United States Merchant Marine Academy
Kings Point, New York

11 JULY 2013

SUPERINTENDENT INSTRUCTION 2013-09

Subj: **INTERNAL CONTROL PROGRAM**

References: (a) MAO 900-3, *MARAD Internal Control Program;*
  (b) GAO 09-635, Publication: August 10, 2009. *Internal Control Weaknesses Resulted in Improper Sources and Uses of Funds; Some Corrective Actions are Underway;*
  (c) GAO 12-369, Publication: July 6, 2012. *Additional Actions Needed to Establish Effective Internal Control;*
  (d) OMB Circular A-123, *Managements Responsibility for Internal Control, December 21, 2004;*
  (e) GAO, *Standards for Internal Controls in the Federal Government,* November 1999 (GAO/AIMD-00-21.3.1);
  (f) Federal Managers' Financial Integrity Act of 1982 (FMFIA); and
  (g) Federal Information Security Management Act of 2002 (FISMA); and
  (h) other federal, departmental or agency policies governing internal controls.

1. **Purpose**: This instruction establishes policy, guidelines and procedures for the Academy's Internal Control Program to ensure all managers engage in ongoing risk assessment and exercise good internal control. The objective of this instruction is to communicate to the campus community the Academy's Internal Control Program and to establish standards for the design and operation of the Academy's comprehensive system of internal controls in order to reduce the institution's exposure to risks. Continual assessment and evaluation of internal controls is imperative for managers to provide accountability for their programs and ensure that the mission of the Academy is carried out efficiently, effectively and in compliance with laws and regulations. Internal control is more than a role and responsibility; it is a philosophy, culture, and way of thinking.

2. **Applicability:** This policy applies to all Academy personnel, contract staff, Non-Appropriated Fund Instrumentalities (NAFI), affiliated organizations, and all other onsite government personnel. Everyone has a key role and responsibility for internal control and risk management.

3. **Policy:** The Academy will plan and take systematic and proactive measures to:

- Develop, implement and maintain adequate and cost effective internal control to ensure accurate financial statements and good stewardship of government resources;
- Periodically assess the adequacy of internal control and risks facing the Academy and identify needed improvements; and
- Take corresponding preventative and corrective actions.

The Academy will carry out and implement its internal control process in accordance with the standards established by the Government Accountability Office (GAO), the Federal Managers' Financial Integrity Act of 1982 (FMFIA) and the Office of Management and Budget (OMB) Circular A-123 guidance.

4. **Background**: The overall goal of the Academy's Internal Control Program is to advance organizational policies and procedures to help program and financial managers achieve results and safeguard the integrity of programs by reducing the risk of adverse activities, including loss or damage from waste, fraud, abuse, or mismanagement.

Internal control is broadly defined as a process established by management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

   a. Effective and efficient operations;
   b. Reliable reporting;
   c. Safeguarding assets against loss and unauthorized use; and,
   d. Compliance with appropriate laws and regulations.

Controls should be economical in time as well as money, and should measure performance in areas that are relevant to the planned result. Controls should also be timely and easily understood by those using them. Good controls will reflect the goals of the department or office, indicate when the goals are not being achieved, and measure the critical items - those that have the most impact on achieving goals. The risk of failure and the potential effect must be considered along with the cost of establishing the control. Excessive control is costly and counterproductive but too little control will present undue risk. There should be a conscious effort made to strike an appropriate balance.

In an effort to better achieve the Academy's mission and program results, the Academy has appointed a Risk Management Officer (RMO) to improve accountability Academy-wide by standing up the Academy's Internal Control Program. The RMO will also serve as the Academy's Internal Control Officer (ICO).

5. **Elements of Internal Control:** The GAO publication titled *Standards for Internal Control in the Federal Government* (GAO/AIMD-00-21.3.1) provides standards for use in establishing and maintaining systems of internal control. These standards provide the framework for the Academy's Internal Control Program and are the basis for determining the adequacy of internal controls in place at the Academy. All Academy managers should utilize this GAO publication to properly assess and mitigate risks in their respective program areas. GAO has five standards of internal control: Control Environment, Risk Assessment, Control Activities, Information & Communications, and Monitoring. Management is responsible for developing and maintaining internal control activities that encompass these five standards in order to achieve the aforementioned internal control objectives identified in Section 4 of this instruction.

6. **Definitions:**

   a. **Control Activities:** Control activities are the policies and procedures that help ensure that management directives are carried out and organizational objectives are achieved. Control activities occur throughout the organization, at all levels and in all functions. They include a range of activities as diverse as approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets and segregation of duties.

   b. **Control Components:** Each of these areas of internal control must be documented and assessed regularly: Control Environment, Risk Assessment, Control Activities, Information & Communication, and Monitoring Activities.

   c. **Control Environment:** This is the foundation for all other components of internal control. The control environment, as established by the organization's administration, sets the tone of the institution and influences the control consciousness of its people. Management and employees should establish and maintain an environment throughout the Academy that sets a positive and supportive attitude toward internal control and conscientious management. Leaders of each department, office or activity are expected to establish a local Control Environment. A healthy Control Environment establishes a positive climate which influences the overall effectiveness of internal controls.

   d. **Corrective Action Plan (CAP):** A list of actions and an associated timetable for implementation to remedy a specific problem.

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e. **Information & Communications:** Information is needed throughout the Academy to achieve all of its objectives. Information should be recorded and communicated to management and others within the institution who need it and within a reasonable timeframe. Information systems produce reports containing operational, financial, and compliance-related information. They deal not only with internally generated data, but also information concerning external events, activities, and conditions.

f. **Internal Control:** An integral component of an organization's management that provides reasonable assurance that the following objectives are being achieved:
   - effectiveness and efficiency of Academy-wide operations;
   - reliability of financial reporting; and
   - compliance with applicable laws and regulations.

g. **Internal Control Coordinators (ICC):** Each Academy manager is an Internal Control Coordinator. The ICCs will be responsible for answering all internal control inquiries and for developing and maintaining internal control activities that encompass the five standards of internal control. ICCs will also be held accountable for the ongoing assessment and improvement of internal controls within their respective areas, identifying programmatic risks, developing solutions to mitigate programmatic risk and providing timely responses for all Internal Control Program data calls and assessments.

h. **Internal Control Self Assessments (ICSA):** This is a self-assessment questionnaire to help managers self-assess their internal control environment and risks. These assessments will be conducted annually and the results will be reported to the RMO.

i. **Monitoring:** The process of assessing the presence and functioning of internal control components and making continuous improvement. Internal control systems must be monitored by a process that assesses the quality of the system's performance over time. This is accomplished through ongoing activities and separate evaluations. Once deficiencies are identified, management is responsible for developing corrective actions to mitigate the weakness. The ultimate responsibility for a strong system of internal control rests with management. The ICSA questionnaire should be used as a tool in assessing this system.

j. **Risk**: A factor that could prevent an individual, group, or agency from accomplishing an objective as intended or planned.

k. **Risk Assessment**: Every organization faces a variety of risks from external and internal sources that must be assessed. Risk assessment is the identification and analysis of relevant risks and determining what impact they may have on achieving Academy objectives. Because resources and operating conditions will continue to change, mechanisms are needed to identify and deal with the special risks associated with that change.

l. **Senior Executives**: Senior Executives are the Superintendent, Deputy Superintendent, Academic Dean, and the Commandant.

m. **Statement of Assurance**: Provides reasonable assurance as to the overall effectiveness and adequacy of management and internal controls. Each Academy manager will provide an annual Statement of Assurance to the Superintendent for the division, department, office and/or activity they are responsible for. The Superintendent will then provide a Statement of Assurance to the Maritime Administrator for the entire Academy.

7. Procedures:

I. Everyone at the Academy is responsible for risk management and internal control. Everyone is encouraged to evaluate their respective job areas on an ongoing basis for weaknesses and make appropriate corrective action. All weaknesses and proposed corrective actions should be brought to the attention of the immediate manager who oversees the activity. The Academy's strategy for the ongoing assessment and strengthening of risks and internal controls will include an annual self-assessment by program managers and random onsite assessments by the RMO of selected Academy programs. These assessments will result in the development of a CAP for management action. These CAPs will be reported to Maritime Administration headquarters on a quarterly basis and they will also be used as a basis for required reporting as a result of FMFIA and any other internal control reporting requirement imposed upon the Academy.

II. All Academy managers who oversee a division, department, office, activity will serve as ICC. ICCs will be responsible for the following:

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a. Answering all internal and external inquiries, meeting requests or data calls related to internal control or risk management;

b. Conducting an annual ICSA of their respective areas;

c. Providing a signed annual Statement of Assurance to the Superintendent indicating that all internal control requirements have been met in their respective area(s);

d. Engaging in ongoing independent internal control assessments in their respective areas;

e. Implementing corrective actions when risk or internal control weaknesses are identified; and,

f. Ensuring all subordinate staff understand internal control and implement it in their daily job functions.

III. The Academy Internal Control Council (AICC) will meet quarterly, or more frequently, if necessary, and will be chaired by the Superintendent. The AICC will serve as a senior level management forum to exchange information, ensure compliance with program requirements within each Division, and to ensure corrective action is addressed within each respective Division. The AICC can also make recommendations to the Superintendent to expedite program reviews for programs that have internal control concerns that require immediate review by the RMO. The AICC will be comprised of the following individuals:

a. The Superintendent
b. The Deputy Superintendent
c. The Academic Dean
d. The Commandant
e. The Risk Management Officer

8. Roles and Responsibilities:

I. All senior executive managers, Department and Office managers and administrators are responsible for establishing and maintaining a system of internal controls, and for promoting a positive and supportive attitude toward internal controls. Some examples of how this could be done are:

a. Conducting or assigning to a designee required periodic review of departmental operating procedures to ensure that the principles and guidelines of internal control are being followed;

b. Establishing controls where new types of transactions occur or when technology has changed; and

  c. Improving upon existing controls whenever control weaknesses are detected.

 II. All Academy managers will serve as ICCs for which they will be responsible for answering all internal control inquiries for their relevant areas, ensuring ongoing assessments are conducted, ensuring corrective action plans are in place to mitigate risks, and serving as the point of contact for all corrective action plans in progress for their relevant areas.

 III. Internal control roles and responsibilities apply to everyone on campus, regardless of rank. Everyone plays a key role in maintaining good internal control campus-wide.

9. Expiration: This Superintendent's Instruction goes into effect immediately and remains in effect until superseded or rescinded.
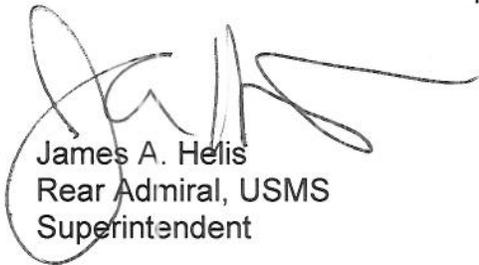
James A. Helis
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Dist. via Email

Responsible Official: Risk Management Officer