5/31/14 Auditors' Communication of Internal Controls
Summary of Recommendations and Management Response

1) Financial Statements
   **Recommendation:** We recommend that management continue to assist the auditors in the preparation and assembly of FSA Downstate's financial statements and related notes.
   **Management Response:** A routine auditor recommendation; Agreed.

2) General Ledger Analysis
   **Recommendation:** We recommend that all significant general ledger accounts be analyzed and reconciled each month and that all such analysis be reviewed by the Director of Finance.
   **Management Response:** As of the current fiscal year both the Director and Assistant Director of Finance review and analyze all significant general ledger accounts on a monthly basis. It is our plan to issue improved format on monthly reports to all account holders (student councils and Trust & Agency holders) so they can better review for discrepancies and fulfill the intended analysis.

3) Journal Entries
   **Recommendation:** We recommend that management implement a procedure requiring all journal entries to be reviewed and approved prior to posting to the general ledger
   **Management Response:** As of the current fiscal year, all journal entries are posted after a secondary approval by either the Director or Assistant Director of Finance.

4) Temporarily and Permanently Restricted Net Assets
   **Recommendation:** We recommend that FSA Downstate keep a historical record on all donations and contributions. We also recommend that FSA Downstate contact legal counsel on the possibility of obtaining documentation.
   **Management Response:** The auditors condition and recommendation is based on ONE account believed to be an endowment account that was established 30+ years ago, that has no retrievable documentation in FSA files after years of investigative effort. All other accounts already have adequate historical documentation. A review of all Endowment accounts in HSCBF remains in progress by the DMC Philanthropy Office and upon its completion will consider working with the FSA to resolve this longstanding undocumented endowment account.

5) Capitalization Policy Needs to Be Formalized
   **Recommendation:** a) Establish a minimum dollar amount for capitalization within the various property accounts. b) Prepare written guidelines for proper account classification of all routine fixed asset additions (furniture and fixtures, leasehold improvements, etc.), and c) Formalize a policy to differentiate between maintenance and repair items and long-term improvement items. Implementation of the above recommended policies will create much more consistent accounting treatment for purchases of fixed assets.
   **Management Response:** FSA is a relatively small corporation with few capital assets. The bulk of assets in FSA operations and services are not capital assets by nature (ie: stock), or are subcontractor provided. In more recent years, financial losses have curtailed the ability to fun new capital investments. Many of the prior FSA capital expenditures are at or near fully depreciated values. Management is in process of drafting a capitalization policy recommending threshold for the FSA BOD to adopt.
Faculty Student Association of Downstate Medical Center, Inc.

Auditors’ Communication of Internal Control

May 31, 2014
Board of Directors
Faculty Student Association of Downstate Medical Center, Inc.

In planning and performing our audit of the financial statements of Faculty Student Association of Downstate Medical Center, Inc. (“FSA Downstate”) as of and for the years ended May 31, 2014 and 2013, in accordance with auditing standards generally accepted in the United States of America, we considered FSA Downstate’s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of FSA Downstate’s internal control. Accordingly, we do not express an opinion on the effectiveness of FSA Downstate’s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of FSA Downstate’s financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control, that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. We did not identify any deficiencies in internal control that we consider to be material weaknesses as defined above.

We have identified significant deficiencies and other matters for consideration that are opportunities for strengthening internal controls and operating efficiency, appended to this letter as Exhibit A.

This communication is intended solely for the information and use of management and the Board of Directors within the organization and is not intended to be and should not be used by anyone other than these specified parties.

O’Connor Davies, LLP
Harrison, New York
August 15, 2014
Financial Statements

- **Condition**

The preparation and assembly of the financial statements and related notes were done by O'Connor Davies, LLP. While it is common that for many organizations the auditor prepares financial statements, SAS 112 requires us to communicate this to those charged with governance to ensure that you understand that management has not prepared such financial statements and to give you the ability to decide whether the cost of implementing an applicable control outweighs the benefit that would be obtained. The potential effect of management not preparing its financial statements is that the internal responsibility of the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework is left up the external auditors.

**Recommendation**

We recommend that management continue to assist the auditors in the preparation and assembly of FSA Downstate’s financial statements and related notes.

General Ledger Analysis

- **Condition**

Our audit indicated that general ledger activity for balance sheet as well as income statement accounts is not routinely analyzed or reconciled each month. Also, there appears to be no review process in place to ensure that such reconciliations are done and account balances are accurate. The potential effect of not having the accounts routinely analysis is that errors can go undetected and cause significant or material misstatements of the entity’s financial statements especially if the errors are not detected by the external auditor during the yearend audit. In addition timely reconciliations can be used as a preventative control.

**Recommendation**

We recommend that all significant general ledger accounts be analyzed and reconciled each month and that all such analysis be reviewed by the director of finance.
Journal Entries

- **Condition**

  In the process of our examination of journal entries, we noted that some of the entries did not have proper evidence that the journal entries posted into the general ledger have been reviewed and approved.

  Lack of proper supporting documentation, reviews and approvals of journal entries may result in fraudulent or incorrect journal entries being entered into the general ledger and not detected.

  **Recommendation**

  We recommend that management implement a procedure requiring all journal entries to be reviewed and approved prior to posting to the general ledger.

Temporarily and Permanently Restricted Net Assets

- **Condition**

  Based on our test of temporarily and permanently restricted net assets, we noted that there was insufficient documentation to support the reporting of such contributions and related restrictions. These net assets were set up many years ago (since 1969) and that documents are difficult to obtain. The potential effect is that the entity has an obligation to it's donors to spend contributed dollars as designated; they are also bound by law. If a condition on restricted funding has not been fulfilled and the money has been spent, the donor can demand that the funds be returned, pursue legal action, or contact the Office of the Attorney General.

  **Recommendation**

  We recommend that FSA Downstate keep a historical record on all donations and contributions. We also recommend that FSA Downstate contact legal counsel on the possibility of obtaining documentation.
Capitalization Policy Needs to Be Formalized

**Condition**

At present, no formal fixed assets capitalization policy exists. We recommend a policy be implemented to more effectively control and account for FSA Downstate’s property and equipment and that the present capital expenditure policy be reviewed to more effectively regulate and control the FSA Downstate’s practice in this area. To accomplish this goal, we recommend the following:

**Recommendation**

a) Establish a minimum dollar amount for capitalization within the various property accounts.

b) Prepare written guidelines for proper account classification of all routine fixed asset additions (furniture and fixtures, leasehold improvements, etc.).

c) Formalize a policy to differentiate between maintenance and repair items and long-term improvement items.

Implementation of the above recommended policies will create much more consistent accounting treatment for purchases of fixed assets.

**Required Documentation**

**Condition**

During our audit, we noted that some required documentation such as payroll change forms, were not updated in the employees personnel files.

**Recommendation**

We recommend that management implement a procedure where all required forms will be properly filed in the employees’ files and payroll change forms will be approved and properly filed with the employees’ personnel files.