinder or prevent the College from achieving its objectives.
3. **Control Activities** – The structure, policies, and procedures that the College establishes to identify risks that could prevent it from achieving its goals. Managers must develop internal controls for each activity for which they are responsible. The internal controls exercised over individual activities, when taken collectively, become the internal controls of the program or administrative function of which they are a part. The internal controls for each of a department’s programs and administrative functions, when combined with overall department controls, comprise the College’s internal control documentation. The documentation is required by Chapter 647 of the Acts of 1989. The College’s Internal Control Plan is a high level overview describing, referencing and summarizing all the individual department documentation.
4. **Information and Communication** – Managers must be able to obtain reliable information to determine their risks and communicate policies and other information to those who need it. Well-designed internal controls outline the specific authority and responsibility of individual employees. An internal control plan should provide for information to be communicated both within the College (up, down and across the organization) and to external stakeholders.
5. **Monitoring** – Managers must continually monitor the effectiveness of their controls. Proper monitoring ensures that controls continue to be adequate and continue to function properly.

FITCHBURG STATE COLLEGE

Internal Control Plan

Control Environment

Fitchburg State College operates under the enabling legislation found in the Massachusetts General Laws, Chapter 73, as amended.

Per Massachusetts General Laws, Chapter 15A, as amended, the Board of Higher Education is the official governing organization of each of the colleges in Massachusetts. Fitchburg State College is governed directly by its own eleven-member Board of Trustees. The Governor of the Commonwealth appoints the Trustees for a renewable five-year term. The Board meets six times annually and works through its committees: Executive, Academic Affairs, Finance and Administration, Personnel, Student Affairs, and Nominating. The Board oversees the College's budget, policies, and contracts. The Board approves new programs and some personnel actions. The responsibilities of the Board are considerable. The Board communicates with the College community not only through the President of the College, but also through the administrative liaisons assigned to the Board committees.

The College strives to be fully compliant with all local, state and federal laws, rules and regulations governing its various operations, and, adheres both to the "letter" of each law, rule or regulation, as well as, to its original intent and "spirit." In compliance with applicable laws, rules and regulations, Fitchburg State College, through its affirmative action/equal opportunity policies, its three collective bargaining agreements, its academic and student life policies and procedures, and its administrative and financial policies and procedures has developed an environment that encompasses both technical competence and ethical commitment. The College is committed to hire, train, and retain qualified staff.

Risk Assessment

Risk assessment is the process used to identify, classify, analyze and manage the risks that could prevent the College from attaining its goals and objectives. Fitchburg State College uses a variety of tools to assess risk including evaluation of systems, questionnaires and periodic external review. The College requires departments to identify the department's objective and the key components to achieving that objective. The focus is on identifying the major risks a department faces, the controls currently in place to mitigate those risks, the identification of areas where controls could be improved and the identification of the major risks to Fitchburg State College as a whole.

There are four categories of organizational objectives as defined by COSO. They are as follows:

1. Safeguarding of assets
2. Efficiency and effectiveness of operations
3. Reliability of financial reporting
4. Compliance with applicable laws and regulations

Grouping the departmental risks in these categories permits the analysis of the adequacy of existing controls, the identification of any patterns of risks and whether any concentration of risks exist in a particular area.

Once risks have been identified, they are prioritized based on the likelihood of occurrence and the severity of the consequence as follows:

- Level I requires immediate action and senior management involvement
- Level II requires management responsibility and action to be specifically assigned
- Level III can be managed by specific response and monitoring
- Level IV can be managed by routine process

Risk management includes both risk assessment and the process of addressing risks (control activities) that are identified from the assessment. There are four basic management approaches to dealing with identified risks. They are as follows:

1. Accept the risk
2. Control the risk
3. Share the risk with third parties (i.e. insurers)
4. Mitigate the risk by designing processes that eliminate or reduce the risk

Due to the cost/benefit relationship it is not possible to mitigate every risk that could potentially affect an organization. It should also be noted that some residual risk will remain even after efforts have been made to address identified risk. In addition, if the risk is not critical, management may be willing to accept a certain level of risk to achieve its goals and objectives.

Information & Communication

Fitchburg State College posts its Internal Control Plan and its Internal Control Implementation Guide on its Web Page. In addition newsletters and informative memoranda are routinely distributed to the College community. There are scheduled and unscheduled meetings ranging from the President's cabinet meeting to various committee and departmental meetings and neighborhood meetings. These are all an effort to provide various forums for the exchange of information and ideas and to foster communication and cooperation.

Monitoring

The management of Fitchburg State College reviews and updates the Internal Control Plan on a regular basis. The College's external accounting firm, as part of its audit procedures, reviews the College's internal controls in accordance with current auditing standards and legislative requirements.

Update:

The *American Recovery and Investment Act of 2009* (ARRA) was signed into law on February 17, 2009. The overall goals of ARRA are to stimulate the economy in the short term and invest in education and other essential public services to ensure the long term economic health of the nation. Four principles guide the distribution and use of ARRA funds:

- Spend the funds quickly to save and create jobs.
- Improve student achievement through school improvement and reform.
- Ensure transparency, reporting and accountability.
- Invest one-time ARRA funds thoughtfully to minimize the “funding cliff” when funding ceases.

Along with the four principles mentioned above, ARRA includes unprecedented levels of reporting and transparency requirements to ensure that ARRA funds are properly managed for maximum effectiveness and to prevent fraud, abuse and waste. In addition, the United States General Accountability Office (GAO) has designated the Commonwealth of Massachusetts as one of sixteen states the GAO will follow over the next few years to provide an ongoing longitudinal analysis of the use of ARRA funds.

It is the intent of Fitchburg State College to make certain that it is fully aware of all funding opportunities available. The College also intends to be fully compliant with all ARRA requirements to ensure proper management, accounting and reporting of ARRA activity. Specific policies and procedures relating to ARRA funds can be found in the *Fitchburg State College American Recovery and Reinvestment Compliance Policy*.