

# Internal Control Plan

Fitchburg State College  
2008



# 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.

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.