



*Strengthening Oklahoma's Safety Net,  
One Community At A Time*

## **Board Bulletin**

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### **The Importance of Internal Controls to CHC Health**

Often viewed as oppressive, rules are necessary to transform chaos into order and to guide human behavior towards positive results. Traffic signs lived by today are responses to adverse events of the past. While it is impossible to eliminate human error or misconduct altogether, rules are implemented to mitigate risks and prevent accidents. Internal controls include rules designed to: 1) improve operational effectiveness and efficiency; 2) ensure reliability of financial reporting; and 3) enforce compliance with laws and regulations. Internal control consists of five components working in tandem. The critical role internal controls have relative to a community health center's (CHC) organizational health justifies further review of each component.

#### **Control Environment**

Governing boards set the tone "from the top" by establishing policies that include standards of conduct for the organization. This only works if the governing board lives by those same rules and conducts business in an ethical manner. Using the discipline and structure of the control environment, management must foster a corporate culture that promotes professionalism and integrity. Individuals must recognize that all will be held accountable to uphold outlined standards – and that disciplinary action will be taken when necessary.

#### **Risk Assessment**

Setting performance goals for financial and operations management that support strategic planning are first steps in risk assessment. After goals are determined, an analysis that includes reviewing responsible party actions and identifying risks by transaction types must be conducted – examining both internal and external sources. High-risk transactions include travel expenditures, confidential information, payroll and equipment. There are: 1) quantitative costs – those associated with a specific dollar amount; and 2) qualitative costs – loss of public trust, future grants, etc. Both can be devastating. Through risk assessment, governing boards and management can prioritize risk management efforts, estimate potential impact, and effectively manage risks when they occur.

#### **Control Activities**

Supported by policies and procedures, control activities ensure management directives are fulfilled. *Preventive controls* include approvals, authorizations, and verifications that validate policy adherence; and segregation of duties separating responsibilities to reduce risks. Reconciliations of data sets (e.g., bank accounts) are *detective controls* as are performance reviews. Security of assets (e.g., equipment, inventories, and cash) involves restricting access (preventive) and comparing inventories to control records (detective). Information systems require: 1) general controls that cover data center operations, software acquisition and system maintenance; and 2) application controls such as edit checks to ensure processing accuracy.

#### **Information and Communication**

For people to be fully engaged in the internal control process, they must have information that is relevant in a useful form and timeframe. Information regarding the organization's plans, control environment, identified risks, control activities and performance must be communicated up, down and across the CHC spectrum.

#### **Monitoring**

By reviewing internal controls over a period of time using ongoing monitoring activities, self-assessments, peer reviews and internal audits, the system's performance can be assessed to determine if all five components are being properly executed to minimize risks. Serious internal control deficiencies should be reported to top management and the board so corrective action can be taken to prevent further damage and minimize impact. While it is impossible to eliminate all risks, boards exercising 'duty of care' will make every effort to curtail adverse events that hinder organizational health. When making policy, boards must incorporate internal controls that reduce risks and assist with the successful achievement of CHC goals. To review OPCA's entire *Board Bulletin* series, visit the 'CHC Boards' section of [www.okpca.org](http://www.okpca.org).

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