Speakers:

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Division of Audit

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Audit Director  
Division of Audit
Agenda

➔ Define Internal Controls
➔ Benefits of Internal Controls
➔ Internal Controls: Statutory Requirements
➔ FAMU Policy
➔ COSO Overview
➔ Control Objectives & Activities – General Examples
➔ Types of Internal Controls
➔ Internal Control Examples
➔ Recap, Next Steps, Q&A
What are internal controls?

Internal Control is a process, effected by people (board, management, etc.) designed to provide reasonable assurance regarding the achievement of objectives in three categories:

- Effectiveness and efficiency of operations
- Reliability of financial and operational reporting
- Compliance with applicable laws/regulations
## Control Examples

<table>
<thead>
<tr>
<th>Control Objectives</th>
<th>Control Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Protect assets in your home.</td>
<td>Lock door. Set alarm system.</td>
</tr>
<tr>
<td>Protect your money.</td>
<td>Keep debit card in safe place and do not write down the PIN number.</td>
</tr>
<tr>
<td>Detect inappropriate access to your funds and bank errors.</td>
<td>Balance your bank statement each month.</td>
</tr>
<tr>
<td>We only pay bills for goods actually ordered and received.</td>
<td>Perform three-way match of original PO, goods receipt information and invoice prior to payment to vendor.</td>
</tr>
</tbody>
</table>
Polling Question

What are some of the benefits of internal controls?

A. Ensure internal business is properly transacted.
B. Reduce the opportunity for fraud.
C. Protect appointed officials and employees from personal liability.
D. Provide a positive public image by reducing errors, fraud, and mismanagement.
E. All of the above
Benefits of Internal Controls

**Benefits of Internal Controls**

- Enhanced understanding of risk exposure
- Reduction of improper or erroneous payments
- Sustained performance, efficiency, and effectiveness
- Reduce the misappropriation of University assets
- Improved policies and procedures
- Compliance with laws and regulations
- Streamlined Processes
- Greater Accountability
Statutory Requirement – Internal Controls

In 2019, SB7014 amended 1010.01, F.S., entitled “Uniform Records and Accounts” and requires each State University to establish and maintain internal controls designed to:

- Prevent and Detect Fraud, Waste, and Abuse (F.S. 11.45(1))
- Ensure Reliability of Financial Records and Reports
- Support Economical and Efficient Operations
- Safeguard Assets
- Promote and Encourage Compliance with Laws, Rules, Contracts, Grant Agreements, and Best Practices
Who is Responsible?

We all are!
Most Effective Internal Control

Lead by Example

- Management must set the tone.
- Staff won’t use internal controls if their management does not take internal controls seriously.
- “Code of Conduct”
Polling Question

Did you know that FAMU established two new policies to govern internal controls in December 2019?

A. No.
B. Yes, but I have not had the time to read them.
C. Yes and I now understand my role in implementing internal controls at FAMU.
COSO Frameworks
The University will implement COSO’s Internal Controls and ERM frameworks.

Details Roles and Responsibilities
Board of Trustees, Audit and Compliance Committee, President and President’s Administration

Financial Controls
Focus on financial controls ensuring timely and reliable financial and operational information

I. Policy Statement and Purpose

A. The Florida Agricultural and Mechanical University Board of Trustees (BOT) is committed to a sound system of internal controls focused on accountability and oversight of operations. The BOT has prioritized the development of appropriate risk management processes and systems to identify challenges early, to bring them to the attention of University leadership, and to develop solutions. To that end, the University seeks to modernize existing efforts by requiring implementation of both the Enterprise Risk Management (ERM) capability and the internal control framework championed by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in its publications *Internal Controls - Integrated Framework and Enterprise Risk Management - Integrating with Strategy and Performance*. This integrated governance structure will improve mission delivery, reduce costs, and focus corrective actions toward mitigating key risks.
COSO Frameworks
The University will implement COSO’s Internal Controls and ERM frameworks.

Details Roles and Responsibilities
President, F&A, Chief Risk Officer, Chief Compliance & Ethics Officer, Division of Audit, Senior Management, and Employees

Annual Assurance Statement
Provide to the BOT an assurance statement and summary information including an analysis of the University’s systems, controls, and legal compliance.

Annual Risk Profile
The University will develop a risk profile aligned with its strategic and performance goals.

FAMU University Policy

<table>
<thead>
<tr>
<th>University Policy Number: UP-01-02</th>
<th>Effective/Revision Date: December 3, 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Subject</td>
<td>Internal Controls and Enterprise Risk Management</td>
</tr>
<tr>
<td>Authority</td>
<td>Section 7(c), Article IX, Florida Constitution; Section 1010.01(5), Florida Statutes; BOT 2019-01</td>
</tr>
<tr>
<td>Applicability</td>
<td>This policy applies to all University units and employees.</td>
</tr>
<tr>
<td>Related</td>
<td></td>
</tr>
</tbody>
</table>

I. POLICY PURPOSE AND INTENT

A. This policy is intended to improve mission delivery, reduce costs, and focus corrective actions toward key risks through the modernization of existing efforts by requiring the implementation an Enterprise Risk Management (ERM) capability coordinated with the strategic planning and strategic review process, and the internal controls processes.

FLORIDA A&M UNIVERSITY
FLORIDA AGRICULTURAL AND MECHANICAL UNIVERSITY
Originally formed in 1985, COSO is a joint initiative of five private sector organizations and is dedicated to providing thought leadership through the development of frameworks and guidance on enterprise risk management (ERM), internal control, and fraud deterrence.

< 600,000 professionals

About COSO . . .
COSO Cube

Objectives
COSO outlines three objectives for internal controls

Components
Components support the organization in its efforts to achieve its objectives.

Organization
Objectives may be set for the University as a whole (entity level) or targeted to specific divisions, operating units, or functions.
2013 COSO Framework

Objectives

Operations

Reporting

Compliance

Components

Control Environment

Risk Assessment

Control Activities

Information & Communication

Monitoring Activities

Principles

1. Demonstrates commitment to integrity and ethical values
2. Exercises oversight responsibility
3. Establishes structure, authority and responsibility
4. Demonstrates commitment to competence
5. Enforces accountability

6. Specifies suitable objectives
7. Identifies and analyzes risk
8. Assesses fraud risk
9. Identifies and analyzes significant change

10. Selects and develops control activities
11. Selects and develops general controls over technology
12. Deploys through policies and procedures

13. Uses relevant information
14. Communicates internally
15. Communicates externally

16. Conducts ongoing and/or separate evaluations
17. Evaluates and communicates deficiencies
Example: Principle 1

1. The organization demonstrates a commitment to integrity and ethical values.

**Points of Focus:**
- Sets the Tone at the Top
- Establishes Standards of Conduct
- Evaluates Adherence to Standards of Conduct
- Addresses Deviations in a Timely Manner

- Points of focus may not be suitable or relevant, and others may be identified
- Points of focus may facilitate designing, implementing, and conducting internal control
- There is **no** requirement to separately assess whether points of focus are in place
Principles Embedded in Other Control Components

Component

Control Environment
1. The organization demonstrates a commitment to integrity and ethical values.

Principle

Control Environment
HR review and confirm with employees that standards of conduct are understood and will be followed

Information & Communications
Management review hot-line data for underlying potential deviations to conduct standards

Monitoring Activities
Internal Audit evaluates conduct standards and employee adherence to those standards

Principle Controls are embedded in other I/C components
Polling Question

What are signs of weak internal controls?

A. Inefficient use of resources
B. High rate of customer dissatisfaction
C. Poor management decision making due to untimely and inaccurate information
D. Inaccurate financial statements or budget forecasts
E. All of the Above
Why are Internal Controls Important?

Internal Controls Help to Prevent Fraud

**Motive**
Increased financial hardship: My spouse lost their job due to COVID-19 and now we are struggling to make ends meet.

**Opportunity**
Changing Business Environment: Some controls are not as robust, less effective, or do not accommodate a remote workforce.

**Rationalization**
I've given so much to the University, in times like this, they can afford to help me.

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FRAUD

FLORIDA A&M UNIVERSITY
Reporting Breakdowns in Internal Controls

When breakdowns occur in internal controls, you are responsible for reporting it to the appropriate authority. When internal control breakdowns result in...

- Inefficient or Ineffective Operations
  Report to your Supervisor and/or Vice President

- Unreliable Financial Reporting
  Report to the Vice President for Finance and Administration/CFO and Vice President of Audit

- Non-compliance with Laws, Policies, and Regulations
  Report to the Chief Compliance and Ethics Officer through the Compliance and Ethics Hotline

- Fraud, Waste, or Abuse
  Report to the Vice President of Audit by phone, email, or through the Compliance and Ethics Hotline
Accounting Controls

Plans, procedures and records:

- Safeguarding of assets
- Reliability of financial records

Provide reasonable assurance that:

- Transactions are Authorized
- Transactions are Recorded
- Access is permitted
# Types of Controls

<table>
<thead>
<tr>
<th>Directive</th>
<th>Preventive</th>
<th>Detective</th>
<th>Corrective</th>
</tr>
</thead>
<tbody>
<tr>
<td>Policies and Procedures</td>
<td>Segregation of Duties</td>
<td>Exception Reports</td>
<td>Correct Errors</td>
</tr>
<tr>
<td>Laws, Rules, and Regulations</td>
<td>Physical Asset Controls</td>
<td>Reviews and Comparisons</td>
<td>Respond to Irregularities</td>
</tr>
<tr>
<td>Training Seminars</td>
<td>Access Controls (Locks or Passwords)</td>
<td>Reconciliations</td>
<td>Remedy Systematic Issues</td>
</tr>
<tr>
<td>Job Descriptions</td>
<td>Authorizations and Approvals</td>
<td>Physical Counts</td>
<td>Take Appropriate Accountability Measures</td>
</tr>
<tr>
<td>Meetings</td>
<td>Shredding Documents</td>
<td>Inventories</td>
<td>Enhance Controls</td>
</tr>
<tr>
<td>Supervision</td>
<td>Verifications</td>
<td>Performance Reviews</td>
<td>Revise Policies and Procedures</td>
</tr>
</tbody>
</table>
### Internal Controls Examples

#### Human Resources

<table>
<thead>
<tr>
<th>Directive</th>
<th>Preventive</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sexual Harassment</strong>&lt;br&gt;New Employee Orientation&lt;br&gt;Includes Equal Employment Opportunity and Sexual Harassment Training</td>
<td><strong>Confidential Information Exposure</strong>&lt;br&gt;Perform Annual Access Reviews for Critical and Confidential Information</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Detective</th>
<th>Corrective</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Benefits Are Not Competitive with Market</strong>&lt;br&gt;Perform periodic comparative market surveys for management review</td>
<td><strong>Job Descriptions Do Not Reflect Duties</strong>&lt;br&gt;Require employees and their supervisors to periodically update job descriptions</td>
</tr>
</tbody>
</table>
# Internal Controls Examples

## COVID-19

<table>
<thead>
<tr>
<th>DIRECTIVE</th>
<th>PREVENTIVE</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>COVID-19 Training</strong>&lt;br&gt;Employees will be required to take the COVID-19 Training before returning to work</td>
<td><strong>Prevent Transmission of COVID-19</strong>&lt;br&gt;Sanitation, Physical Distancing, Masks</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>DETECTIVE</th>
<th>CORRECTIVE</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Higher than Expected Expenses</strong>&lt;br&gt;Produce and review reports of expenses by area on a routine basis</td>
<td><strong>Expenditure Documentation Is Not Maintained</strong>&lt;br&gt;Notification of insufficient documentation and required submission by set deadline</td>
</tr>
</tbody>
</table>
## Internal Controls Examples

### Procurement Services

<table>
<thead>
<tr>
<th>Directive</th>
<th>Preventive</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Contracted Services Bidding</strong></td>
<td><strong>P-card Used for Unallowable Goods/Services</strong></td>
</tr>
<tr>
<td>Establish a competitive solicitation process for awarding contracts</td>
<td>Utilizing merchant codes to prevent purchase of improper items (i.e. liquor)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Detective</th>
<th>Corrective</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Goods or Services Charged to Wrong Fund or Account</strong></td>
<td><strong>Unauthorized Pcard Purchases</strong></td>
</tr>
<tr>
<td>Require periodic monitoring, review and reconciliation of statements and records</td>
<td>Require the goods be returned or employee to reimburse costs</td>
</tr>
</tbody>
</table>
# Internal Controls Examples

## Property Management

<table>
<thead>
<tr>
<th>Directive</th>
<th>Preventive</th>
</tr>
</thead>
<tbody>
<tr>
<td>Relocation of Property</td>
<td>Improper Property Disposal</td>
</tr>
<tr>
<td>Require “Request for Relocation of Property” form be filled out with all relevant information, signatures and approval prior to relocation</td>
<td>Separation of duties between personnel responsible for maintaining inventory and personnel responsible for write-off of inventory</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Detective</th>
<th>Corrective</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improper Removal or Theft of Property</td>
<td>Items not located during inventory</td>
</tr>
<tr>
<td>Periodic visual inventory checks</td>
<td>Require custodian to account for, return, or replace missing property</td>
</tr>
</tbody>
</table>
Recap of Internal Controls

Understanding the Who, What, When, Where, Why, & How of Internal Controls

**Who** is responsible for ensuring internal control?
- *We all are*

**What** is a control?
- *Any action taken by management to ensure objectives are achieved and jobs are completed*

**When** does control occur?
- *All of the time*

**Where** does control occur?
- *In each of the 5 Control Components*

**Why** is control needed?
- *To ensure the effectiveness and efficiency of operations, reliability of financial and operational reporting, and compliance with laws/regulations*

**How** do you ensure control and keep your Unit functioning?
- *Monitoring and Evaluation*
What are your next steps?

1. Visit the Division of Audit website and familiarize yourself with the internal control resources and tools.

2. Start evaluating the processes in your office to determine what internal controls are in place, missing, or need revision.

3. Add FAMU Assessment Day to your calendar where you will learn how to develop and perform an assessment of internal controls for your department.

11-6-2020
“At FAMU, Great Things are Happening Every Day!”