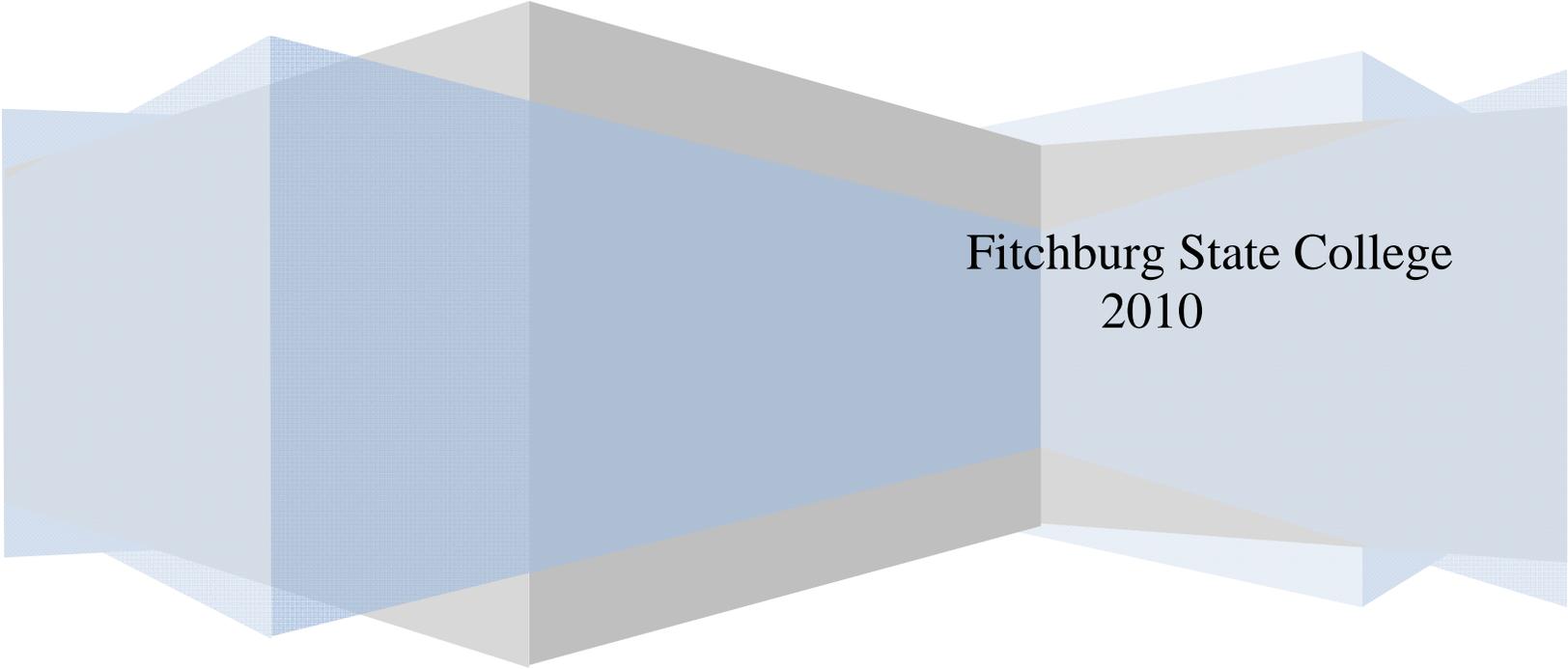


Internal Control

An Implementation Guide for Departments



Fitchburg State College
2010

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Overview of Internal Controls

Introduction

Internal controls are put in place to help an organization achieve its goals and avoid problems along the way. Internal controls help an organization realize performance targets in an effective manner without the loss of resources. Internal controls allow management to deal with rapidly changing economic and competitive environments and shifting demands and priorities. They help ensure compliance with laws and regulations and help avoid events that could damage the organization's reputation. Basically, internal controls help an organization get where it wants to go while avoiding pitfalls. This guide is meant to assist departments in understanding the importance of internal controls and how those controls should be evaluated and documented.

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 Systems in operation throughout state departments and agencies. The Office of the State Auditor and the Office of the State Comptroller are legislatively mandated to enforce this law and Commonwealth departments are mandated to follow it.

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:

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 toward 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.

Internal controls help define a department's objectives and identify the key components to achieving those objectives. Internal controls establish guidelines for the performance of tasks, define responsibilities and create processes that produce the right results with the least amount of resources.

Internal Control Plan

Department 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 department's programs and administrative functions, when combined with overall department controls, comprise the College's internal control documentation. The documentation is then summarized in the College's *Internal Control Plan* (Appendix II).

An internal control plan is a description of how a department expects to meet its various goals and objectives by using policies and procedures to minimize risk. The Commonwealth has defined the internal control plan as a high-level summary supported by lower-level policy and procedures. Each department's internal control plan will be unique but should be aligned with the organization's mission statement, goals and objectives, and components of internal control as recommended by COSO. The plan should be reviewed and updated as conditions warrant, but at least annually.

As mandated in Chapter 647 of the Acts of 1989, a department's Internal Control Officer is responsible for its internal control plan. The Vice President of Finance and Administration is the College's designated Internal Control Officer. It should be noted, however, that internal controls are the responsibility of every employee.

Viewing Internal Controls as an Integrated Process

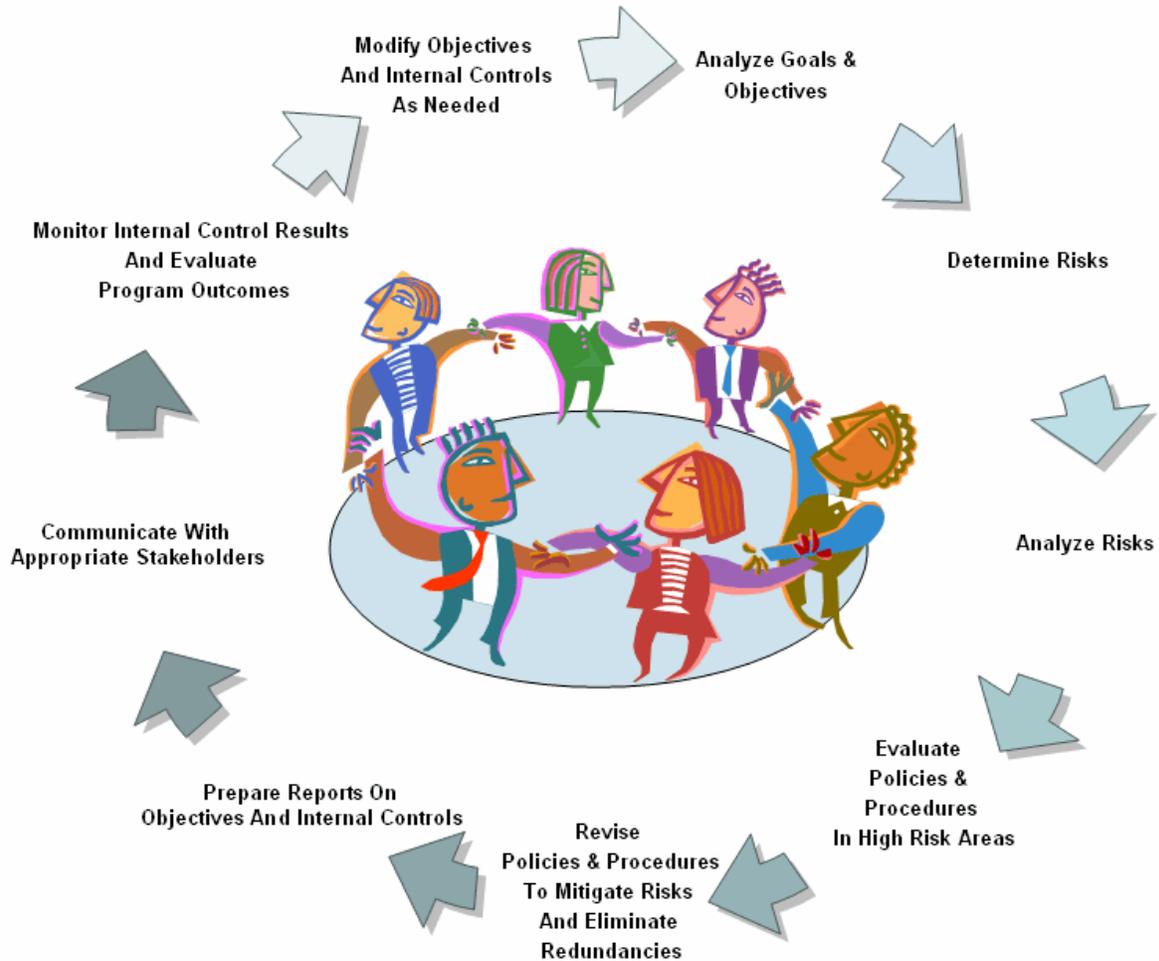
In developing its definition of internal controls, COSO identified five interrelated components of internal controls. They are as follows:

1. Control Environment
2. Risk Assessment
3. Control Activities
4. Information and Communication
5. Monitoring

The components comprise an integrated process that recognizes the interrelationship of the components and recognizes that management needs flexibility in developing controls that support the organization's mission and allows the organization to adjust and improve its internal controls over time. This framework was further expanded in 2004 when COSO released its *Enterprise Risk Management – Integrated Framework* (ERM). ERM focuses on a broader perspective of risk management. It is designed to look at the organization strategically and identify events that may affect the organization. Risks are managed based on the risk tolerance of the organization and in such a manner as to provide reasonable assurance regarding the achievement of objectives. ERM does not eliminate the internal control framework, but rather incorporates the framework within it.

The process begins with management setting goals and objectives relative to its activities and circumstances. Once those goals have been set, management identifies those factors, both external and internal, that could prevent the organization from achieving its goals or those events that would have a positive impact and would therefore be opportunities. The factors are assessed

and the risks are managed through a variety of control activities which are communicated to the organization via policies and procedures, directives and various other communication vehicles. Actual results are then compared to expectation and corrective action taken when necessary. This is an ongoing process known as the Internal Control Cycle and is illustrated below.



Components of Internal Control

Control Environment

The internal environment of an organization is the basis for all other components and relates to the organization's culture, philosophy and ethical values - the "tone at the top." The environment encompasses codes of conduct, accountability, management's operating style and oversight responsibilities exercised by the Board of Trustees. The environment also includes external authoritative bodies, legislation and standards applicable to the organization's activities.

The organization's structure should support effective controls and should include the assignment of appropriate levels of authority and responsibility based on employee competence and position.

The control environment includes developing a clearly stated mission that identifies a department's purpose and the means of accomplishing that purpose. Goals should be defined and objectives should be realistic and measurable. The goals and objectives of individual departments should align with the College's mission and be strategic in nature and consistent with the overall risk appetite of the institution.

Risk Assessment

Risk assessment is a process used to identify, clarify, analyze and manage the risk factors that could prevent the College from attaining its goals and objectives. In its simplest form, the risk assessment process identifies the department's objectives and the key components to achieving those objectives. Identified risks should be evaluated and properly prioritized based on the likelihood of occurrence and the potential negative impact to the institution should the risk not be addressed or mitigated. Some important questions to ask are:

- What could go wrong? What needs to go right?
- Where is the department vulnerable and what assets do we need to protect?
- Could assets be misappropriated?
- Can operations be disrupted?
- Are we achieving our objectives in an effective and efficient manner?
- On what information do we rely?

Keep in mind that certain areas carry higher risks by virtue of the activities performed or the nature of the assets involved. Departments involved with the cash receipt or disbursement functions, for example, have inherently higher risk. Other high risk areas include payroll, departments handling confidential information, departments receiving federal and state grants and information technology. Also keep in mind that risks can be both qualitative and quantitative. Bad publicity or loss of public trust can be just as damaging to the institution as a monetary theft.

Identifying the major functions within a department will help identify the risk associated with those functions. When identifying major functions it is helpful to watch for appropriate safeguarding of assets and, in particular, segregation of duties. Segregation of duties is a primary principle in any internal control system. No one individual should have excessive control over a critical process. Segregation also defines authority and responsibilities over activities. An

individual or small group of individuals should not be in a position to initiate, approve, undertake and review the same action. In cases where segregation may not be possible due to limited staffing, additional management oversight or other alternative management procedures may be necessary.

Identified risks should be 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 response

Due to the cost/benefit relationship it is not possible to mitigate every risk that could potentially affect the organization. In addition, some residual risk will remain even after efforts have been made to address identified risks. There are also circumstances when the risk is not considered critical. In those cases management may be willing to accept a certain level of risk in order to achieve its goals and objectives. The response to identified risks will depend on the nature of the risk itself and usually falls into the following categories:

- Acceptance: when the impact and probability of occurrence is low the institution may simply monitor the activity
- Control: when the probability of occurrence is high but impact is low and proper controls are in place
- Share: when the impact is high and the probability is low the institution may shift some of the risk to others (an insurance company for example)
- Mitigate: when the probability and impact are high processes are put in place to reduce the risk and control potential exposure

Control Activities

Control activities are the policies, procedures and actions designed to mitigate identified risks. Controls fall into two categories, preventative and detective. Preventative controls are designed to deter or prevent a loss. Detective controls are designed to discover irregularities. Preventative controls include authorizations and supervisory approvals, segregation of duties and certain computer system attributes. Detective controls include reconciliations, audit trails and supervisory reviews.

Policies and procedures are the most common control activity. Policies and procedures establish guidelines for the performance of tasks and establish lines of responsibility. Policies describe what should be done, procedures describe how.

Control activities occur throughout the organization at all levels and in all functions and should be integrated with identified risks and the responses to those risks.

Information and Communication

Pertinent information should be identified, captured and communicated in a form and timeframe that enables personnel to effectively carry out their responsibilities. Communication occurs in a broad sense flowing down, across and up the organization. Communication is verbal, non verbal and written.

Information systems that produce reports containing operational, financial and compliance related information should be identified. How timelines and schedules are communicated to personnel should be documented.

Management should establish communication channels that are timely, inform employees of their duties and responsibilities, enable employees to suggest improvements and allow for the reporting of sensitive information. Communication channels should convey management's attitude that internal controls are important to the organization and should be taken seriously. Those channels should include procedures for employees to communicate concerns and suggest improvements.

Monitoring

The quality of an internal control system is assessed by monitoring the system over a period of time. Ongoing monitoring activities occur in the normal course of operations through management and supervisory activities as well as actions taken by personnel in performing their specific duties. Separate evaluations occur as a result of the assessment of risks and the effectiveness of ongoing monitoring activities.

Monitoring also includes performance measurement that determines if the organization has met its goals and objectives within the scope of its mission. An organization is a living entity which changes over time. As a result, the organization's mission, goals and objectives must be regularly evaluated and periodically revised.

Internal control systems are fluid. They require continued evaluation to determine if controls have actually been implemented, if the controls are working as intended and if the controls are effective and efficient. Internal control deficiencies must be identified and communicated to management in a timely manner so corrective action can be taken.

Documentation

Policies and procedures document what and how specific tasks need to be accomplished. The documentation of policies and procedures should substantiate decisions, events and transactions. This documentation should be clear and concise and in a usable format that promotes effective and efficient operations. Documentation is unique to each department based on the specific activity of that department.

A department's internal controls should also be clearly documented. Included in this documentation should be adequate documentation of the components of the department's internal controls and summaries of the major functions or activities of the department. Appendix III includes several forms to assist in the documentation process.

The Components of Internal Control form will assist departments in developing and implementing controls as well as provide a fundamental framework for department functions. The documentation should include the following:

- Control Environment
 - Include the department's mission statement
 - State the department's goal
 - List the external authoritative bodies, legislation, and professional standards that the department follows
 - Include a current organization chart
- Risk Assessment
 - Identify the department's objectives
 - Identify the key components to achieving those objectives
 - Identify the major functions of the department
 - Identify specific risk associated with major functions
- Control Activities
 - Prioritize identified risks based on likelihood of occurrence and severity of consequences
 - Document policies and procedures put in place to mitigate the identified risks
 - Document policies that segregate duties
 - Document those areas where segregation is weak or cannot be achieved and the alternative procedures or oversight used to address the lack of segregation
- Information and Communication
 - Document communication channels and/or how information is disseminated to staff members and how information flows from staff

- members and other College personnel to management, including established channels for concerns to be addressed
- Document information systems used to produce reports and schedules
- Document how timelines and schedules are communicated

- **Monitoring**
 - Document monitoring activities that occur in the normal course of operations
 - Document any separate evaluations that occur
 - Document performance measurement
 - Assess whether the department has achieved its goals and objectives
 - Evaluated the department's mission, goals and objectives and revise if necessary

The System Narrative form is used to document the major functions of the department identified during the risk assessment process. The form documents certain attributes of the function including how transaction are initiated, whether the functions involve cash receipts or disbursements, what systems are used to process and report activity and various other information to provide a complete overview of the activity. This form is helpful in classifying transactions and the systems needed to process and review those transactions. A system narrative should be completed for each major function.

Conclusion

Ensuring that adequate control systems exist is important to all organizations but is especially important to organizations responsible for resources entrusted to them by the public. Every employee is accountable to the public for the decisions they make relative to the stewardship of public funds in their control. All employees must participate in creating an environment that promotes integrity and ethical behavior while supporting the mission of the College. Internal controls are the tools we use to achieve our goals and fulfill our responsibilities as public employees.

Please forward any questions or comments to Sheila R. Sykes, Vice President for Finance and Administration.

Appendix I

Regulations and Guidance

American Institute of Public Accountants

Statement of Auditing Standards No. 112, *Communicating Internal Control Matters Identified in an Audit*

Committee of Sponsoring Organizations (COSO)

Internal Control over Financial Reporting, Volume 1
Internal Controls – *Integrated Framework*
Enterprise Risk Management – *Integrated Framework*

Commonwealth of Massachusetts

Chapter 647 of the Acts of 1989, *An Act Relative to Improving the Internal Controls within State Agencies*
Office of the Comptroller, Quality Assurance Bureau, *Internal Control Guide*

Financial Accounting Standards Board

Government Accounting Standards Board

Institute of Internal Auditors

Applying COSO's Enterprise Risk Management – Integrated Framework

National Association of College and University Business Officers (NACUBO)

The Sarbanes-Oxley Act of 2002: Recommendations for Higher Education

Sarbanes Oxley Act of 2002

Appendix II

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*.

Appendix III

Fitchburg State College
THE COMPONENTS OF INTERNAL CONTROLS

DEPARTMENT _____

COMPLETED BY _____ DATE _____

CONTROL ENVIRONMENT

Briefly describe the control environment in your area.

RISK ASSESSMENT

Describe the risk assessment practices in your area. Identify the objective of your area, the key components to achieving that objective and the major functions of your area.

CONTROL ACTIVITIES

For each major function in your area, identify the risks and the control activities in place to mitigate that risk.

INFORMATION AND COMMUNICATION

How are duties and responsibilities communicated to staff and how is reliable information exchanged between employee and supervisor?

MONITORING

How does your department monitor its activities, controls and accomplishments?

SYSTEM NARRATIVE
DEPARTMENT: _____

Major Transaction Class _____

Specific Source System _____

Does this process involve cash receipts
or disbursements? _____

Identify any potential risks
relative to this transaction class _____

What controls are in place to mitigate
those risks? _____

Are the controls documented? _____

Can the controls be bypassed? _____

How are transactions initiated? _____

By whom? _____

Who authorizes the transactions? _____

How are transactions processed? _____

By whom? _____

What source documents are used to enter
information into the accounting system? _____

List any subsidiary journals or ledgers used _____

List any secondary systems used _____

List reports that are generated or used _____

Is the information used in internal and/or
external reports? _____

Completed by: _____

Date: _____

Fitchburg State College
THE COMPONENTS OF INTERNAL CONTROLS-SAMPLE

DEPARTMENT Budgeting

COMPLETED BY Mary Lynn Leary DATE 11/15/07

CONTROL ENVIRONMENT

Briefly describe the control environment in your area:

The Budgeting Department is mindful of the fact that it has custody and control of taxpayer and student monies. As such, it is the goal of the department to fulfill its fiduciary role with prudence and integrity to insure that funds are appropriately received and disbursed in support of the students, the College and the State of Massachusetts.

RISK ASSESSMENT

Describe the risk assessment practices in your area. Identify the objective of your area, the key components to achieving that objective and the major functions of your area.

Objective – insure that funds are spent in accordance with applicable laws, regulations and guidelines.

Key component – effective monitoring and oversight of the budget process

Major functions – budget oversight, budget development

CONTROL ACTIVITIES

For each major function in your area, identify the risks and the control activities in place to mitigate that risk.

Budget oversight:

Risk – overspending approved budget. Control – disbursement system warns if funds are not available, negative balance reports are run regularly to identify overspending, negative spending must be approved.

Budget Development:

Risk – not having funds available to support the approved budget. Inefficient distribution of College resources. Control – conservative revenue estimates are used in the budget development process. Collections are monitored on a quarterly basis. Budgets are adjusted as necessary.

INFORMATION AND COMMUNICATION

How are duties and responsibilities communicated to staff and how is reliable information exchanged between employee and supervisor.

Finance Procedures Discussion Group sessions are held regularly to communicate the budget process to departments. Commonwealth missives are communicated to appropriate individuals.

Other information is communicated verbally and through emails.

MONITORING

How does your department monitor its activities, controls and accomplishments.

Continuous monitoring of budget activity. Budget transfers are approved by management.

Significant transfers are approved by the Board of Trustees as are any changes to the budget.

Budget activity is reported to the Board on a quarterly basis.

*SYSTEM OVERVIEW-SAMPLE
BUDGET DEPARTMENT*

Major Transaction Class	<u>Budget Development</u>
Specific Source System	<u>Banner</u>
Does this process involve cash receipts or disbursements	<u>No</u>
Identify any potential risks relative to this transaction class	<u>Not having funds available to support appropriate budget.</u> <u>Annual fall re-do of the budget after the State Appropriations are finalized.</u>
What controls are in place to mitigate those risks	<u>Conservative revenue estimates are used.</u> <u>Collections are monitored quarterly</u>
Are the controls documented	<u>Yes</u>
Can the controls be bypassed	<u>Yes, but would involve collusion</u>
How are transactions initiated	<u>Through budget development process</u>
By whom	<u>Department Heads</u>
Who authorizes transactions	<u>President, VPs and Board of Trustees</u>
How are transactions processed	<u>Budget is manually entered into the Banner System</u>
By whom	<u>Assistant VP of Finance and staff</u>
What source documents are used to enter information into the accounting system	<u>Final approved budget</u>
List any subsidiary journals or ledgers used	<u>N/A</u>
List any secondary systems used	<u>Excel Spreadsheets</u> <u>Department Operating Report, Department Revenue Report, Approved Budget Report, Budget History Report, Trial Balance</u>
List reports that are generated or used	<u></u>
Is the information used in internal and/or external reports	<u>Yes</u>
Completed by	<u>Mary Lynn Leary</u>
Date	<u>November 15, 2007</u>

FITCHBURG STATE COLLEGE
INTERNAL CONTROL DOCUMENTATION
GLOSSARY OF KEY TERMS

INTERNAL CONTROL A process, effected by an entity’s personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories – effective and efficient operation; reliability of financial reporting; compliance with applicable laws and regulations.

CONTROL DEFICIENCIES

Internal Control Deficiency Whereby the design or operation of a control would not prevent or detect misstatement in a timely manner.

Significant Deficiency Where there exists more than a remote likelihood that a significant misstatement would not be prevented or detected.

Material Weakness Where there exists more than a remote likelihood that a material misstatement would not be prevented or detected.

COMPONENTS OF INTERNAL CONTROL

Control Environment The tone and philosophy projected by management at all levels that establishes the foundation of internal control.

Risk Assessment The identification of specific risk (both internal and external) to achieving goals and objectives.

Control Activities Policies and procedures designed to mitigate identified risks.

Information and Communication System that communicates duties and responsibilities to staff, as well as, how information is exchanged between employees and supervisors.

Monitoring Activities that ensure internal controls are implemented and are effective.

PREVENTIVE CONTROL A control that attempts to deter or prevent a loss

DETECTIVE CONTROL A control designed to provide evidence that a loss has occurred.

SEGREGATION OF DUTIES

Internal control concept whereby the responsibility and function of authorizing transactions, recording a transaction and physical custody of an asset are divided amongst different individuals.

SYSTEM NARRATIVES

A general overview of a particular transaction/function including how transactions move in and out of a department and through each position.