Farmingdale State College
Internal Control Program

Employee Training

Presented to:
Farmingdale State College
Managers

Delivered by:
Internal Control Officer
Why Internal Controls?

• It’s the law!
  – NYS Governmental Accountability Audit and Internal Control Act of 1987
    • Requires all state agencies to institute an internal control program.
  – The Division of the Budget’s Budget Policy and Reporting Manual Item B-350
    • Requires all state agencies to perform certain internal control responsibilities, including the completion of an annual certification demonstrating that they are in compliance with the Internal Control Act.
Why Internal Controls? (cont.)

• It’s the law!
  - As of 2013-2014, agencies will also be required to submit a separate certification to the Office of the State Comptroller (OSC) demonstrating the adequacy of internal controls over the payment/procurement process.
Key Elements For An Organization

• Well defined mission - provides direction and stability

• Accountability (at all levels)

• Prioritization and proper application of resources

• Communication
College Mission and Objectives

Farmingdale State College’s Mission and Objectives are located at:

http://www.farmingdale.edu/about/mission.shtml
Accountability

• Key component at all levels for an effective organization

• Everyone has a role to play in an internal control system
Communication

- Communication is the exchange of useful information between and among people and organizations.
- Communication should be timely, useful and complete.
- Lines of communication should be up, down, and across an organization.
- Staff should be able to communicate problems and suggestions - and be empowered to act, within guidelines.
- Responsibilities should be clearly communicated and well-defined.
Why Are Internal Controls Important?

Rewards of Effective Controls—Acronym: “CARES”

C - COMPLIANCE with applicable laws/policies
A - ACCOMPLISHMENT of the entity’s mission
R - RELEVANT and reliable data
E - ECONOMICAL and efficient use of resources
S - SAFEGUARD assets
Internal Controls...

- Improve the likelihood that the right things happen and the wrong things don’t
- Are safeguards, but they do not guarantee success
- Reflect the qualities of management - good and bad
- Require commitment and coordination from managers like you
- Will succeed or fail depending on the attention people give it
- Are a process, not just a set of rules
- Are built into an organization, not an added feature - part of the culture
- Impact every aspect of the organization
A Manager’s Role in the Internal Control Process

- **Lead by example** to foster ethical values and integrity in the organization
  - Support controls with a positive attitude
  - Remember your operating style and philosophy has a pervasive influence in the organization
  - Review and update policies and procedures periodically
  - Minimize and monitor any overrides to controls
  - Establish training programs to support staff development
  - Monitor and reinforce employee morale
  - Select staff people capable of carrying out controls
Internal Controls at Farmingdale State College are designed:

• To reduce the likelihood that errors or irregularities will occur and/or go undetected, and

• To provide REASONABLE ASSURANCE that the organization will achieve its objectives and mission
The Basic Components of FSC’s Internal Control Program

1) Identifying Assessable Units/Functions of the various areas of the College

2) Assessing Risk/Vulnerability of each Operational Area

3) Conducting Internal Control Reviews

4) Taking Corrective Action
FSC’s Internal Control Process is as follows:

1. Organize the Process
2. Segment the Campus
3. Conduct Internal Control Review, or Other Control Procedure
4. Schedule and Conduct Vulnerability Assessments
5. Control Weakness? (No further action if the answer is no)
6. High to Moderate Risk? (Further action if the answer is yes)
7. Corrective Action Plan
8. Test New Controls
Determining the Assessable Units/Functions At Farmingdale State College

General Control Environment

- Revenue Cash Management
- Financial Aid
- Disaster Planning and Recovery
- Computer Operations
- Personnel/Payroll
- Procurement
- Property Control
Vulnerability Assessments

• Questionnaires will be distributed to the Manager(s) of each Assessable Unit/Function identified.

• The questionnaire (Vulnerability Assessment) is designed to assist in identifying weaknesses or risks in the campus environment.
Assessing Risk

The Vulnerability Assessments assist in determining risk associated with each area/function

- Risks are events that threaten the achievement of the College’s objectives and mission
- We must ensure each risk is assessed and handled properly

The cost of internal control should not exceed the benefit derived
Internal Control Reviews

An Internal Control Review is the process of identifying, evaluating and determining how to manage risks and vulnerabilities identified:

- Risk should be assessed at all levels of an organization
- Risk measured in terms of likelihood and impact
- Risks should be appropriately managed (accepted, controlled, or avoided)
- Corrective actions are essential to effective risk management
Internal Control Review

Two Goals:

1. Evaluate If Controls Are Designed Properly

   AND

2. Test To See If They Are Effective

   - i.e. Make sure the controls “on paper” are:
     - Being used as designed
     - Meeting the control objectives
Control Activities

Corrective Action

• Tools or processes that help prevent or reduce the risks that can impede accomplishment of the College's objectives and mission

• Can be manual or automated
Types of Internal Controls

There are two types of internal controls:

- **Preventive controls** - designed to keep errors or irregularities from occurring in the first place.

- **Detective controls** - designed to detect errors and irregularities which have already occurred and to assure their prompt correction.
Examples of Internal Controls

- Documentation
- Authorization/Approvals
- Verification
- Separation of Duties
- Supervision/Monitoring
- Security
- Reporting
Internal Controls can fail because:

- Management can process inappropriate overrides
- Collusion - two or more employees working together to commit fraud
- Poor judgment
- Mistakes/misunderstandings of policies and procedures
Areas with Weak Controls

Some signs of weak controls:

• Can’t meet deadlines for providing information
• Incorrect or unclear information
• Unusually high employee turnover
• Crowded, poorly organized files
• Poor employee morale
Real-Life Examples of Internal Control Breaches

1. A clerical employee copied travel and other receipts, forged a faculty member’s signature, and simultaneously submitted them to both the state and the campus foundation for reimbursement.

2. An employee altered checks received from students and deposited the checks into her own bank account.

3. A unit manager sold surplus material, told his employees to accept cash only and then pocketed the cash.
Who Is Responsible For Internal Control?

• **EVERYONE**

• Senior management: Makes sure controls are in place in all areas

• Employees follow controls, and report problems or improvements
Employee Responsibilities

- Fulfilling the duties and responsibilities stated in their job descriptions
- Meeting performance standards
- Attending education and training programs
- Taking steps to protect assets against waste, loss, unauthorized use and theft
- Reporting breakdowns in internal control systems to a supervisor
- Looking for more efficient ways to perform the controls
- Not using their position to secure unwarranted privileges
Responsibilities of Managers

• Strengthen the control environment
• Document the policies, procedures, and day-to-day processes
• Identify the control objectives for those processes:
  • Ensure accurate, reliable, and timely financial and management data;
  • Ensure adherence to laws, regulations, and management directives;
  • Safeguard resources against loss due to waste, abuse, and fraud
• Implement cost effective controls designed to meet those objectives
• Regularly review the controls to determine if they meet the objectives
Summary

• All Employees Have Responsibility for Internal Controls

• It’s Not Rocket Science

• It’s Not Just a Good Idea – It’s the Law!
  – The New York State Internal Control Act of 1987 requires all State-operated campuses to establish and maintain a system of internal controls and an ongoing internal control program
Internal Control Office

Contact Info

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Farmingdale State College Fraud Hotline
Confidential and anonymous means of reporting suspected fraud, waste, abuse or irregular activities.

631-420-2083

or

http://www.farmingdale.edu/administration/administration-finance/fraud-hotline/index.shtml
Questionnaire & Survey

Please take a few moments to complete the following questionnaire and survey.

Completion of the questionnaire and survey will enable the Internal Control Office to document that you completed this mandatory training.

http://www.surveymonkey.com/s/8Q9NXQT