County of Ventura
AUDITOR-CONTROLLER
MEMORANDUM

To: William T. Foley, Director, Health Care Agency **Date:** June 26, 2019

From: Jeffery S. Burgh

Subject: **SECOND REVISED TIMELINE FOR CORRECTIVE ACTION – AUDIT OF THE HEALTH CARE AGENCY'S INTERNAL CONTROLS OVER FINANCIAL BUDGETS, PROJECTIONS, AND REPORTING FOR THE VENTURA COUNTY MEDICAL CENTER**

We have received your second revised timeline for implementation of the recommendations provided in the audit of the Health Care Agency's ("HCA") internal controls over financial budgets, projections, and reporting for the Ventura County Medical Center ("VCMC"). According to the attached second revised timeline, corrective action completion dates for 14 recommendations that had been planned for June/July 2019 have been extended to December 31, 2019.

We continue to note that HCA will be reporting the progress on the implementation of the recommendations to the Auditor-Controller and the VCMC Oversight Committee at each VCMC Oversight Committee meeting.

Attachment

cc: Honorable Steve Bennett, Chair, Board of Supervisors
Honorable Kelly Long, Vice Chair, Board of Supervisors
Honorable Linda Parks, Board of Supervisors
Honorable Robert O. Huber, Board of Supervisors
Honorable John C. Zaragoza, Board of Supervisors
Michael Powers, County Executive Officer
Kaye Mand, Chief Financial Officer, County Executive Office
Karla Valle, HCA Chief Financial Officer
John Fankhauser, MD, VCMC Chief Executive Officer
Matt Sandoval, HCA Compliance Officer

VENTURA COUNTY
HEALTH CARE AGENCY

MEMORANDUM

Date: June 24, 2019

To: Jeff Burgh, Auditor Controller

From: William T. Foley, Director Health Care Agency

Subject: Management Response to Internal Controls Audit

Dear Mr. Burgh,

In late December, the management of the Health Care Agency submitted a response to the recent Internal Controls Audit as conducted by Clifton Larsen Allen LLP. As we have worked through the recommendations as a team and in light of the current leadership changes, we would like to submit a revised timeline for our implementation of the recommendations provided.

Attached you will find a spreadsheet detailing out the recommendations according to the three categories reviewing: Budgeting, Projections, Reporting. We have included our management response and projected completion date for each recommendation.

In addition, HCA is providing a timeline in a Gantt chart format. As these recommendations are implemented, each section on the chart will be color coded as appropriate. We will be reporting our progress on the implementation of these recommendations to you and our Oversight Committee at each Oversight Meeting.

Please let me know if you have any questions.

Hall of Administration L # 4615
800 South Victoria Avenue Ventura, California 93009 • (805) 677-5110 • www.vchca.org

CLA Audit Response Due Dates

Reference Number	Projected Completion Date	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19
1.02	1/31/2019												
2.11	1/31/2019												
3.04	1/31/2019												
3.05	1/31/2019												
2.12	2/28/2019												
3.09	2/28/2019												
2.08	3/31/2019												
1.04	3/31/2019												
1.07	3/31/2019												
1.09	3/31/2019												
1.11	3/31/2019												
2.06	3/31/2019												
2.07	3/31/2019												
2.09	3/31/2019												
3.02	3/31/2019												
3.03	3/31/2019												
3.07	3/31/2019												
3.11	3/31/2019												
3.14	3/31/2019												
1.05	4/30/2019												
2.02	4/30/2019												
1.13	5/31/2019												
1.01	12/31/2019												
1.08	12/31/2019												
1.12	12/31/2019												
2.01	12/31/2019												
2.04	12/31/2019												
3.01	12/31/2019												
3.08	12/31/2019												
2.05	12/31/2019												
2.10	12/31/2019												
2.13	12/31/2019												
3.10	12/31/2019												
3.12	12/31/2019												
3.15	12/31/2019												
3.16	12/31/2019												
1.03	12/31/2019												
1.06	12/31/2019												
1.10	12/31/2019												
2.03	12/31/2019												
3.06	12/31/2019												
3.13	12/31/2019												

County of Ventura
AUDITOR-CONTROLLER
MEMORANDUM

To: Johnson K. Gill, Director, Health Care Agency **Date:** January 14, 2019

From: Jeffery S. Burgh

Subject: **REVISED TIMELINE FOR CORRECTIVE ACTION – AUDIT OF THE HEALTH CARE AGENCY'S INTERNAL CONTROLS OVER FINANCIAL BUDGETS, PROJECTIONS, AND REPORTING FOR THE VENTURA COUNTY MEDICAL CENTER**

We have received your revised timeline for implementation of the recommendations provided in the audit of the Health Care Agency's ("HCA") internal controls over financial budgets, projections, and reporting for the Ventura County Medical Center ("VCMC"). According to the attached revised timeline, corrective action is planned to be completed by December 31, 2019.

We have also noted that HCA will be reporting the progress on the implementation of the recommendations to the Auditor-Controller and the VCMC Oversight Committee at each VCMC Oversight Committee meeting.

Attachment

cc: Honorable Steve Bennett, Chair, Board of Supervisors
Honorable Kelly Long, Vice Chair, Board of Supervisors
Honorable Linda Parks, Board of Supervisors
Honorable Robert O. Huber, Board of Supervisors
Honorable John C. Zaragoza, Board of Supervisors
Michael Powers, County Executive Officer
Kaye Mand, Chief Financial Officer, County Executive Office
Kim Milstien, VCMC Chief Executive Officer
Narcisa Egan, HCA Assistant Chief Financial Officer
Matt Sandoval, HCA Compliance Officer

VENTURA COUNTY
HEALTH CARE AGENCY

M E M O R A N D U M

Date: January 11, 2019

To: Jeff Burgh, Auditor Controller

From: Johnson Gill, Director Health Care Agency Johnson Gill

Subject: Management Response to Internal Controls Audit

Dear Mr. Burgh,

In late December, the management of the Health Care Agency submitted a response to the recent Internal Controls Audit as conducted by Clifton Larsen Allen LLP. As we have worked through the recommendations as a team, we would like to submit a revised timeline for our implementation of the recommendations provided.

Attached you will find a spreadsheet detailing out the recommendations according to the three categories reviewing: Budgeting, Projections, Reporting. We have included our management response and projected completion date for each recommendation.

In addition, HCA is providing a timeline in a Gantt chart format. As these recommendations are implemented, each section on the chart will be color coded as appropriate. We will be reporting our progress on the implementation of these recommendations to you and our Oversight Committee at each Oversight Meeting.

Please let me know if you have any questions.

Hall of Administration L # 4615
800 South Victoria Avenue Ventura, California 93009 • (805) 677-5110 • www.vchca.org

CLA Audit Response Due Dates

Reference Number	Projected Completion Date	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19
1.02	1/31/2019												
2.11	1/31/2019												
3.04	1/31/2019												
3.05	1/31/2019												
2.12	2/28/2019												
3.09	2/28/2019												
2.08	3/31/2019												
1.04	3/31/2019												
1.07	3/31/2019												
1.09	3/31/2019												
1.11	3/31/2019												
2.06	3/31/2019												
2.07	3/31/2019												
2.09	3/31/2019												
3.02	3/31/2019												
3.03	3/31/2019												
3.07	3/31/2019												
3.11	3/31/2019												
3.14	3/31/2019												
1.05	4/30/2019												
2.02	4/30/2019												
1.13	5/31/2019												
1.01	6/30/2019												
1.08	6/30/2019												
1.12	6/30/2019												
2.01	6/30/2019												
2.04	6/30/2019												
3.01	6/30/2019												
3.08	6/30/2019												
2.05	7/1/2019												
2.10	7/1/2019												
2.13	7/1/2019												
3.10	7/1/2019												
3.12	7/1/2019												
3.15	7/1/2019												
3.16	7/1/2019												
1.03	12/31/2019												
1.06	12/31/2019												
1.10	12/31/2019												
2.03	12/31/2019												
3.06	12/31/2019												
3.13	12/31/2019												

County of Ventura
AUDITOR-CONTROLLER
MEMORANDUM

To: Johnson K. Gill, Director, Health Care Agency **Date:** January 4, 2019

From: Jeffery S. Burgh

Subject: **AUDIT OF THE HEALTH CARE AGENCY'S INTERNAL CONTROLS OVER FINANCIAL BUDGETS, PROJECTIONS, AND REPORTING FOR THE VENTURA COUNTY MEDICAL CENTER**

The audit has been completed of the Health Care Agency's ("HCA") internal controls over financial budgets, projections, and reporting for the Ventura County Medical Center ("VCMC"). The audit was conducted by CliftonLarsonAllen LLP, as commissioned by the Auditor-Controller. The audit report is attached for your reference.

The audit concluded that, overall, HCA's internal controls were not always adequate to produce timely, reasonably accurate, and supportive financial budgets, projections, and interim financial reports for VCMC during the period tested. However, controls were adequate to produce reasonably accurate and supportive fiscal year end financial reports. The audit resulted in 42 recommendations for improvement in areas including:

- policies and procedures;
- software and personnel resources;
- sophistication of budgets and projections;
- consistency and reconciliation between financial, budgetary, and projection reports;
- linking budget and projection assumptions to historical results and strategic priorities; and
- timely reporting of monthly financial results.

HCA management initiated corrective action to address the recommendations. Corrective action is planned to be completed by June 30, 2020.

We appreciate the cooperation and assistance extended by you and your staff during this audit.

Attachment

cc: Honorable Peter C. Foy, Chair, Board of Supervisors
Honorable Steve Bennett, Vice Chair, Board of Supervisors
Honorable Linda Parks, Board of Supervisors
Honorable Kelly Long, Board of Supervisors
Honorable John C. Zaragoza, Board of Supervisors
Michael Powers, County Executive Officer
Kaye Mand, Chief Financial Officer, County Executive Office
Kim Milstien, VCMC Chief Executive Officer
Narcisa Egan, HCA Assistant Chief Financial Officer
Matt Sandoval, HCA Compliance Officer

PERFORMANCE AUDIT OF THE COUNTY OF VENTURA HEALTH CARE AGENCY'S INTERNAL CONTROLS OVER FINANCIAL BUDGETS, PROJECTIONS, AND REPORTING FOR THE VENTURA COUNTY MEDICAL CENTER

PERFORMANCE AUDIT OF THE COUNTY OF VENTURA HEALTH CARE AGENCY'S INTERNAL CONTROLS OVER FINANCIAL BUDGETS, PROJECTIONS, AND REPORTING FOR THE VENTURA COUNTY MEDICAL CENTER

TABLE OF CONTENTS

CliftonLarsonAllen LLP
CLAconnect.com

INDEPENDENT AUDITORS' REPORT

Jeffery S. Burgh, Auditor-Controller
The County of Ventura, California

This report represents the results of our performance audit of The County of Ventura Health Care Agency (HCA) in accordance with County of Ventura contract #7824**.** The performance audit focused on determining whether HCA's internal controls were adequate to produce timely, reasonably accurate, and supportable financial budgets, financial projections to actual, and financial reporting for Ventura County Medical Center (VCMC). As part of our work, we evaluated HCA's internal controls over revenue budgets, financial projections, cash flow projections as presented to the Auditor-Controller's Office, financial reporting to the Auditor-Controller's Office, and monthly and year-to-date financial statements that may be presented to the VCMC Oversight Committee.

We conducted our audit in accordance with generally accepted government auditing standards, as applicable to performance audits contained in the *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we perform the audit to obtain sufficient, appropriate audit evidence, to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Our work did not include an assessment of financial reporting, budgets, or projections or other matters not specifically outlined in the enclosed report. The information included in this report was obtained from VCMC on or before November 30, 2018. We have no obligation to update our report or to revise the information combined therein to reflect events and transactions subsequent to January 4, 2019.

CliftonLarsonAllen LLP's policy requires that we obtain a management representation letter associated with the issuance of a performance audit report citing generally accepted government auditing standards. We requested a management representation letter from HCA on January 4, 2019, and received the signed representation letter on January 4, 2019.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Roseville, California
January 4, 2019

Background

The County of Ventura (County) engaged CliftonLarsonAllen LLP (CLA) to conduct a performance audit (Audit) of the Health Care Agency's (HCA) internal controls over budgets, financial projections, and reporting for the Ventura County Medical Center (VCMC). VCMC is a department of the HCA. VCMC is a hospital system with two public hospital campuses in Ventura and Santa Paula, as well as a broad network of ambulatory care clinics.

This report presents the results of objective analyses carried out by CLA so the County of Ventura Auditor-Controller's Office (ACO) and those charged with governance and oversight within the County may use the information provided to improve its understanding of current policies and practices and oversee or initiate corrective action regarding internal controls over the budgets, financial projections, and reporting of VCMC.

VCMC had budgeted revenues for fiscal year (FY) 2018 of approximately $525 million, which included the combined ambulatory clinics' and Federally Qualified Health Center's (FQHC) net revenues of approximately $120 million. The VCMC finance team prepares various monthly financial statements, annual budgets, cash flow reports, and financial status reports. VCMC is reported as an enterprise fund of the County and, accordingly, is included in the annual audited Comprehensive Annual Financial Report (CAFR) of the County.

The health care industry has many unique attributes and risks associated with the revenue cycle. This includes estimates of settlements with government payers (Medicare and Medi-Cal) driven from various government programs, annual cost reporting requirements, and settlements from other commercial insurance contractual arrangements. Collectively these estimates are referred to as "Third Party Settlements". In addition to the Third Party Settlements, VCMC is also required to estimate expected collection for services that have been provided but where payment has not yet been received. Many payments are subject to billing review, retroactive adjustments, or other queries which may occur over a considerable period of time. In many cases these estimate areas can be very volatile and often unpredictable in nature. Any changes in the financial reporting of these estimates should be reported as a change of estimate, which consequently impacts the income statement in the period the revisions are made.

Audit Objectives and Scope

Audit Objectives

The overall audit objective is to determine whether HCA's internal controls were adequate to produce timely, reasonably accurate, and supportive budgets, financial projections, and reporting for VCMC.

As stated in the request for auditing services proposal, internal controls over the following areas of budgets, financial projections, and reporting for VCMC for FY 2018 were identified as key objectives of the Audit:

1. Revenue budgets based on:
    a. Estimated inpatient, outpatient, surgery, and ancillary services volumes.
    b. Payor mix.
    c. Estimated disallowances.
    d. Performance measures tied to revenue including:
        i. Reductions to readmissions.
        ii. Pay for performance such as quality metrics as well as performance metrics tied to the significant supplemental Medi-Cal Waiver programs such as Public Hospital Redesign and Incentives in Medi-Cal Program, Global Payment Program, Enhanced Payment Program, Quality Incentive Program, and Whole Person Care.
2. Financial projections, including those presented to the VCMC Oversight Committee and those contained within the periodic Financial Status Reports provided to the County Executive Office and the Auditor-Controller's Office.
3. Cash flow projections as presented to the Auditor-Controller's Office, including those that impact Tax and Revenue Anticipation Note (TRAN) borrowing decisions and projected General Fund loan balances.
4. Financial reporting to the Auditor-Controller's Office, including:
    a. Revenue accruals.
    b. Allowance for uncollectible accounts, including contractual adjustments.
    c. Accrued liabilities, related audit disallowances, and reserves.
    d. CAFR adjustments.
    e. Other significant estimates impacting financial reporting.
5. Monthly and year-to-date financial statements that may be presented to the VCMC Oversight Committee showing actual performance compared to budgeted performance.

Audit Objectives and Scope (Continued)

Scope
The scope and methodology of our work to address the above audit objectives include the following:

- On August 30, 2018, CLA conducted an entrance conference with ACO and HCA leadership, and VCMC fiscal personnel to confirm the objectives of the Audit, determine the schedule for conducting a survey and related interviews, established communication protocol, and address any questions.
- Conducted a series of interviews with management, fiscal, operational and medical staff to identify the population of relevant budgets, projections, and reporting elements.
- Performed an on-site visit on September 13 and 14 and:
    - Conducted additional interviews to determine procedures and gain knowledge of the internal control environment related to budgets, financial projections, and reporting.
    - Reviewed existing policies and procedures of the County and/or the HCA to determine the applicable guidelines for internal controls related to budgets, financial projections, reporting.
- Subsequent to the entrance conference, review of the Audit objectives, interviews, and review of existing policies and procedures (collectively defined as “Planning Procedures”), CLA met with the ACO and agreed on the following procedures (collectively defined as “Testing Procedures”):

  Budgeting
    - Using the 2015 control self-assessment (fiscal administration and budgeting section), read all responses and identify key controls and update response.
    - Review minutes of, and materials provided to, the oversight committee. Compare to final budget and document approvals.
    - Seek indications of support and approvals of the originally submitted budget and final budget.
    - Obtain original budget and tie back to support for significant assumption areas. Perform variance analysis from original to final budget. Obtain supporting schedules and narratives explaining changes.
    - Obtain FQHC budgets and trace to the VCMC original budget submitted and finalized.
    - Obtain report of budget to actual variances by department. Select departments with large variances and obtain historical statistical reports used to develop the key budget assumptions.
    - Review Third Party Settlement assumptions and their impact to the budget including changes in estimate related to prior years.

Audit Objectives and Scope (Continued)

Scope (Continued)

Projections

- Perform variance analysis of budgets to projections at July 2017.
- Obtain accounting period six and nine FY 2018 financial status reports (FSR). Document when FSRs were provided to the ACO. Tie out FY 2018 year-to-date amounts to the reported month-end actual financial statements. Obtain support for remaining months in the projection.
- Compare each month's beginning balance to the month-end financial statements and CAFR for July 2017.
- Document existence and evidence of a review and approval process of the monthly cash flow report.
- Select a month ending in FY 2018. Compare the remaining projected months to the original projections. Sample a selection of changes from the original projection. Obtain support and approval for all changes made.
- Compare projected assumptions to capital expenditures to budget (if available).

Financial Reporting

- Obtain the June 2018 monthly task list and compare responsible parties listed and verify employment position.
- Select two quarters in FY 2018 and obtain applicable monthly task list. Select a sample of ten of the reconciliations. Obtain evidence of supporting information used to record the applicable month-end journal entry.
- For the two quarters selected above obtain listing of any manual journal entries. Obtain supporting documentation for those selected. Seek evidence of review and approval of manual journal entries prepared.
- Create a summary of monthly financial reports for the period January 2017 to June 2018. To the extent possible the summary will include the date reports were made available.
- Select quarterly estimates for FY 2018 and obtain the allowance model used to post journal entries and ending balances. Tie back allowance model to the posted journal entry and ending account balance. Additionally, perform a review of the percentages used to calculate the allowance to determine if the percentages and methodologies are based on historical payment and write-off reports noting any significant modifications. Seek evidence of review and approval of the estimate.
- Select quarterly estimates for FY 2018 and obtain the schedule of Third Party Settlements used to tie back to the posted journal entry and ending account balance. Document existence of detail by settlement area and roll forward of accounts by program (settlements, payments and cash receipts, changes in estimate and supporting communication from third parties). Seek evidence of review and approval of estimate.

Audit Objectives and Scope (Continued)

Scope (Continued)

Financial Reporting (Continued)

- Obtain list of estimated accrued accounts payable as of June 2018. Obtain a listing of all payments to vendors that occurred in July 2018. Select ten invoices paid in July that were for services incurred prior to July 1, 2018, and determine if those invoices were properly accrued for in June 2018.
- For June 2017 and 2018 month-end, obtain financial statements and support for allowance and Third Party Settlement estimate areas. Tie back to the posted journal entry and ending account balance. Obtain evidence of review and approval of estimate.
- Obtain the FY 2017 Office of Statewide Health Planning and Development (OSHPD) report for VCMC and compare to the results included in the CAFR plus any allocated CAFR adjustments.

Audit Results

Overall Audit Objective Results

Based on our procedures performed in response to the audit objectives identified, we concluded HCA's controls were not always adequate to produce timely, reasonably accurate, and supportive budgets and projections for VCMC during the period tested.

Although the HCA did not have VCMC specific policies and procedures over financial reporting, in practice we found adequate controls that, if consistently followed and monitored, can produce reasonably accurate and supportive fiscal year financial reports during the period tested. During this same period we found exceptions to the adequacy of the controls in practice to ensure VCMC produces timely, reasonably accurate and supportive interim financial reports.

Strengths

The results of the audit found that the HCA has a number of good practices that are operating effectively. The following are examples of these activities:

Budgeting

- The budget was noted to incorporate material Third Party Settlement amounts and conservatively excluded the Enhanced Payment Program (EPP) and Quality Incentive Program (QIP) settlements.
- VCMC finance team involved in the preparation of the annual budget process have health care accounting and budgeting experience and are familiar with VCMC.

Projections

- Final FSRs were available in finalized form and included documentation of the HCA Director's signature.
- There is a flexible process to update cash flow projections for changes outside expectation that become known during a projected period.

Audit Results (Continued)

Strengths (Continued)

Projections (Continued)

- The fiscal department communicates with California Association of Public Hospitals and Health Systems (CAPH) and has support for the changes in estimates. While they still may be subject to change, this methodology is in line with how other health care systems do their settlements.

Reporting

- We found there was a sufficient level of summary support that was retained with each monthly balance sheet account reconciliation selected for testing.
- Supporting documents were provided for all journal entries selected for testing.
- The fiscal department had a level of health care expertise within the department that provided a sufficient understanding of how to calculate complex health care accounting estimates.
- Sufficient supporting detail was available and utilized in determining the fiscal year end 2018 self-insured professional liability estimate calculation.

Recommendations

Summary of Recommendations

Setting a strong tone at the top is one of the most important components of a strong internal control environment. The tone at the top is set by governance and management and impacts all employees.

During the performance of our Planning and Testing Procedures we identified a number of concerns involving the preparation of the VCMC FY 2018 budget and FSRs. The concerns included, but were not limited to, an absence of formal policies and procedures, a lack of communication and assignment of authority and responsibility, limited transparency and inadequate supporting documentation. Collectively, these concerns suggest an adequate tone at the top had not been established over budgeting and projections of HCA during this time period.

As a result of our Planning and Testing Procedures we made 42 recommendations for improvement for the HCA to consider. A summary of our recommendations are outlined below:

- Develop policies and procedures specific to the VCMC budgeting, projection and financial reporting processes.
- Address the need for additional resources, including budgeting and projection software as well as people resources.
- Increase the sophistication of the budgets and financial projections by building the budget at the department level and expanding the use of disaggregated statistical measures to drive revenue assumptions.
- Adopt a process that encourages consistency between the various financial, budgetary, and projection reports as they are completed, including management review and reconciliation to ensure accuracy.

Recommendations (Continued)

Summary of Recommendations (Continued)

- Increase transparency and linkage of budget and projection assumptions in relation to historical results and strategic priorities.
- Improve the timeliness of reporting monthly financial results. This should include providing consolidated and departmental budget to actual information.

Detailed Recommendations

The following pages provide the detail of our recommendations as well as the applicable responses from the HCA. The recommendations are intended to raise the internal control effectiveness with standard industry practices.

Recommendation 1.01
Topic: Budgeting
Subtopic: Written Policies

Condition	Criteria
HCA does not have clear written policies and procedures for the budget process that is specific to VCMC.	Having meaningful and well-considered budgeting policies and procedures is a critical component of a strong financial management system. Documenting VCMC's budgeting process can be an important tool to help the finance staff to understand and follow the rules and methods necessary to produce reasonable and reliable financial budgets.

Cause	Effect
This condition is the result of the HCA not having a control environment that has required written policies and procedures to be created and maintained.	The absence of written policies and procedures exposes VCMC to multiple risks including hindering the ability to train employees, segregate duties, and reduce the risk of management override.

Recommendation
We recommend the HCA develop and adopt a formalized written policy and procedure manual for the annual budgeting process.   This should be developed by VCMC management and accepted by HCA. We also recommend making the document user friendly to include flow charts and other visuals.

Management Response
Management agrees with the recommendation and will implement a policy manual by March 31, 2020.

Recommendation 1.02
Topic: Budgeting
Subtopic: Organization

Condition	Criteria
The HCA does not create a budget calendar specific to VCMC.	Without a clear budget calendar that communicates key tasks, responsible individual(s), and agreed timeline, VCMC is less likely to produce a meaningful budget. The budget calendar should include all of the above components, align with the key deadlines of the County, and allow for adequate time for review, modification, and approval by leadership and the oversight committee.

Cause	Effect
The condition is the result of HCA not having implemented or directed VCMC to create a budget calendar.	The lack of a clear budget calendar creates confusion, inconsistency in expectations of team members, increased likelihood of excluding useful data or individuals, and leaves VCMC's control environment vulnerable to management override.

Recommendation
HCA management and finance team should develop a budget calendar that aligns with the County budget timeline, includes key tasks, milestones, individuals, and allows for adequate review and approval of VCMC CFO/CEO, as well as the HCA CFO/Director and acceptance by governance.

Management Response
Management agrees with the recommendation and has begun putting together a budget calendar to prepare for the FY 2020 budget cycle.

Recommendation 1.03

Topic: Budgeting

Subtopic: Resources - Software

Condition

Currently, the budget is being prepared and reported using a series of internally developed spreadsheets.

Criteria

The use of spreadsheets in the budgeting process has a number of inherent weaknesses. Spreadsheets are extremely susceptible to human errors and also makes it difficult to prevent, identify, and track purposeful manipulation. Exchanging data using spreadsheets does not allow for adequate tracking of changes or approvals and limits the users ability to effectively exchange data, ideas, and files.

Cause

VCMC does not currently have a budgeting software system to support the annual budget process.

Effect

The exposure to intentional manipulation or unintentional errors can undermine the budgeting process and, therefore, impact VCMC's overall internal control environment.

Recommendation

The implementation of a budgeting system that is specific to the health care industry would help to reduce the likelihood of human error and purposeful manipulation.

Management Response

Management agrees with the recommendation and will work toward implementing a budget software solution by June 30, 2020.

Recommendation 1.04
Topic: Budgeting
Subtopic: Resources - Software

Condition	Criteria
Currently, the spreadsheet templates include many hard coded numbers that are imbedded into certain formulas or are manual inputs that are not easy to identify or distinguish from outputs and formulas.	Hard coded numbers that are included in formulas increase the likelihood of human error or intentional manipulation and reduce the users ability to effectively review the information.

Cause	Effect
VCMC has not designed budget templates to isolate and highlight manual inputs.	The exposure to intentional manipulation or unintentional errors can undermined the budgeting process and, therefore, impact overall internal control environment for HCA.

Recommendation
If the budget continues to be prepared utilizing spreadsheets, we recommend all manual inputs be centralized in separate tab(s) and these inputs are labeled and highlighted.

Management Response
Management agrees with the recommendation and will adjust existing budget spreadsheets accordingly. Management expects changes to be implemented in preparation for the FY 2020 budget process.

Recommendation 1.05
Topic: Budgeting
Subtopic: Resources - People

Condition	Criteria
VCMC does not currently have finance professionals that have a significant focus to the development and reporting of budgets and projections.	The standard industry practice for health care organizations such as VCMC would be to have finance professionals that spend a significant amount of their time on the budget process. Without this focus VCMC's ability to produce reliable budgets could be limited.

Cause	Effect
Historically, those responsible for the various financial reporting requirements have completed the annual budget.	The lack of resources focused on the budget process reduces the HCA's ability to develop a meaningful budget.

Recommendation
We recommend the HCA consider additional resources to support the annual VCMC budget process.

Management Response
Management agrees with the recommendation, and has been working with Huron to identify best staffing practices for the department.

Recommendation 1.06

Topic: Budgeting

Subtopic: Budget Assumptions - Statistics

Condition

The utilization of statistical information in the budget process was limited to only a few measures (total patient days, total emergency room visits and clinic visits). Specifically, the assumption of patient days impacted approximately 60% of the hospital's budgeted gross patient service revenues. In addition, the budgeted outpatient revenues were impacted only by the assumption of emergency room visits.

Criteria

While the statistics used in the development of the budget are significant drivers of budgeted revenue, other volume and acuity are typically used in standard industry practice.

Cause

The current budget templates are not designed to incorporate additional assumptions and variables.

Effect

Using a limited amount of statistical data to drive budgeted revenue decreases the likelihood of producing meaningful budgets. This would also reduce the sophistication of the individual department-level budgets as more detailed indicators are not considered.

Recommendation

HCA should implement a process that starts by identifying each department statistic that represents their workload intensity and which drives revenue. Those statistics should be evaluated for historical trends and then be used to build department-level assumptions. Those assumptions would feed into the consolidated budget. As assumptions are modified, that information would be discussed and communicated to all levels involved in the budget process.

Management Response

Management agrees with the recommendation and will sequentially begin migrating toward department specific statistics. Management expects this will be fully implemented in conjunction with the deployment of a new budget software solution.

Recommendation 1.07

Topic: Budgeting

Subtopic: Budget Assumptions

Condition	Criteria
The utilization of payor mix and contractual adjustments largely relied on the FY 2017 year to date actual results through January 2017 as a baseline assumption. Using partial year information can result in lack of comparability and may prove to not be a large enough time period to provide a good historical baseline. In addition, year to date information does not include any year end audit adjustments.	The reliance on year to date information excludes any seasonality considerations. In addition, interim financial data used to develop the assumptions is unaudited and, therefore, does not reflect any year end adjustments resulting from internal reconciliations or adjustments as a result of the annual audit.

Cause	Effect
Historically, VCMC has relied heavily on year to date actual results.	Relying heavily on partial year unaudited information could exclude material seasonal considerations or audit adjustments.

Recommendation

We recommend VCMC add a historical twelve month actual comparison. If not implemented, we recommend that VCMC consider the impact of any prior year audit adjustments.

Management Response

VCMC had prior year actual comparison that will be incorporated in the preparation of the budget. Management will ensure this information is included in the preparation of the FY 2020 budget process.

Recommendation 1.08
Topic: Budgeting
Subtopic: Budget Assumptions - FQHC

Condition	Criteria
The budget process attempts to incorporate estimates related to the FQHC allowances and subsequent adjustments related to the Medi-Cal managed care program. However, the current practices to record and estimate impacts is hampered by a lack of financial reporting clarity and timeliness.	Review of the internal monthly financials indicates significant swings in the balances for accounts receivable and the allowance for contractuals. Management should be able to assess the results of operations on a monthly basis in order to adjust internal operations in a timely manner to either limit the financial impact to clinics going forward or to take advantage of program opportunities.

Cause	Effect
There currently is a lack of clarity around reimbursement by patient class from the reporting system. The lack of timeliness is due to not having direct oversight such as a director over the FQHCs that would have an understanding of current and future budgetary impacts.	Current reporting inhibits the clinics from analyzing reimbursement results from the various third party payors. Reimbursement and programs for this industry is complex and changing rapidly. An inability to analyze threats and opportunities could significantly impact the VCMC's ability to create reliable budget targets.

Recommendation
VCMC should seek to improve the understanding of the various third party payment contracts, increase communication between the finance and patient accounting and consider placement of an administrator to oversee the FQHCs.

Management Response
Management agrees with the recommendation, and has already assigned a strong administrator to oversee the FQHC clinics.

Recommendation 1.09
Topic: Budgeting
Subtopic: Reporting

Condition	Criteria
We observed that the terminology of individual budget line items were not always consistent between the various types of budget reports.	Budgeting in the health system environment is complex which can make reviewing and understanding information a challenge. Using inconsistent terminology and grouping of information can unnecessarily increase this complexity.

Cause	Effect
Management has not established the standard use of naming conventions and accordingly modified all reports, budgets, and projections to be consistent between report types.	Inconsistent language can cause confusion and prevent leaders and governance from identifying changes from prior years and variances to actual results.

Recommendation
We recommend VCMC ensure language that is used in the budget process is consistent and clearly defined for those developing, reviewing, and approving the budget.

Management Response
Management agrees with the recommendation, and will fully implement in conjunction with the deployment of a new budget software solution.

Recommendation 1.10
Topic: Budgeting
Subtopic: Oversight

Condition	Criteria
Department level budgets were created by using the finalized consolidated budget to allocate to the various departments based on historical results.	This approach to creating the departmental budgets takes the ownership away from those departments and reduces the accuracy of the information.

Cause	Effect
The current budget process is finalized on a consolidated level but does not include a method to accurately allocate to individual departments.	The review of meaningful departmental level budget to actual reports on a monthly basis is an important mitigating control that can help identify financial statement misstatements or potentially fraudulent expenditures. The current methodology used to develop these department level budgets reduces the effectiveness and ownership in those budgets.

Recommendation
VCMC should build a budget process that starts with department level reporting and budgeting input. Refinements are made collaboratively with each department resulting in a plan that promotes ownership of the resulting numbers.

Management Response
Management agrees with the recommendation, and will fully implement in conjunction with the deployment of a new budget software solution.

Recommendation 1.11
Topic: Budgeting
Subtopic: Oversight

Condition	Criteria
Departmental budget to actual reports are not being provided on a consistent monthly basis.	Producing and providing timely budget to actual reports monthly is a standard industry practice used to help manage profitability and improve the internal control environment. Departmental budget to actual reports is an important mitigating control that can help identify financial statement misstatements and/or potentially fraudulent expenditures.

Cause	Effect
Currently, producing monthly budget to actual reports is not being consistently required by HCA.	Currently, the budget to actual reporting is not being completed and communicated consistently on a timely basis. The absence of this reporting and oversight increases the risk that misstatements and/or fraudulent activity would not be identified.

Recommendation
We recommend VCMC adopt a process that includes producing timely budget to actual reports by department. This process should include meetings with HCA leadership and the departments to discuss, understand, and document significant variances.

Management Response
Management agrees with the recommendation and will fully implement at a division and department specific levels in conjunction with the deployment of a new budget software solution.

Recommendation 1.12
Topic: Budgeting
Subtopic: Oversight

Condition	Criteria
Budget materials did not include an adequate transparency and summary of budget assumptions used.	Key budget assumptions should be transparent and provided in the context of historical results and the organization's strategies. The information presented should include all key assumptions used in relation to historical results. Lastly, the summary should include explanations for any significant changes from historical results and applicable strategies.

Cause	Effect
Current budget templates have not been developed in a way that summarizes key information for the various users.	The practice observed for fiscal year 2018 reduces VCMCs ability to be efficient, identify errors, and understand key assumptions that impact the budget.

Recommendation
We recommend VCMC create a budget process that requires transparency of key assumptions in relation to historical budgets, actual results and, when possible, include relevant ratio calculations. The analysis should include explanations and rationale for the assumptions used and linkage to key strategies.

Management Response
Management agrees with the recommendation, and will fully implement in conjunction with the deployment of a new budget software solution.

Recommendation 1.13
Topic: Budgeting
Subtopic: Oversight

Condition	Criteria
No formal approvals of the budget was documented by the department staff, the HCA Director, and HCA CFO.	Without documented approvals governance can not be assured the budget has been properly reviewed to support accuracy and consistency with VCMC's strategies.

Cause	Effect
Historically, formal approvals have not been obtained or required.	The approval step in the process enhances buy in and supports understanding of the budget. Without this oversight, the control environment of the HCA is negatively impacted.

Recommendation
Implement the requirement to obtain formal approval of the CFO and CEO. This should include adequate time, materials, and involvement in the process.

Management Response
Management agrees with the recommendation, and will implement in preparation for the FY 2020 budget process.

Recommendation 2.01
Topic: Projections - All
Subtopic: Written Policies

Condition	Criteria
HCA does not have clear written policies and procedures for creating financial projections that is specific to VCMC.	Having meaningful and well-considered policies and procedures is a critical component of a strong financial management system. Documenting VCMC's process for creating projections can be an important tool to help the finance staff to understand and follow the rules and methods necessary to produce reasonable financial projections.

Cause	Effect
This condition is the result of the HCA not having a control environment that has required written policies and procedures to be created and maintained.	The absence of written policies and procedures exposes VCMC to multiple risks including hindering the ability to train employees, segregate duties, and reduce the risk of management override.

Recommendation
We recommend the HCA develop and adopt a formalized written policy and procedure manual for creating projections. This should be developed by VCMC management and accepted by HCA. We also recommend making the document user friendly to include flow charts and other visuals.

Management Response
Management agrees with the recommendation, and will adopt a policy manual by March 31, 2020.

Recommendation 2.02
Topic: Projections - All
Subtopic: Resources

Condition	Criteria
VCMC does not currently have finance professionals that have a significant focus on the development and reporting of budgets and projections.	The industry practice for health care organizations such as VCMC would be to have finance professionals that spend a significant amount of their focus on budgeting and financial projections.

Cause	Effect
Historically, those responsible for the various financial reporting requirements have completed financial projections.	The lack of resources to creating financial projections reduces the ability to complete timely and meaningful reporting.

Recommendation
We recommend HCA consider additional resources to support VCMC completing financial projections.

Management Response
Management agrees with the recommendation, and has been working with Huron to identify best staffing practices for the department.

Recommendation 2.03
Topic: Projections - All
Subtopic: Resources - Software

Condition	Criteria
Currently, projection spreadsheets are being prepared and reported using a series of Microsoft Excel templates.	The use of spreadsheets in developing projections has a number of inherent weaknesses. Spreadsheets are extremely susceptible to human error. At worse, spreadsheets allow for override of formulas and manipulation that can be difficult to prevent, identify and track.

Cause	Effect
VCMC does not currently have a software system to support the creation and communication of financial projections.	The use of spreadsheets needlessly exposes VCMC's financial projections to intentional manipulation or unintentional error which weakens the overall internal control environment.

Recommendation
The implementation of projection software, that is specific to the health care industry, would help to reduce the likelihood of human error and purposeful manipulation.

Management Response
Management agrees with the recommendation and will work toward implementing software solution that will adequately support projections by June 30, 2020.

Recommendation 2.04
Topic: Projections - All
Subtopic: Reporting

Condition	Criteria
A lack of shared naming conventions between related entities is causing single accounts to have different descriptions.	Without standardized naming conventions, processes like comparisons to budgets are made more challenging and increases the likelihood of error across multiple functions.

Cause	Effect
Management has not established the standard use of naming conventions and accordingly modified all reports, budgets, and projections to be consistent between report types.	Without standard naming conventions, processes comparing projections to budgets and historical results can become convoluted and expose the participants of those processes to the risk of misinterpretation, which can lead to incorrect conclusions.

Recommendation
Improve the comparability of financial reports between entities by implementing standardized naming conventions.

Management Response
Management agrees with the recommendation, and will fully implement in conjunction with the deployment of a new budget software solution.

Recommendation 2.05

Topic: Projections - FSR

Subtopic: Reporting - Reconciliation to Monthly Financial Statements

Condition	Criteria
We observed that when comparing the fiscal year 2018 period six and nine Financial Status Reports (FSR) to the year to date monthly financial statements, that the year to date net income for the same period was not consistent.	Inconsistent reporting of information can result in unnecessary confusion or material errors in financial projections. This could be caused by an inadvertent error, delay in finalizing the month-end financial statements, or a purposeful distortion.

Cause	Effect
As such, this appears to be the result of the monthly financial statements not being completed in a timely manor as indicated in recommendation 3.12. For the period ending December 31, 2017, the monthly financial statements were finalized subsequent to the completion and submission of the FSR.	Errors in the year to date actual information could result in significant variances to the projected results.

Recommendation
See recommendation 3.12 for the timely completion of the monthly financial statements. In addition, we recommend a policy be adopted that includes the reconciliation of the FSR reports to the monthly financial statements.

Management Response
Management agrees with the recommendation, and has implemented workflows that will allow for timely completion of monthly financial statements, including reconciliation with the FSR reports.

Recommendation 2.06

Topic: Projections - FSR

Subtopic: Reporting - Timing

Condition

The users of the FSR did not receive a projection for FY 2018 until approximately four months prior to the end of that fiscal year. Currently practice requires the first FSR report be produced after the first six months of the fiscal year. We noted this report was finalized 59 days subsequent to the end of the six month period.

Criteria

Projections can help organizations as a leading indicator of financial stability (or instability) and to help them make adjustments as deemed necessary. Since the budget is built off of the first seven months of the prior year, the budget projection is not adjusted for actual results and current trends until eleven months later. This significant lag in updated financial projections is particularly problematic for a health systems reporting environment given the significant estimates and related volatility involved.

Cause

Currently, there is no requirement to provide a period three FSR. In addition, the lag in closing the month-end financial statements resulted in FY 2018 period six FSR being reported 59 days subsequent to the end of the period.

Effect

The current timeline for communication of the FSR does not provide adequate time for leadership and governance to understand and react to updated actual and projected information and make the necessary decisions to impact year end results.

Recommendation

We recommend that VCMC consider requiring a period three FSR be completed annually. In addition, HCA should adopt a policy to complete the FSRs 30 days subsequent to the period ending.

Management Response

Management agrees with the recommendation, and implement a policy ensuring annual completion of period three FSR 30 days subsequent to the period ending.

Recommendation 2.07
Topic: Projections - FSR
Subtopic: Oversight

Condition	Criteria
While the FY 2018 period six and nine FSRs include listing of variances and related narrative, we observed a number of weaknesses in format and substance. Currently, the narrative includes a three page summary with 30-40+ line items of variances. In many cases the line items lack sufficient detail or explanations, range greatly in significance, do not address the underlying reason for the outcome, or comment on the rationale for the future assumption.	Effectively communicating the year to date budget to actual results helps a reader understand not just what variances occurred but also why they occurred. In addition, the assumptions related to future projected results is essential to assisting the user in understanding the assumptions being made and considerations supporting those assumptions. Together this transparency should create an environment of accountability and support operational and financial decision making.

Cause	Effect
Currently, there are no guidelines for FSR reporting.	Without reporting guidelines and clear communication, it is difficult to understand the reasons for actual to budget variances and the rationale for future projected results.

Recommendation
We recommend the FSR include a summary or dashboard of historical actual results, the original budgeted information and future projected assumptions, allowing for increased ease of review and understanding of key information. In addition, the assumptions used for the remaining periods should include explanations and rationale for those assumptions used. This information should clearly separate projected assumptions that were added as previously unbudgeted activity.

Management Response
Management agrees with the recommendation and will fully implement by June 30, 2020.

Recommendation 2.08

Topic: Projections - FSR

Subtopic: Reporting - Gain Contingencies

Condition

The FY 2018 period six FSR included gain contingency assumptions of approximately $6M for "Revenue Cycle Improvement and Mitigation Team effort of Huron Consulting" and $4.1M for "Business Interruption Proceeds." Management was not able to provided sufficient supporting documentation for the background and rationale justifying the inclusion of these amounts.

Criteria

If VCMC does not set clear guidelines for the incorporation of future gain contingencies FSRs could include unrealistic assumptions which, in turn, produce inflated projections.

Cause

Currently, no policy or guideline restricts the recording of gain contingencies in the FSRs.

Effect

The lack of guidelines and communication of gain contingencies could result in aggressive reporting of future results. If those gain contingencies are not realized the ability for management and governance to make operational, financial, and strategic decisions would be delayed in the period projected.

Recommendation

Gain contingencies that are not previously included in the original budget should require a consistent methodology for inclusion. We would recommend this threshold consider the applicable accounting guidance for recording of gain contingencies. In addition, if gain contingencies are included in the FSR, we recommend CMC retain detailed support, including the background and rationale. Lastly, we also recommend HCA adopt a policy for the recording of loss contingencies that is consistent with existing accounting guidance.

Management Response

Management agrees with the recommendation and will ensure inclusion of contingencies in the Budget and FSR. Detailed support, rationale and management approval will be included in any assumptions and journal entry prepared. Applicable accounting guideline will be utilized in developing the policy and implemented in the upcoming FY 2020.

Recommendation 2.09
Topic: Projections - FSR
Subtopic: Reporting - Support

Condition	Criteria
No supporting documentation was available for the projected patient day assumptions for both the FY 2018 period six and nine FSRs.	Lack of supporting documentation can create the risk of error and purposeful manipulation of assumptions.

Cause	Effect
Currently, no policy or guideline requires the retention of supporting documentation for FSR assumptions.	Projected statistics such as patient days can have a significant impact to the revenue and profitability of the organization during the period.

Recommendation
We recommend a policy be created that requires documentation and the retention of significant assumptions used in the FSR projection period.

Management Response
Management agrees with the recommendation and will fully implement by December 31, 2019.

Recommendation 2.10
Topic: Projections - Cash Flow
Subtopic: Estimates

Condition	Criteria
We observed that when cash flow projections were originally drafted, they were based on historical experience and the applicable budget in that period. As the cash flow projection was being reviewed and finalized, certain estimates were made that appeared not to be probable or estimable. For example, the State Intergovernmental Transfer-Gold Coast Health Plan FY 2018 revenue estimate was included in the cash flow projection that doubled the amount actually received. This estimate was based on the number of payments received in the prior year.	Estimates should be recognized when probable and estimable.

Cause	Effect
Currently, no policy or procedure requires estimates to be recognized when probable and estimable.	Forecasted projections can contain material errors when estimates are included and it is not realized within the period presented.

Recommendation
We recommend an enforceable policy be created that requires estimates included in cash flow projections to be probable and estimable as well as footnotes explaining the estimate methodology that supports why the estimate is expected to be realizable in the period presented. This should be reviewed and approved by the HCA CFO.

Management Response
Management agrees with the recommendation, and will implement at the start of FY 2020.

Recommendation 2.11
Topic: Projections - Cash Flow
Subtopic: Revenue Calculations

Condition	Criteria
We observed that when cash flow projections were originally drafted the MediCal County Organized Health System (COHS) revenue calculation contained an input error for March 2018. The calculation is based off of $1,500,000 received every Thursday multiplied by the number of Thursdays within the month. The calculation for March did not correctly calculate the number of Thursdays resulting in projections during the first five months of the year to be incorrect for the MediCal COHS revenue.	The calculation is based on the number of payments received per week on a particular day. The incorrect number of days within the month tested was utilized in the calculation.

Cause	Effect
Currently, the projections are created in spreadsheets and there was no indication of who reviewed the projections prior to publishing.	Forecasted projections can contain material errors when a thorough review is not performed.

Recommendation
We recommend an enforceable policy and procedure be created that requires cash flow projections created in spreadsheets be thoroughly reviewed. The final published cash flow should be reviewed by the HCA CFO prior to publication.

Management Response
Management agrees with the recommendation, and has already implemented.

Recommendation 2.12

Topic: Projections - Cash Flow

Subtopic: Data Integrity

Condition	Criteria
After VCMC's cash flow projection for FY 2018 had been finalized, relevant data was overwritten with data related to July actual financial performance. Accordingly, VCMC was not able to provide an original copy of the FY 2018 cash flow projection.	In order to maintain their value, financial projections must rely solely on data which was deemed relevant at the time of the forecast's creation.

Cause	Effect
Lack of protections placed over the workbook allowed data to be overwritten, even after being finalized.	Should the integrity of cash flow projections falter, the ability to judge current performance is made more difficult because the basis of comparison that the projection provides is no longer valid.

Recommendation
We recommend that finalized workbooks be protected, either through Excel's built in functionality or by other means, so that the integrity of important and relevant data is properly protected.

Management Response
Management agrees with the recommendation, and while many of the workbooks are password protected, will implement additional safeguards for protection of data and tracking of changes.

Recommendation 2.13
Topic: Projections - Cash Flow
Subtopic: Data Integrity

Condition	Criteria
VCMC, HCA and the County produce multiple types of projections, to various users, at different times during the year. Currently, no process is in place to reconcile the various report types to ensure consistency and accuracy.	When multiple projections are prepared at different levels of the organization (HCA, County, etc.) based on different basis of reporting (FSR, cash flow, capital budgets, longer term projections, etc.) it is important to implement a process that requires reconciliation of across the various report types and across the organization to ensure consistency and accuracy of the data.

Cause	Effect
Currently, no policy or procedure requires the reconciliation of the various projection reports produced.	Lack of reconciliation process between different report types can lead to human error or create the opportunity for purposeful manipulation of individual reports.

Recommendation
HCA should implement a reconciliation process that identifies and corrects variances between financial documents that are created at different levels of the organization. The documentation of the reconciliation and the related reports should be retained and approved by VCMC, HCA, and County CFO's.

Management Response
While there are reconciliations prepared, supporting documents will be retained and approved by VCMC and HCA CFO. Written policy and procedure will be developed and put in place by June 30, 2020.

Recommendation 3.01
Topic: Reporting
Subtopic: Written Policies - General

Condition	Criteria
No formal written policies and procedures exist specific to VCMC related to financial reporting.	Having meaningful and well-considered accounting policies and procedures is a critical component of a strong financial management system for any governmental organization. A well-written accounting manual is important for maintaining consistency across the finance department and helping to ensure compliance with regulatory standards, especially for healthcare organizations that receive funding from government agencies. Documenting the organization’s accounting policies and procedures in a manual can be an important tool to help the accounting staff understand and follow the accounting rules and methods necessary to produce accurate and reliable financial reports to support organizational decision making.

Cause	Effect
This condition is the result of the HCA not having a control environment that has required written policies and procedures to be created and maintained.	The absence of written policies and procedures for financial reporting exposes VCMC to multiple risks including the reduction of the ability to train, be efficient, segregate duties, and reduce the risk of management override and likelihood of error.

Recommendation
We recommend the HCA develop and adopt formalized written policies for the financial reporting process that establish what is expected and procedures that put policy into action. This should be developed by VCMC management and accepted by HCA. The policies should include, but not be limited to: Chart of accounts, basis of accounting, organizational chart and accounting personnel and responsibilities, accounts receivable, Third Party Settlements, cash disbursements and accounts payable, fixed assets, payroll, month-end close, interim financial reporting, internal controls, audit preparation, and security and retention of financial data. We also recommend making the document user friendly and include flow charts and other visuals.

Management Response
Management agrees with the recommendation, and will fully adopt policies for financial reporting by June 30, 2020.

Recommendation 3.02
Topic: Reporting
Subtopic: Written Policies - Journal Entry Preparation and Support

Condition	Criteria
VCMC does not have clear written policies and procedures regarding the initiation, recording, and processing of standard and non-standard journal entries including guidelines for the gathering and retention of supporting documents.	Having clear written policies regarding the initiation, recording, and processing of standard and non-standard journal entries provides guidance to both staff and management. Such procedures generally include guidelines of who should prepare and review particular entries, the level of required documentation, and the general purpose of the journal entry.

Cause	Effect
This condition is the result of the HCA not having a control environment that has required written policies and procedures to be created and maintained.	Without having clear written policies regarding the initiation, recording, and processing of standard and non-standard journal entries, an environment is created where the finance team does not have an adequate understanding of their responsibilities.

Recommendation
VCMC should develop clear written policies regarding the initiation, recording, and processing of standard and non-standard journal entries. Such policies should include, at a minimum, documentation surrounding the purpose of the journal entry, which member of the management team should review the journal entry, and what documentation is required to be attached to the journal entry. For journal entry support that is unable to be attached, there should be a clear naming convention for the supporting documentation, and a clear policy surrounding where the documentation should be maintained.

Management Response
Management agrees with the recommendation, and will fully adopt policies by June 30, 2020.

Recommendation 3.03
Topic: Reporting
Subtopic: Month End Close Reconciliations - Monthly Task List

Condition	Criteria
Currently, the general ledger account numbers do not fully agree with the account numbers on the monthly task list.	A standard monthly task list would include general ledger account numbers, responsible individual, placeholder for completion signoff, and references to other information and reports utilized.

Cause	Effect
Currently, the monthly task list utilized for month-end close has not been updated and standardized for a significant period of time as VCMC is currently using general ledger accounts on a monthly task list from a previous chart of accounts.	Using incorrect general ledger accounts numbers can result in missing a reconciliation and create the potential risk of producing inaccurate monthly financial statements.

Recommendation
VCMC should implement an enforceable procedure to periodically review and update tools that the finance team utilizes in the monthly financial reconciliation process. The HCA should review, adopt, and enforce such policies.

Management Response
Management agrees with the recommendation, and will implement by June 30, 2020.

Recommendation 3.04
Topic: Reporting
Subtopic: Month End Close - Allowance Estimate

Condition	Criteria
On a monthly basis VCMC is using a historical zero balance report that is based on claims for the current period year to date to support the monthly allowance estimate. Under this approach the period three allowance estimate utilizes only three months of historical data however, at fiscal year end, this calculation is based on a trailing twelve-month period. Using a narrow set of data that also fluctuates during the fiscal year exposes VCMC to increased volatility of estimate assumptions, reduces the reliability of the data used, and increases the potential for material adjustments at fiscal year end.	In order to support an allowance calculation that is consistent, reliable, and in line with standard industry practice, VCMC should consider using a consistent and adequate history of collection activity to perform the monthly allowance estimate.

Cause	Effect
Currently, no policy or procedure sets forth a standardized set of guidelines for the contractual allowance estimate calculation.	Significant estimates can contain material methodological errors when there is not a standardized set of guidelines consistent with standard industry practice.

Recommendation
We recommend VCMC develop and HCA adopt a policy and procedure that defines a standard set of guidelines for performing the monthly allowance estimate that includes a historical nine to twelve month period of historical information.

Management Response
Management agrees with the recommendation. While there are current procedures followed for the monthly allowance estimates, supports and documents will be retained. The process will be enhanced through the development of the policy and procedure by June 30, 2020.

Recommendation 3.05

Topic: Reporting

Subtopic: Month End Close - Allowance Estimate

Condition

Currently, there is no retrospective review performed over the contractual allowance estimate.

Criteria

Periodically, significant estimates should be evaluated retroactively in order to evaluate the effectiveness of the estimate and to measure the impact variances had to subsequent periods.

Cause

Currently, no policy or procedure requires a retrospective review of significant estimates.

Effect

Significant estimates can contain material methodological errors. If no lookback procedure is performed, the likelihood of error detection is greatly reduced.

Recommendation

We recommend VCMC develop a policy and procedure that requires an annual retrospective review be performed for all significant estimates. The lookback calculation should be reviewed by the VCMC CFO prior to publication of the monthly financial statements.

Management Response

Management agrees with the recommendation, and will conduct a retrospective look back in conjunction with the monthly financial statement close, effective immediately.

Recommendation 3.06

Topic: Reporting

Subtopic: Month End Close - FQHC Allowance Estimate

Condition

A monthly allowance for the FQHC patient accounts receivable is calculated utilizing a collection and contractual rate that is based upon a query of the twelve month historical claim period that summarizes charges, payments, and adjustments. Utilization of this report does not provide as much clarity as a zero balance report and the results being utilized can be affected by instances such as a change in payor mix or inefficiencies of the patient billing department which would not be readily apparent in the data.

Criteria

During review of the clinic allowance model, CLA noted an adjustment rate that was higher than and fluctuated more than typically seen for FQHC's. Supporting analysis was not readily available to support the unexpected results.

Cause

The current allowance methodology does not provide adequate detail or analysis of what may be occurring at the payor or claim level.

Effect

This approach can result in inaccurate allowance estimates. The use of aggregated data and basing the adjustment rate for the allowance model on charges and payments versus utilizing a zero balance report is contributing to significant swings in the allowance estimate. A review of more current payment trends by disaggregated payor classes will refine the allowance and provide for better insight into current operations.

Recommendation

Finance and patient accounting should collaborate to refine reporting based upon the specific needs of the FQHCs, including the use of a zero balance report. A more refined report based upon adjudicated accounts, summarized by payor, would provide better insight into current operations.

Management Response

Management agrees with the recommendation, and will implement a more timely and accurate workflow by June 30, 2020.

Recommendation 3.07
Topic: Reporting
Subtopic: Month End Close - Third Party Settlements Estimate

Condition	Criteria
We observed that the Third Party Settlement estimate is only prepared on an annual basis.	Due to the materiality of Third Party Settlements industry standard is to perform a reconciliation and review these estimates, at a minimum, on a quarterly basis.

Cause	Effect
Currently, there is no policy or procedure in place regarding the recording and review of Third Party Settlements.	Performing a reconciliation of the Third Party Settlements on at least a quarterly basis allows management to more accurately and timely reflect accounting estimates and factor in recent changes and, thus avoiding large swings in settlement estimates over time. It also improves the accuracy of future budgets and revenue projections that use historical data.

Recommendation
We recommend that management establish a policy that requires Third Party Settlement estimates be updated at least quarterly with the most up-to-date information available.

Management Response
Management agrees with the recommendation and will adopt a policy by March 31, 2020.

Recommendation 3.08
Topic: Reporting
Subtopic: Month End Close - Accounts Payable and Accrual Liability

Condition	Criteria
We observed that as of June 30, 2018 no accounts payable subsidiary ledger listing nor general ledger account reconciliation was completed.	In order to ensure complete and accurate financial statements VCMC should be performing a monthly reconciliation of accounts payable to the subsidiary ledger support.

Cause	Effect
Currently, there is no policy or procedure in place that requires reconciliation to sub ledger supporting detail as part of the monthly and year-end reconciliation process.	Without proper reconciliation of the accounts payable general ledger accounts, the financial statements could be materially misstated.

Recommendation
We recommend that VCMC implement a policy and procedure that requires a complete accounts payable reconciliation, including a supporting detailed listing.

Management Response
Management agrees with the recommendation and will adopt a policy by March 31, 2020.

Recommendation 3.09

Topic: Month End Close - Reporting

Subtopic: Journal Entry Review and Approval

Condition

In a few cases, we observed the approval of the journal entry was being performed by a team member at a lower level of authority than the preparer. In addition, no journal entries included documentation of review and approval by the VCMC CFO.

Criteria

There should be clear guidelines as to the review and approval of journal entries. At a minimum, the review and approval of journal entries should be limited to someone at a higher level of experience than the person who prepared the entry. The reviewer should possess the skills, knowledge, and experience required to perform such a review. Additionally, large, non-standard journal entries should be approved by the VCMC CFO.

Cause

The leadership and finance team at VCMC have not developed policies surrounding the standard review of journal entries. Additionally, the financial management system was not configured to prevent such an incident.

Effect

Without a clearly written policy to require the adequate review of standard and non-standard journal entries, VCMC has an environment that allows management to manipulate estimates and financial results.

Recommendation

VCMC should develop clearly written policies regarding the review of standard and non-standard journal entries. Such policies should include, at a minimum, that all journal entries be reviewed by an individual that is one level higher than the preparer. There should also exist a policy for the review of non-standard journal entries as well as an established threshold for when such entries require the review and approval of the CFO.

Management Response

Management agrees with the recommendation, and will adopt appropriate policies by March 31, 2020.

Recommendation 3.10
Topic: Reporting
Subtopic: Month End Close Reconciliations - Detail Support

Condition	Criteria
Currently, the month-end reconciliation packet does not contain necessary sub ledger supporting detail.	In order to produce accurate financial statements VCMC should implement a procedure to require the capture of relevant supporting details within the reconciliation packet.

Cause	Effect
Currently, there is no governing guideline for VCMC that sets the criteria for what is required in the month-end reconciliation packet.	The lack of sub ledger or detailed support creates the opportunity for reconciliations to contain material errors. As a result, a reviewer would be unable to identify errors or to verify completeness.

Recommendation
We recommend a policy and procedure be created that sets the criteria for what is required in the monthly reconciliation packet, including the requirement to retain sub ledger or detailed supporting schedules.

Management Response
Management agrees with the recommendation, and will create sub ledger detail by June 30, 2020.

Recommendation 3.11

Topic: Reporting

Subtopic: Month End Close Reconciliations - Review and Approval

Condition

Currently, no consistent indication of a preparer or reviewer is documented along with the reconciliation support. In some cases it was observed that the review function was performed by an individual at a level below the fiscal manager position.

Criteria

In order to enhance financial reporting accuracy VCMC should implement enforceable policies and procedures regarding the reviewer role.

Cause

Currently, there is no procedure in place that requires or identifies instances where there is no indication of preparation, review (or review at appropriate level) of the month-end reconciliation.

Effect

Monthly reconciliations can contain material errors when a thorough and appropriate level review is not performed.

Recommendation

We recommend an enforceable policy and procedure be created that requires that monthly reconciliations be thoroughly reviewed at the appropriate level.

Management Response

Management agrees with the recommendation and has already implemented a thorough review process. This new procedure will be adopted in a policy by March 31, 2020.

Recommendation 3.12

Topic: Reporting

Subtopic: Month End Close - Timeline

Condition

No monthly financial reports were completed for the months ending May 31, July 31, and August 31, 2017. Also noted, the timing of completion of the month-end financial reports for the time period selected (January 2017 to December 2018) varied from 18 days subsequent to month-end (November 2017) to 102 days after month-end (June 2017). Excluding November 2017, all months were 23 days or more.

Criteria

Standard industry practice is to require the monthly financial statements to be completed 10 to 20 days subsequent to the end of the month.

Cause

Currently, there is no policy or procedure in place regarding the month-end closing process.

Effect

The timely provision of financial statements is important so key stakeholders can monitor the results, compare to budget, and identify unusual trends.

Recommendation

We recommend a policy and procedure be created that enforces the timely completion of the monthly financial statements. This should be completed within 20 days of month-end. The published financial statements should be reviewed by the VCMC CFO prior to publication.

Management Response

Management agrees with the recommendation, and is already moving forward with a monthly financial statement close calendar. By FY 2020, financial statements will be produced, reviewed, and published no later than the 20th working day of each month.

Recommendation 3.13
Topic: Reporting
Subtopic: Month End Close - FQHC

Condition	Criteria
Review, approval, and acceptance of the clinic reporting and retention of final reports is not readily apparent. Review of finance processes and procedures supplemented by CLA inquiry of personnel confirms that there are some processes in place. However, documentation is lacking to confirm that the process is happening at all of the required levels.	Standard industry practice would require a formal process for the review of clinic reporting.

Cause	Effect
Currently, there is no procedure in place that requires or identifies instances where there is no indication of preparation, review (or review at appropriate level) of the month-end reconciliation.	Monthly reporting may contain errors or historical data can be changed without a record of changes and negates the validity of historical data.

Recommendation
We recommend a policy for FQHC monthly reporting that requires documentation of review, approval, and acceptance of the monthly financial reporting. We recommend the documentation be stored along with final versions of the monthly financial reports.

Management Response
Management agrees with the recommendation, and will fully implement by June 30, 2020.

Recommendation 3.14

Topic: Reporting

Subtopic: Month End Close - FQHC Software

Condition

At present, the FQHCs use QuickBooks software to manage the general ledger. QuickBooks is user friendly and may meet the needs of the clinic locations as well as the need to keep the accounting system simple. However, the system allows but does not require a "close" of each month.

Criteria

Using QuickBooks software allows for transactions to be backdated to the prior period, thus changing the previously reported financial statements. Adjustments to prior periods negate the validity of historical information. A monthly close will eliminate the ability to backdate.

Cause

CLA's understanding is that the FQHCs have historically used QuickBooks to facilitate efficiencies across the FQHC clinical network. The use of QuickBooks has also enabled VCMC to outsource the internal accounting and reporting functions.

Effect

While the use of QuickBooks has simplified the reporting for the FQHCs, the use of software introduces additional risk. The ability to post adjustments to prior periods can negate the validity of historical information. Additionally, the ability to easily change or delete financial information such as amounts, vendor information, etc., within QuickBooks creates additional security risks.

Recommendation

We recommend setting a closing date in QuickBooks each month, including restricting access to prior-period data, or consider changing to a system that does require a monthly close.

Management Response

Management agrees with the recommendation, and will fully implement by March 31, 2019.

Recommendation 3.15

Topic: Reporting

Subtopic: OSHPD Reporting

Condition	Criteria
We observed that the OSHPD report did not contain the CAFR adjustments in the reported net income for VCMC.	Due to the CAFR adjustments being posted in January 2018 and the OSHPD report being reported in December 2017, these adjustments are included in the net income of VCMC. Additionally, as the adjustments are recorded as equity entries in the prior year, such amounts are not recorded in the net income in the following fiscal year, which leads to misreporting of net income to the State of California (State).

Cause	Effect
This condition occurs due to how the CAFR adjustments are recorded and the timing differences between when the reports are due.	The exclusion of CAFR adjustments in the reported net income of the OSHPD report for VCMC can lead to misreporting of net income to the State.

Recommendation
All adjustments to net income, as the result of CAFR, should be made as adjustments to the income statement of VCMC. As the OSHPD report is finalized in December, these adjustments should be completed prior to the submission of the report.

Management Response
Management agrees with the recommendation and will fully implement by June 30, 2020.

Recommendation 3.16
Topic: Reporting
Subtopic: OSHPD Reporting

Condition	Criteria
We observed that the OSHPD report, that is prepared by a third party, was not reconciled to the general ledger before being submitted to the State.	When reports are prepared by a third party, it is a best practice to perform a full review of the report before it is filed. When these reports include financial information, part of the review process should be to reconcile the underlying information to the organization's financial information to guarantee the accuracy of reporting.

Cause	Effect
VCMC is placing reliance that the firm that is preparing their report is accurately reporting their figures.	Without reconciling the report prepared by a third party to the underlying financial information, there is no way to determine that the amounts being submitted to the State are accurate. Inaccuracy of reporting could lead to potential penalties and fines.

Recommendation
VCMC should adopt a policy for situation in which reports are prepared using a third party. The policy should require those reports be reconciled to the underlying financial data of VCMC to ensure accuracy.

Management Response
Management agrees with the recommendation and will fully implement in FY 2020.