

TITLE: GENERAL SYSTEM OF INTERNAL CONTROL

PURPOSE: The purpose of this policy is to establish guidelines for internal controls for The Center for Health Care Services ("Center"). This is a revised policy and supersedes policy 3.13 dated June 3, 2003.

[Key Words: Management Reports, Organization Chart, Budgeting, Cash, Bank Accounts, Purchasing, Receiving, Accounts Payable, Accounts Receivable, Property, Plant & Equipment, Debt, Payroll]

POLICY STATEMENT:

The Center will conduct its business transactions under a general system of internal controls which will ensure the accuracy and reliability of financial information and safeguard its assets.

POLICY ELABORATION:

I. MANAGEMENT CONTROLS:

A. Management Reports

1. Internal accounting reports shall be issued monthly on a timely basis by the Director of Administrative Services or his/his designee.
2. Internal accounting reports shall be designed around the concepts of:
 - a. Responsibility Reporting - relating items of income and expense to the individual who exercises control over such items.
 - b. Variance Analysis - comparing actual results

with Budget.

- c. Management by Exception - provide easily read reports that focus on areas requiring action.

B. Organizational Chart

An up-to-date organizational chart shall be maintained which adequately portrays reporting relationships. Every position shall be adequately described in the job descriptions.

C. General Accounting

The general accounting system shall have the following characteristics:

1. A descriptive chart of accounts and efficient account coding system.
2. Computerized output to facilitate financial statement preparation.
3. Standard journal entries and journal entry numbers.
4. An accounting manual with adequate written instructions on accounting policies and procedures.

D. Budgeting

An effective system of budgeting revenues, departmental expenses, capital additions, and cash flow shall be maintained.

E. Information Systems Resources

The use of electronic information processing systems is critical to the operation of the Center. Controls shall be established to ensure that these resources are used in the most efficient manner to serve all of the Center's departments. The following areas, at a minimum will be addressed:

1. Software (program) acquisition, development or revision is initiated only with written requests approved by designated management personnel.
2. Purchase of software for client data reporting and billing will have the capability to process retrospective and prospective billings to all funding sources as well as process claims from external providers. All software will be compliant with HIPAA Standard Transactions and code sets.
3. Designated management personnel review and approve establishment of and changes to software options that determine who has access to production program libraries.
4. Security controls/software restricts access to production program libraries to designated personnel (independent of programming) and logs unauthorized access attempts; unauthorized access attempts are reviewed and followed-up on a weekly basis by the designated security administrator.
5. Controls are in place to restrict the use of utility programs to change the production environment. Use of these utility programs is documented, authorized, reviewed and audited by the designated security administrator.

6. Changes are tested in the test environment and test results are reviewed/approved to insure accuracy and effectiveness of the change. Changes must be approved by the Executive Management Committee prior to implementation into the production environment.
7. Production program libraries require written approval from designated personnel to remove, replace, modify or add new programs. All changes are recorded, reviewed and tracked.
8. All program changes are documented, reviewed and approved by the Information Management Committee, will include personnel from the Information Technology, Data Management and representatives from each program area.
9. Emergency changes require appropriate documentation/approval and are followed-up to ensure compliance with standards.
10. Designated management personnel determine who is authorized to enter/update data. Authorization is granted only to employees whose job functions require them to be able to enter and modify data. This access is granted only after appropriate request forms have been generated and approved.
11. Measurement and reporting of resource consumption; such as hardware utilization, labor distribution among projects, project request status, etc.

12. Acquisition of hardware and software to insure compatibility and efficient use of resources by the Center.
13. Measurement and reporting of quality-of-service indicators.

F. Office Management

The Center shall have:

1. An efficient office layout permitting a smooth flow of work.
2. Centralized control over creation of new forms and reports and elimination of duplicate and obsolete forms.
3. An effective program for record retention and destruction.
4. Methods of measuring and reporting performance.

II. GENERAL MATTERS:

- A. The Center will follow generally accepted accounting principles in recording income and expense using the accrual basis of accounting.
- B. All journal entries shall be adequately explained, and, in addition, be approved by the Director of Administrative Services or his/her designee.
- C. The Center shall have appropriate fidelity bond coverage for all employees who handle cash.

III. CASH:

A. Bank Accounts

1. The Board of Trustees will approve the banking institutions used for deposit and disbursement of the Center's funds. The Director of Administrative Services will recommend to the Executive Director the specific bank accounts to be used.
2. Persons who have no primary cash receipts or disbursement functions shall each month promptly reconcile the required bank accounts.
3. Reconciliation procedures for all bank accounts shall include:
 - a. Receipt by the reconciler of bank statements.
 - b. Examination of canceled checks for authorized signatures.
 - c. Comparison of dates and amounts of daily deposits as shown on the bank statements with the cash receipts journal.
 - d. Investigation of bank transfers to determine that both sides of the transaction have been properly recorded on the books.
 - e. Review of completed bank reconciliations by the Director of Administrative Services or his/her designee.
4. Checks outstanding for a considerable time shall be periodically investigated and if deemed necessary, payment shall be stopped and an entry made restoring such items to cash and/or transferred to unclaimed properties.

B. Cash Receipts

1. Control over cash received at the cashier's window and all other locations throughout the Center must be provided through the use of prenumbered receipts and/or cash registers with "locked in" totals. Collection of cash at any Center location or function must be approved by the Director of Administrative Services or his/her designee.
2. Only personnel (cashier) authorized by a Director are permitted to receive monies (checks, cash or credit cards) for services rendered by the Center at the units. Monies received by unauthorized personnel will be deposited with the cashier immediately.
3. Cash receipts shall be deposited into bank bags obtained from the Fiscal Department.
4. Immediately upon receipt, all checks shall be endorsed "for deposit only" to the credit of the Center.
5. Control by preparation of a "mail list" shall be established over the amount of daily mail cash receipts before persons who perform any of the following listed functions have access to the cash receipts, or access thereto is denied to such persons:
 - a. Post to receivable ledgers or have access thereto.
 - b. Assist in balancing the receivable trial balances with the general ledger or in preparing aging.
 - c. Follow-up delinquent receivables, approve write-offs of receivables as uncollectible, or maintain control of accounts written-off.
 - d. Authorize extensions of credit or approve

- patient financial ratings.
 - e. Prepare or record billings.
 - f. Keep records or review amounts to be received from miscellaneous sources.
 - g. Post to the general ledger.
6. Bank receipts of deposit shall be forwarded by the bank directly to a person who does not have access to cash receipts and who compares them with:
- a. Cash receipts recorded on the books (transaction by account analysis).
 - b. Daily cash report, which summarizes all initial controls over cash receipts.
7. All bank debit and credit memos and deposit items returned as uncollectible shall be received directly and controlled by a person who does not have access to cash receipts.
8. Aging of account receivables shall be reviewed monthly by a person who does not have access to cash receipts.

C. Cash Disbursements

- 1. All checks shall be pre-numbered and accounted for.
- 2. The supply of checks shall be adequately safeguarded with minimal access thereto by persons who sign checks manually or operate the facsimile signature machine.
- 3. Checks shall be generated through the accounts payable computer system or manually only after all necessary support (generally an original invoice,

purchase order and receiving entry) has been verified by the Accounts Payable Department.

4. Spoiled checks shall be properly voided and mutilated to prevent reuse and kept on file for subsequent inspection.
5. The practice of drawing checks to "cash" or "bearer" is prohibited.
6. Access to the check signing machine shall be limited by locking keys to the machine in the safe located in the Fiscal Department.
7. The Board of Trustees will designate the signature authority.
8. The persons who operate the check signing machine or who manually sign checks shall be independent of:
 - a. The Purchasing Department.
 - b. Others requesting the specific expenditure.
 - c. Persons approving vouchers.
 - d. Persons preparing vouchers or reconciling open vouchers to the general ledger control.
 - e. Persons preparing checks.
9. All checks in the amount of \$10,000 to \$100,000 must be reviewed and signed by two of the following: The Director of Administrative Services, the Executive Director, the Board of Trustees Secretary/Treasurer, the Board of Trustees Vice-Chairman, and/or the Board of Trustees Chairman. All check amounts greater than \$100,000 must be reviewed and signed by two of the following: The Executive Director, the Board of Trustees

Secretary/Treasurer, the Board of Trustees Vice-Chairman, and/or the Board of Trustees Chair.

10. The signing of checks in advance of their being filled out is prohibited.
11. Vouchers or supporting papers shall be effectively canceled upon payment by persons who do not prepare checks or approve vouchers for payment.
12. Checks shall be mailed without allowing them to return to persons who prepare checks or approve vouchers for payment.
13. Post office postage meter receipts shall be checked to meter readings and cash disbursements by responsible persons.

D. Departmental Cash Funds

1. The Director of Administrative Services or his/her designee must approve the creation of all departmental cash funds.

2. The responsibility for each departmental cash fund shall be vested in only one person per shift. Cash receipts plus actual cash on hand shall always equal the departmental cash fund balance.
3. Replenishments shall be approved by persons other than custodians of the departmental cash fund after adequate inspection of supporting data.
4. Cash funds are available for the Center's business purposes only, and all disbursements must be accompanied by adequate supporting data. No use of a cash fund is permitted or authorized for personal employee use. Departmental cash funds will not be used to cash personal checks.
5. Reimbursement to employees from petty cash will not be made without adequate supporting data. Adequate supporting data shall include original invoices, original receipts or cash register tapes. Cash register tapes shall display the place of business and date and time of transaction. Cash receipts shall display a control number. Original invoices shall include a description of items purchased.
6. Funds shall be audited at reasonable intervals, monitored monthly and subject to surprise counts made by the Fiscal Department to ensure compliance with accounting policies.

IV. PURCHASING, RECEIVING, AND ACCOUNTS PAYABLE:

A. Purchasing

1. The purchasing function shall be centralized in one department.
2. Purchase orders shall be:
 - a. Pre-numbered and controlled.
 - b. Required for all purchases, except items purchased from petty cash.
 - c. Prepared only on the basis of purchase requisitions approved by authorized persons (such as department heads requesting the purchases).
 - d. Purchase orders for capital assets must be routed to Fiscal Services for appropriate signatures and available funding.
3. Competitive bids shall be required on purchases of materials, supplies, services, and fixed assets as specified in the Purchasing Policy.
4. The Purchasing Supervisor will periodically review prices paid for items to determine that such prices are not in excess of current market prices.
5. Adequate records of open purchase orders and commitments shall be maintained by the Purchasing Department.
6. Purchase orders shall clearly indicate that a partial shipment has been received to avoid duplicate payments upon receipt of all ordered items.

7. Returned purchases shall be coordinated through the Purchasing Department.
8. A Purchasing Manual which sets forth the policies and procedures shall be maintained.

B. Receiving

1. All incoming materials, supplies, medical equipment used for demonstration/evaluation and other items are required to be verified by the Receiving Department at each facility unless approved by the Director of Administrative Services or his/her designee.
2. Receiving Department personnel shall be independent of the Purchasing Department and persons initiating purchases.
3. Materials, supplies and other items will be inspected for any damage and safeguarded until delivered to the requesting department. Concealed damage discovered by the requesting department shall be reported immediately to the Receiving Department supervisor.
4. The Receiving dock may not be used to receive personal items.
5. Items delivered that have a purchase order number will be verified in the Materials Management System. Product number and quantity received must be matched with the purchase order. Over shipments will be returned to the vendor.

6. Receiving Department personnel will make an entry in the comment field of the Materials Management System of any discrepancies (over shipments and shortages).
7. Asset items (equipment, furniture, etc. that have a value of \$50 or more) will have a Center tag affixed.
8. Capital equipment (assets with a dollar value of \$1,000 or more and an expected life of more than one year) will be recorded in the General Ledger.
9. Packing slips/bills of lading will be affixed to the Receiving Log prior to delivering the items to the requesting department. The Receiving Department personnel will obtain the requesting department's signature on the Receiving Log when the items are delivered. The signed Receiving Log will be filed in the Receiving Department.

C. Accounts Payable

1. All invoices shall be received directly from the mail opener by the persons who process invoices for payment, and control over the invoices shall be established immediately upon receipt.
2. Duplicate copies of invoices shall be clearly marked immediately upon receipt so as to prevent duplicate payment.
3. The processing of items for payment shall include:
 - a. Check of terms, prices, and quantities on invoices against purchase orders or contracts.
 - b. Check of items and quantities on invoices

- against receiving entries obtained directly from the Receiving Department.
- c. Mathematical check of footings, extension, and discounts.
 - d. Check of account distribution.
 - e. Check of freight bills against purchase orders, sales invoices, etc.
 - f. Check of invoices which do not involve materials or supplies (e.g., fees, rentals, power and light, travel, etc.) for approval by designated persons such as department heads, or comparison to contracts.
 - g. All vouchers shall be approved for payment by a person independent of the voucher preparer.
 - h. A final approval for payment.
 - i. Indication on the vouchers that the above checks and approvals were made.
4. All items for payment shall be checked and approved by persons independent of:
- a. The Purchasing Department.
 - b. Others requesting the specific expenditure.
5. All travel expenses shall be adequately supported as stipulated in the Center policy.

6. The exception report and unvouchered vendors' invoices shall be investigated.
7. An accounts payable trial balance shall be taken and balanced to the general ledger control at least quarterly.
8. Monthly statements from vendors shall be regularly reconciled to open vouchers or accounts payable details.
9. Only personnel authorized by the Director of Administrative Services or his/her designee are permitted to receive invoices for goods and services purchased by the Center. Invoices received by unauthorized personnel will be delivered to Accounts Payable immediately.

V. ACCOUNTS RECEIVABLE:

- A. A clear separation of duties shall be maintained between accounts receivable clerks, cashiers, admitting and patient business services personnel, and collection personnel.
- B. Accounts receivable details shall be balanced with general ledger controls monthly.
- C. Periodic statements shall be sent to all debtors.
- D. Mailing of periodic statements shall be subject to special control such as mailing by a disinterested party after comparison of statements with ledgers.

- E. Accounts shall be confirmed on a test basis at year-end by external auditors.
- F. Bad debt write-offs shall be approved by the Director of Administrative Services or his/her designee.
- G. Proper control of accounts written-off shall be maintained by both the Fiscal Department and the Reimbursement Department.
- H. Refunds to consumers shall be approved by the Director of Administrative Services or his/her designee.
- I. Billings to contracting agencies shall be up-to-date.
- J. The Center shall maintain a record of days billed to and paid by Medicare and Medicaid for use in computing and verifying Medicare and Medicaid retroactive rate adjustment.
- K. The amount of Medicare and Medicaid payments for retroactive rate adjustment shall be verified.
- L. Access to computerized consumer accounts shall be limited by the use of passwords that only allow users to post data for which they are directly responsible. Passwords shall be strictly controlled. Neither the Fiscal Department nor the Reimbursement Departments shall be allowed to post transactions to their own or a relative's account.

VI. PROPERTY, PLANT, AND EQUIPMENT:

- A. Detailed capital asset records, which are controlled by the general ledger and balanced at least annually, shall maintain the cost and accumulated depreciation of individual items of capital assets. Capital assets are defined as assets with a cost of \$1,000 or greater and a useful life of two years or more.
- B. Periodic checks shall be made of the physical existence of the items shown in the detailed capital asset records.
- C. Formal policies shall be in effect for capital assets regarding:
 - 1. Additions or Replacements.
 - 2. Salvage Determinations
 - 3. Disposals/Retirements.
- D. Expenditures shall be accumulated for each authorized project.
- E. The Center will follow Generally Accepted Accounting Principles (GAAP) regarding the differentiation between capital expenditures and maintenance and repairs.
- F. Persons in the Fiscal Department shall be designated to review capital asset expenditures to verify that any items replaced have been removed from the books.
- G. Unit Coordinators/Managers shall be required to report to the Fiscal Department any changes in the status of the property (i.e., transfers between locations, sales, scrapping, obsolescence, excess, etc.), and the accounting records

shall be adjusted promptly for these changes.

- H. Any surplus or idle equipment shall be properly controlled physically and in the records.
- I. Depreciation rates shall be reviewed periodically for adequacy in view of excessive use, unforeseen obsolescence, etc., and for excessive provisions in light of experience.

VII. NOTES PAYABLE AND LONG-TERM DEBT:

- A. The Board of Trustees shall authorize borrowings.
- B. Detailed schedules for notes payable and other debt instruments shall be kept by employees who are not authorized to sign checks or debt instruments.
- C. The schedules shall be balanced to the general ledger periodically.
- D. Redeemed notes, bonds, interest coupons, etc., shall be effectively mutilated and maintained in the Center's or designated agent's files.
- E. The Center shall ascertain that debt agreement restrictions are being observed.

VIII. PAYROLL:

- A. The persons who perform the following functions shall be independent of each other:
 - 1. Approve Hours Worked

2. Prepare Payroll
 3. Maintain Custody of Unclaimed Wages
- B. Pay shall be distributed either through direct deposit or paycheck.
- C. Written authorizations (via a Personnel Action Request Form) from responsible persons outside the Payroll Department shall be required for:
1. Names added to and deleted from the payroll.
 2. Individual wage or salary rate changes.
- D. A separate Human Resources Department shall maintain complete personnel records including wage and salary data.
- E. A time and attendance system shall be used as the basis for preparing and checking payrolls. This system will be reconciled with time recording vouchers.
- F. Payroll shall be subject to a review and final approval by responsible persons outside the Payroll Department such as the Director of Administrative Services or his/her designee.
- G. The persons who control the use of the facsimile signature machine (for any pay not distributed through the direct deposit payroll system) shall be independent of the persons:
1. Approving Hours Worked.

2. Preparing Payroll.

- H. A separate payroll bank account shall be maintained.

REFERENCES/BIBLIOGRAPHY:

Generally Accepted Accounting Principals (GAAP)
Governmental Accounting Standards Board (GASB)

OFFICE OF PRIMARY RESPONSIBILITY: Director of Administrative
Services