Internal Control Program

Downstate
Health Sciences University
Internal Control Program

I. Introduction

The New York State Governmental Accountability, Audit and Internal Control Act, Chapter 814 of the Laws of 1987 requires that all state agencies develop a system of internal controls. As part of the State University of New York (SUNY), Downstate Health Sciences University (Downstate) must comply with the requirement of the legislation. Budget Bulletin B-350 further requires that SUNY and its campuses establish and maintain a comprehensive system of internal controls to enhance the integrity of its operations. In addition, each campus is to implement the policies and practices which are needed to assure that SUNY and its campuses meet their mission, promote performance leading to effective accomplishment of goals and objectives, safeguard assets, and adhere to applicable laws and regulations.

II. Definition of Internal Controls

Internal controls are the methods and procedures used to provide reasonable assurance that an organization objective and mission will be met efficiently and economically. It consists of the measures taken by the organization to accomplish the primary objective of internal control:

- Reliability and integrity of information
- Compliance with policies, plans, procedures, laws, regulations, and contracts
- Safeguarding assets
- Economic and efficient use of resources
- Accomplishment of established objectives and goals for operations and programs

Management plans, organizes and directs the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved.

Examples of internal control at Downstate include: procedures used to adequately receive, record and deposit revenue; payroll practices to prevent the fraudulent receipt of funds; security measures to prevent unauthorized access to buildings, property, files or information systems; accounting systems and data processing procedures used to accurately record information; and Downstate decision-making structure to assure appropriate levels of policy review and approval.

Internal controls are simply good business practices. You are practicing good internal control when you lock the doors to your house when you leave; keep the PIN number to your ATM card in a safe place; and balance your bank statement.
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III. Types of Internal Controls

A. Generally there are two types of internal controls:

1. Preventive controls are designed to discourage errors or irregularities from occurring, e.g., processing vouchers only after the appropriate authorization is received.
2. Detective controls are designed to detect errors or irregularities after they have occurred, e.g., reviewing procurement card statement for personal purchases.

B. Internal control consists of five interrelated components:

1. **Control Environment**: The control environment is management’s attitude and actions regarding the significance of control within the organization. Control environment elements include management’s philosophy and operating style; the integrity and ethical values of employees; the organizational structure; assignment of authority and responsibility; competence of personnel; and human resources policies and practices.

2. **Risk Assessment**: Risk assessment is the process of identifying, evaluating, and determining how to manage the organization’s ability to accomplish its mission. Assessment may include looking at departmental routines, activities and personnel, and identifying any potential problems. This will form the basis for determining how to manage risks.

3. **Control Activities**: These are the policies and procedures that help to ensure management directives are implemented. Control activities occur throughout the organization at all levels and include such controls as approvals and authorizations, verifications, reconciliation, physical controls, review of operating performance, documentation, security of assets, and segregation of duties.

4. **Information and Communication**: This is the process which allows pertinent information to be identified, captured, and communicated to employees in a timeframe that enable people to carry out their responsibilities. Information should travel in all directions to ensure that all members of the organization are informed and decisions and actions of different areas are communicated and coordinated. Communication also takes place with external parties to ensure informed business decision-making and external reporting.

5. **Monitoring**: Monitoring is the process that assesses the quality of the internal control systems’ performance over time and to determine whether controls are effective. Ongoing monitoring includes management reporting, supervision, and transaction review. Periodic evaluations are done to assess performance over a period of time.
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IV. Requirements of The Internal Control Act

A. The Act requires state agencies to fulfill the following six requirements:

1. Establish and maintain guidelines for a system of internal controls: Downstate communicates its mission and objectives to all employees in several documents: The University’s Mission Statement and the University’s Five-Year Plan. Employees receive communications about the goals and accomplishments through a variety of forums, including new employee orientation, publications and campus-wide events.

2. Establish and maintain a system of internal controls and a program of internal control review for the campus: The program of internal controls review shall be a structured, continuing and a well-documented system designed to identify internal control weaknesses, identify actions that are needed to correct these weaknesses, and monitor the implementation of necessary corrective actions.

Downstate has established an organizational structure, and a system of policies, procedures and internal controls intended to govern effective conduct of the organization business and protect Downstate assets against fraud, waste and abuse.

There are a number of key documents that contain policies, procedures and practices that govern the operation and conduct of Downstate and its employees. In addition, various functional areas of Downstate have specific documents which are tailored to internal controls relating to key aspects of their operations. Collectively, these documents are an integral part of the internal control system that govern the operation of individual departments throughout Downstate including but are not limited to the following:

a. Policies of the Board of Trustees of SUNY
b. Policy handbook-Chancellor-SUNY
c. SUNY Administrative Procedures Manual
d. NYS Public Officers Law
e. Downstate’s Mission Statement
f. Downstate’s Policy and Procedure Manual
g. Downstate’s Compliance Program
h. Downstate’s Code of Ethics and Business Conduct
i. University Hospital at Downstate Administrative Policy and Procedures Manual
j. Collective Bargaining Agreements

Management policies and standards for the performance of specific functions are documented in job descriptions and employee handbooks.
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3. **Make available to each officer and employee a clear and concise statement of the generally applicable management policies and standards with which each person is supposed to comply:** All employees are made aware of the existence, importance, and location of all the generally applicable managerial policies and standards for the performance of their specific functions. In addition, all officers and employees, including new employees, receive a copy of the Downstate Compliance Code of Ethics and Business Conduct. Furthermore, this document and other above described information are posted on the Office of Compliance and Audit Services Web site. The website can be accessed by following these links:

Downstate Health Sciences University Website → About → Our Administration → Compliance & Audit Services;

or by typing the following address:

www.downstate.edu/about/our-administration/compliance-audit-services/

4. **Designate an internal control officer, who shall report to the head of the campus to implement and review the internal control responsibilities established pursuant to the act:** The Internal Control Officer (ICO) coordinates the development and implementation of the internal control program for the campus. The establishment of the ICO position does not in any way diminish the responsibility of all operational managers to oversee internal control in their respective operations. The ICO is responsible for coordinating the following activities:

a. Monitor and evaluate the organization’s overall internal control system.

b. Ensure that formal policies and procedures are in place to reflect current operations.

c. Ensure that employees are trained and informed of applicable policies.

d. Conduct vulnerability assessments and internal control reviews.

e. Monitor identified weaknesses and required corrective actions.

The President of Downstate has designated the Vice President for Compliance and Audit Services the ICO for the campus.

5. **Implement education and training efforts to ensure that officers and employees achieve adequate awareness and understanding of internal control standards:** Downstate provides ongoing training for personnel who are responsible and accountable for the daily operations of their units. Specific internal control training is offered to line managers and supervisors who are responsible and accountable for the operating functions and most involved in maintaining the internal control programs. Training programs are provided to ensure that personnel responsible for maintaining internal controls are adequately trained.
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6. **Periodically evaluate the need for an internal audit function:** The internal audit function at Downstate conducts ongoing reviews of the system of internal controls to evaluate its effectiveness. It is important for Internal Audit to remain independent of the process which it audits. A significant part of what Internal Audit reviews during an audit is the system of internal controls in place in the area being audited. This provides management with an independent assessment of the organization operations. Therefore, it is incumbent upon management to create and maintain a system of internal controls which is adequate to properly regulate Downstate’s performance.

V. **Internal Control Responsibilities**

Internal control is the integration of activities, plans, attitudes, policies and efforts of the employees working together to provide reasonable assurance that Downstate will achieve its objective and mission. Everyone at Downstate has responsibility for internal controls. The roles vary depending upon the level of responsibility and the nature of involvement by the individual. The general principles of professional integrity and ethics are essential components of a sound internal control program.

A. Management Responsibilities: Senior management has ultimate responsibility for providing leadership and direction that guide the efforts of operational managers throughout Downstate towards achieving its mission. Senior management is also entrusted with providing the appropriate organizational structure which ensures that internal controls provide reasonable assurance of quality outcomes while protecting the organization’s assets against waste, loss, unauthorized use and misappropriation without impeding Downstate’s ability to meet its goals and objectives.

Operational managers and supervisors have oversight responsibility for internal controls within their units. They are accountable for the development, maintenance, documentation and supervision of adequate internal control systems for those programs and functions for which they are responsible. They are responsible for executing control policies and procedures at the detail level within their units.

In summary, management is responsible for:

1. Developing goals and objectives that are consistent with those established for Downstate.
2. Coordinating each manager’s actions as part of the overall Downstate internal control effort.
3. Acknowledging that the utilization of internal controls is an inherent part of a manager’s responsibility, not a new additional function.
4. Assuring that internal controls are supportive of and consistent with the operating mandate and philosophy of Downstate.
5. Continuously monitoring the environment within which their program operates to identify required adjustments in Downstate’s internal controls.
6. Regular testing of the controls to determine if they are performing as intended.
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B. Employee Responsibilities: Each employee is responsible for being in conformance with the internal control procedures associated with their specific job functions. Each employee role is accomplished by:

1. Fulfilling the duties and responsibilities established in the job description.
2. Meeting applicable performance standards.
3. Attending education and training programs to increase awareness and understanding.
4. Taking all reasonable steps to safeguard assets against waste, loss, unauthorized use and misappropriation.
5. Reporting breakdowns in internal control systems to the applicable supervisor.