

County of Ventura
AUDITOR-CONTROLLER
MEMORANDUM

To: Barry Zimmerman, Director, Health Care Agency

Date: July 1, 2021

From: Jeffery S. Burgh

Subject: FOLLOW-UP AUDIT OF THE HEALTH CARE AGENCY'S INTERNAL CONTROLS OVER FINANCIAL PROJECTIONS AND REPORTING FOR THE VENTURA COUNTY MEDICAL CENTER

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

The objective was to evaluate HCA's progress on implementing the 29 recommendations from the prior audit dated January 4, 2019, related to financial projections and reporting for VCMC. This report does not address the 13 prior audit recommendations related to budgets, which will be evaluated at a later date after HCA has implemented a new budget system.

Overall, the follow-up audit concluded that HCA had made some improvements since the prior 2019 audit. Specifically, of the 29 recommendations that were subject to follow-up, 10 were implemented, 10 were partially implemented, and 9 were not implemented.

The follow-up audit resulted in updated recommendations, now presented as 16 recommendations in the areas of financial projections and reporting. HCA management planned to complete corrective action by December 31, 2024.

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

Attachment

cc: Honorable Linda Parks, Chair, Board of Supervisors
Honorable Carmen Ramirez, Vice Chair, Board of Supervisors
Honorable Matt LaVere, Board of Supervisors
Honorable Kelly Long, Board of Supervisors
Honorable Robert O. Huber, Board of Supervisors
Michael Powers, County Executive Officer

**FOLLOW-UP PERFORMANCE AUDIT OF THE
COUNTY OF VENTURA HEALTH CARE AGENCY'S
INTERNAL CONTROLS OVER FINANCIAL
PROJECTIONS AND REPORTING FOR
THE VENTURA COUNTY MEDICAL CENTER**



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**FOLLOW-UP PERFORMANCE AUDIT OF THE COUNTY OF VENTURA HEALTH CARE
AGENCY'S INTERNAL CONTROLS OVER FINANCIAL PROJECTIONS AND REPORTING
FOR THE VENTURA COUNTY MEDICAL CENTER
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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 #8155. The follow-up performance audit focused on determining whether corrective actions were taken on the 29 recommendations made in the previous report completed on January 4, 2019 related to financial reporting and projections, and that HCA's internal controls were adequate to produce timely, reasonably accurate, and supportable financial projections to actual and financial reporting for Ventura County Medical Center (VCMC). As part of our follow-up audit, we evaluated HCA's internal controls over financial projections and 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 this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate 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 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 June 30, 2020. We have no obligation to update our report or to revise the information combined therein to reflect events and transactions subsequent to July 1, 2021.

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 July 1, 2021, and received the signed representation letter on July 1, 2021.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Roseville, California
July 1, 2021

Background

The County of Ventura (County) engaged CliftonLarsonAllen LLP (CLA) to conduct a follow-up performance audit (Audit) of the Health Care Agency's (HCA) internal controls over financial projections and reporting for the Ventura County Medical Center (VCMC) and review the process of the implementation of the recommendation reported on January 4, 2019 related to financial reporting and projections. 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 financial projections and reporting of VCMC.

The VCMC finance team prepares various monthly financial statements, 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 payors (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 objective of this performance audit is to determine the status of the recommendations for financial projections and reporting reported in the 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 dated, January 4, 2019 (2019 Performance Audit). This report does not address the budget recommendations made in the 2019 Performance Audit. The status of these prior recommendations will be evaluated at a later date after HCA has implemented a new budget system.

As stated in the request for auditing services proposal, internal controls over the following areas of financial projections and reporting for VCMC for FY 2020 were identified as key objectives of the Audit:

- Evaluate the progress of implementation of the 2019 Performance Audit recommendations including testing controls over financial projections, including those presented to the VCMC Oversight Committee and those contained within periodic Financial Status Reports (FSR) provided to the County Executive Office and the Auditor-Controller's Office.
- Evaluate the progress of implementation of the 2019 Performance Audit recommendations including the testing of controls over cash flow projections, as presented to the Auditor-Controller's Office, including those that may impact Tax and Revenue Anticipation Note (TRAN) borrowing decisions and projected General Fund loan balances. If additional projects are made available that were not covered in the 2019 Performance Audit, additional testing and procedures will be considered.
- Evaluate the progress of implementation of the 2019 Performance Audit recommendations including the testing of controls over financial reporting to the Auditor-Controller's Office.

Scope

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

- Reviewed the 2019 Performance Audit report dated January 4, 2019.
- On July 10, 2020, 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.
 - At this meeting we determined that procedures should be focused on the FY 2020 projections and financial reporting.

Audit Objectives and Scope (Continued)

Scope (Continued)

- Conducted a series of interviews with management, fiscal, operational, and medical staff to determine the extent 2019 Performance Audit financial projections and reporting recommendations had been implemented.
- Obtained and Reviewed newly created policies and procedures of the County and/or the HCA to determine the applicable guidelines for internal controls related to financial projections and reporting.
- Subsequent to the entrance conference, review of the Audit objectives, interviews, and review of newly created policies and procedures (collectively defined as “Planning Procedures”), CLA met with the ACO and agreed on the following procedures (collectively defined as “Testing Procedures”):

Projections

- Obtain accounting period six and nine FY 2020 financial status reports (FSR). Document when FSRs were provided to the ACO. Tie out FY 2020 year-to-date amounts to the reported month-end actual financial statements. Obtain support for remaining months in the projection.
- Document existence and evidence of a review and approval process of the monthly cash flow report.

Audit Objectives and Scope (Continued)

Scope (Continued)

Financial Reporting

- Obtain the June 2020 monthly task list and compare responsible parties listed and verify employment position.
- Select two months in FY 2020 and obtain applicable monthly task list. Select a sample of five of the reconciliations per month tested (total sample of 10). Obtain evidence of supporting information used to record the applicable month-end journal entry.
- For the two months 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 FY 2020. To the extent possible the summary will include the date reports were made available.
- Select monthly estimates for FY 2020 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 2020 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.
- Obtain the FY 2019 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

Although the HCA did have VCMC specific policies and procedures over financial projections and reporting in place that were, for the most part, in-line with industry standards, we found that the policies were not always adhered to, or had an effective date later than our testing period. For those processes that did not adhere to the new policies, we found that HCA was defaulting to prior unwritten procedures. These procedures, if consistently followed and monitored, would suffice as adequate controls and could produce reasonably accurate and supportive fiscal year financial projections and 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:

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.
- 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 industry practice.
- HCA has a policy that gain or loss contingencies are not included in projections unless evidence as to the likelihood of the gain or loss can be supported. No gain or loss contingencies were noted in accounting period six and nine FY 2020 FSR.

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 monthly contractual allowance estimates which were in-line with industry practices.

Recommendations

Summary of Recommendations

As a result of our Planning and Testing Procedures we noted that 10 of the 29 recommendations for improvement for the HCA to consider from the 2019 Performance Audit related to financial projections and reporting were implemented, 10 were partially implemented, and 9 were not implemented. A summary of our updated recommendations is outlined below:

- Adhere to the updated policies and procedures specific to the VCMC projection and financial reporting processes.
- Update recommended policies and procedures specific to the VCMC projection and financial reporting processes.
- Address the need for additional resources, projection software as well as people resources.
- Increase the sophistication of the financial projections by building the projections at the department level and expanding the use of disaggregated statistical measures to drive revenue assumptions.
- Increase transparency and linkage of assumptions used in projections 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 Update of Prior Recommendations and Updated Recommendations

The following pages provide the detail of the status of the 29 recommendations from the 2019 Performance Audit related to financial projections and reporting. Additionally, we have included new and updated recommendations as determined by our Testing and Planning Procedures, as well as the applicable responses from the HCA. The recommendations are intended to raise the internal control effectiveness with standard industry practices.

Summary of Prior Recommendations (Report Dated January 4, 2019)			
No.	Topic	Subtopic	Recommendations
2.01	Projections - All	Written Policies	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.
2.02	Projections - All	Resources	We recommend HCA consider additional resources to support VCMC completing financial projections.
2.03	Projections - All	Resources - Software	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.
2.04	Projections - All	Reporting	Improve the comparability of financial reports between entities by implementing standardized naming conventions.
2.05	Projections - FSR	Reporting - Reconciliation to Monthly Financial Statements	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.
2.06	Projections - FSR	Reporting - Timing	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.
2.07	Projections - FSR	Oversight	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.
2.08	Projections - FSR	Reporting - Gain Contingencies	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.
2.09	Projections - FSR	Reporting - Support	We recommend a policy be created that requires documentation and the retention of significant assumptions used in the FSR projection period.
2.10	Projections - Cash Flow	Estimates	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.
2.11	Projections - Cash Flow	Revenue Calculations	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.
2.12	Projections - Cash Flow	Data Integrity	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.
2.13	Projections - Cash Flow	Data Integrity	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.
3.01	Reporting	Written Policies - General	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.

Recommendation Status Report Dated July 1, 2021	
Current Status	Updated Finding No.
Partially Implemented	2.01
Not Implemented	2.02
Not Implemented	2.03
Implemented	NA
Partially Implemented	2.04
Implemented	NA
Not Implemented	2.05
Implemented	NA
Partially Implemented	2.06
Partially Implemented	2.07
Partially Implemented	2.01
Not Implemented	2.08
Implemented	NA
Partially Implemented	3.01

Summary of Prior Recommendations (Report Dated January 4, 2019)			
No.	Topic	Subtopic	Recommendations
3.02	Reporting	Written Policies - Journal Entry Preparation and Support	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.
3.03	Reporting	Month End Close Reconciliations - Monthly Task List	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.
3.04	Reporting	Month End Close - Allowance Estimate	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 9 to 12 month period of historical information.
3.05	Reporting	Month End Close - Allowance Estimate	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.
3.06	Reporting	Month End Close - FQHC Allowance Estimate	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.
3.07	Reporting	Month End Close - Third Party Settlements	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.
3.08	Reporting	Month End Close - Accounts Payable and Accrual Liability	We recommend that VCMC implement a policy and procedure that requires a complete accounts payable reconciliation, including a supporting detailed listing.
3.09	Reporting	Journal Entry Review and Approval	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.
3.10	Reporting	Month End Close Reconciliations - Detail Support	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.
3.11	Reporting	Month End Close Reconciliations - Review and Approval	We recommend an enforceable policy and procedure be created that requires that monthly reconciliations be thoroughly reviewed at the appropriate level.
3.12	Reporting	Month End Close - Timeline	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.
3.13	Reporting	Month End Close - FQHC	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.
3.14	Reporting	Month End Close - FQHC Software	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.
3.15	Reporting	OSHPD Reporting	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.
3.16	Reporting	OSHPD Reporting	VCMC should adopt a policy for situations 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.

Recommendation Status Report Dated July 1, 2021	
Current Status	Updated Finding No.
Partially Implemented	3.01
Implemented	N/A
Implemented	N/A
Not Implemented	3.02
Implemented	NA
Not Implemented	3.03
Not Implemented	3.04
Implemented	NA
Partially Implemented	3.04
Implemented	NA
Partially Implemented	3.05
Implemented	NA
Not Implemented	3.06
Not Implemented	3.07
Partially Implemented	3.08

Recommendation 2.01
Prior Recommendation 2.01 and 2.11
Topic: Projections - All
Subtopic: Written Policies

Condition
HCA has written polices for creating financial projections, however in practice, they are not always following the stated policies.

Criteria
Following policies and procedures is a critical component of a strong financial management system. Following documented process for creating projections is an important tool to help the finance staff produce consistent and reasonable financial projections.

Cause
This condition is the result of HCA having a control environment that does not always place an emphasis of following the policies and procedures approved by management.

Effect
Not following written policies and procedures exposes VCMC to multiple risks including segregation of duties, and the risk of management override of internal controls.

Recommendation

We recommend the HCA management emphasize the written policies and procedures to staff and insist on the adherence to those policies.

Management Response

Management agrees with the recommendation and will start emphasizing the adherence to written policies and procedures immediately. The underlying cause of this issue however is staffing. HCA has made ongoing recruitment efforts and will continue to do so until findings primarily related to staffing shortages are fully addressed. In hindsight, the current review process, including VCMC CFO and HCA CFO, has produced accurate projections over the past four quarters. Note: neither of these CFOs were in their current position as of 12/31/19.

Management Response Timeline

This will be implemented by 6/30/2023.

Recommendation 2.02
Prior Recommendation 2.02
Topic: Projections - All
Subtopic: Resources

Condition
VCMC does not currently have finance professionals that have a significant focus on the development and reporting of budgets and projections.

Criteria
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
Historically, those responsible for the various financial reporting requirements have completed financial projections.

Effect
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. Recruitment of experienced and qualified healthcare finance professionals has proven to be a challenge at HCA, but we will increase the level of efforts in this area.

Management Response Timeline
This will be implemented by 6/30/2023.

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

Condition
 Currently, projection spreadsheets are being prepared and reported using a series of Microsoft Excel templates.

Criteria
 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
 VCMC does not currently have a software system to support the creation and communication of financial projections.

Effect
 The use of spreadsheets needlessly exposes VCMC's financial projections to intentional manipulation or unintentional error which weakens the overall internal control environment.

Recommendation
 We recommend the implementation or utilization of software that can support the creations of financial projections, that is specific to the health care industry. This would help to reduce the likelihood of human error and purposeful manipulation that can occur when using spreadsheets.

Management Response
 SHRPA is scheduled to be implemented before April 2022 and available for FY22-23 budget. VCMC management will work with County CEO office and ACO to determine whether SRHPA would be able to provide reasonable draft projections as a starting point. Unfortunately, at this time, it is our understanding SHRPA will not provide service line revenue and cost per UOS or productivity for Ambulatory Division providers, an essential requirement by the State to support rate increases (Kronos will be of great benefit). VCMC will eventually need healthcare specific budgeting software, pending completion of other, more critical projects, including Kronos and Supplies module.

Management Response Timeline
 SHRPA to be implemented by April 2022 for FY22-23 budget. Healthcare specific budgeting software may not be implemented until 2024, given other high priority IT projects.

Recommendation 2.04
Prior Recommendation 2.05
Topic: Projections - FSR
Subtopic: Reporting - Reconciliation to Monthly Financial Statements

Condition
 We observed that when comparing the fiscal year 2020 period six Financial Status Report (FSR) to the year to date monthly financial statements, as compared to the budget, that some of the figures presented in the FSR did not agree to actual results or variances from budget. This included items such as projected loss for the fiscal year end.

Criteria
 The FSR is a report to the governing body to help guide HCA. By having inaccurate reporting it could lead to approvals that are not in the best interest of HCA.

Cause
 There is currently no policy to have the FSR reconciled to the budget and actual results for the month.

Effect
 Errors in reporting to governance can indirectly result in the Board of Supervisors making decisions that they would not have made if the reports had been accurate. This could potentially lead to waste as expenditures may be made to correct an issue that is not prevalent at HCA, or the delay in expenditures that are needed to keep HCA operations running adequately.

Recommendation

We recommend a policy be adopted that includes the reconciliation of the FSR reports to the monthly financial statements.

Management Response

Under the new fiscal administration, the FSR reports are reconciled to the monthly financial statements.

Management Response Timeline

This was implemented on 1/1/2021.

Recommendation 2.05
Prior Recommendation 2.07
Topic: Projections - FSR
Subtopic: Oversight

Condition
 While the FY 2020 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 explanation, range greatly in significance, do not address the underlying reason for the outcome, or comment on the rationale for the future assumption.

Criteria
 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
 Currently, there are no guidelines for FSR reporting.

Effect
 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
 Beginning with mid-year projections based upon financial performance through 12/31/20, Management believes quarterly projections provided during the current fiscal year (FY20-21) provide a good summary of basis for projections and any projected material increases or decreases, relative to YTD revenues and expenses and budgeted EBIDA.

Management Response Timeline
 This was implemented on 12/31/20.

Recommendation 2.06
Prior Recommendation 2.09
Topic: Projections - FSR
Subtopic: Reporting - Support

Condition
 No supporting documentation was available for the projected patient day assumptions for both the FY 2020 period six and nine FSRs.

Criteria
 Lack of supporting documentation can create the risk of error and purposeful manipulation of assumptions.

Cause
 Currently, a policy was created that requires the retention of supporting documentation for FSR assumptions, however the policy was not placed into service yet.

Effect
 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 that HSA follow the policy that was created that requires documentation and the retention of supporting documents for significant assumptions used in the FSR projection period.

Management Response

Projected days are provided by hospital administration to the fiscal team. We maintain documentation on all significant assumptions.

Management Response Timeline

This was implemented on 1/1/21.

Recommendation 2.07
Prior Recommendation 2.10
Topic: Projections - Cash Flow
Subtopic: Estimates

Condition
 We observed that when cash flow projections were originally drafted, they were based on historical experience and the applicable budget in that period. This estimate was based on the number of payments received in the prior year.

Criteria
 Estimates should be recognized when probable and estimable.

Cause
 Currently, a policy was created that requires estimates to be recognized when probable and estimable, however, the policy was not followed for cash flow projections.

Effect
 Forecasted projections can contain material errors when estimates are included and it is not realized within the period presented.

Recommendation
 We recommend that HSA follow the policy that was 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, and that the projections should be reviewed and approved by the HCA CFO.

Management Response
 Fiscal uses the latest available information where applicable based on most recent collection data, as well as most recent updates and developments provided by DHCS, CMS, CAPH or the CEO's office. Under the new fiscal administration, they are reviewed and approved by Agency CFO in conjunction with Hospital CFO.

Management Response Timeline
 This was implemented on 1/1/21.

Recommendation 2.08
Prior Recommendation 2.12
Topic: Projections - Cash Flow
Subtopic: Data Integrity

Condition
 After VCMC's cash flow projection for FY 2020 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 2020 cash flow projection.

Criteria
 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
 Lack of protections placed over the workbook allowed data to be overwritten, even after being finalized.

Effect
 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 can immediately implement version control by including revision date in the name of the cash flow projection files.

Management Response Timeline
 This was implemented on 6/30/2021.

Recommendation 3.01
Prior Recommendation 3.01 and 3.02
Topic: Reporting
Subtopic: Written Policies - General

Condition
VCMC has created formalized policies and procedures for financial reporting, however in practice they are not always following the stated policies.

Criteria
Following policies and procedures is a critical component of a strong financial management system. Following documented process for financial reporting is an important tool to help the finance staff produce consistent and reasonable financial reports.

Cause
This condition is the result of HCA having a control environment that does not always place the emphasis of following the policies and procedures approved by management.

Effect
Not following written policies and procedures exposes VCMC to multiple risks including lack of segregation of duties, and the risk of management override of internal controls.

Recommendation

We recommend the HCA management emphasize the written policies and procedures to staff and insist on the adherence to those policies.

Management Response

Management agrees with the recommendation and will start emphasizing the adherence to written policies and procedures immediately. The underlying cause of this issue however is staffing. HCA has made ongoing recruitment efforts and will continue to do so until findings primarily related to staffing shortages are fully addressed.

Management Response Timeline

This will be implemented by 6/30/2023.

Recommendation 3.02
Prior 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, by reviewing the estimate against the actual results, 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, review of prior period estimate, against actual results, 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

In June 2021, VCHCA ran a report of current year collections for Net Patient Service AR balances as of 6/30/20. As a result it was determined that the collections exceeded estimated Net Patient Service AR as of 6/30/20. The month end contractual allowances are calculated based upon a rolling 12 month analysis using historical average collection percentages. Furthermore, it has been VCHCA policy to fully reserve all accounts > 6 months old.

Management Response Timeline

This was implemented in June 2021.

Recommendation 3.03
Prior Recommendation 3.07
Topic: Reporting
Subtopic: Month End Close - Third Party Settlements Estimate

Condition
 We observed that the Third Party Settlement estimate is only prepared on an annual basis.

Criteria
 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
 Currently, there is no policy or procedure in place regarding the recording and review of Third Party Settlements.

Effect
 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 and will develop a policy requiring update to third party settlement estimates on a quarterly basis.

Management Response Timeline

This will be implemented by 12/31/2021.

Recommendation 3.04
Prior Recommendation 3.08 & 3.10
Topic: Reporting
Subtopic: Month End Close Reconciliations

Condition
 Currently, the month-end reconciliations are not performed for all accounts as noted in the VCMC accounting policy.

Criteria
 In order to produce accurate financial statements, VCMC should implement a procedure to require accounts are reconciled in accordance with the policy. This should include the capture of relevant supporting details within the reconciliation packet.

Cause
 Currently, there is a policy in place that requires that the subledger is reconciled on a monthly basis for accounts such as accounts payable, and payroll. However, there is no process in place to perform such reconciliation.

Effect
 The lack of reconciliations of the subledger detail to the general ledger creates the opportunity for financial statements to contain material errors. As a result, a reviewer would be unable to identify errors or to verify completeness.

Recommendation

We recommend that VCMC create a process to reconcile the subledger to the general ledger on a monthly basis for such accounts in accordance with their policy.

Management Response

VCMC does not have separate accounts payable and payroll subledgers in PeopleSoft. Both reside in ACO which essentially accounts on a cash basis during the year (modified accrual) and only makes JV accrual estimates during the ten days in AP13 after fiscal-year-end. All these accrued transactions will be on the HCA006 report from VCFMS. VCMC will ensure at end of each fiscal year the totals on the HCA 006 report from VCFMS equal totals in Peoplesoft. Any accruals missed at year end are recorded as an adjustment in the Annual Financial Report. Related existing policies will be updated accordingly.

Management Response Timeline

This will be implemented by 12/31/2021.

Recommendation 3.05
Prior Recommendation 3.12
Topic: Reporting
Subtopic: Month End Close - Timeline

Condition
Monthly financial reports are prepared on a monthly basis, but are at times not reviewed until 45 days after month end. In the case of October 2019 and November 2019, no evidence of a review could be provided.

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 financial close calendar in place that dictates what day of the close process the monthly financial statements are to be completed and on what day the monthly financial statements are to be reviewed.

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 need for development and adherence to such policy concerning timely completion of monthly financial statements. Due to current system limitations, VCMC and clinics are in the same unit and will be reviewed by the agency, VCMC and ambulatory care CFOs.

Management Response Timeline

This will be implemented by 12/31/2021.

Recommendation 3.06
Prior 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

Due to the integration of the clinics into the County system, this issue will be resolved soon via necessary changes in operations.

Management Response Timeline

This will be implemented by 12/31/2021.

Recommendation 3.07
Prior Recommendation 3.15
Topic: Reporting
Subtopic: OSHPD Reporting

Condition
We observed that the OSHPD report did not contain the CAFR adjustments in the reported net income for VCMC.

Criteria
Due to the CAFR adjustments being posted in January 2019, and the OSHPD report being reported in December 2018, these adjustments are not 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). The State asks that hospitals submit updated reports if there are significant variances.

Cause
This condition occurs due to how the CAFR adjustments are recorded and the timing differences between when the reports are due.

Effect
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 the Annual Financial Report, 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. If significant adjustments are made after the submission of the OSHPD report, VCMC should resubmit the report with the updated numbers, or document their reasons for why resubmission for the adjustment is not material for reporting to the State.

Management Response
Management agrees that if the Annual Financial Report adjustments are material the OSHPD report will be resubmitted.

Management Response Timeline
This will be implemented by 7/1/2021.

Recommendation 3.08
Prior Recommendation 3.16
Topic: Reporting
Subtopic: OSHPD Reporting

Condition
 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. VCMC has created a policy for situations in which reports are prepared using a third party, however, as no reports had been filed since the policy went into place, no reconciliation was performed on the most recent report.

Criteria
 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
 VCMC is placing reliance that the firm that is preparing their report is accurately reporting their figures.

Effect
 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 follow the policy on future reports and reconcile those reports to the underlying financial data of VCMC to ensure accuracy.

Management Response
 VCMC now requires external firm preparing the OSHPD report to provide reconciliation to the Annual Financial Report.

Management Response Timeline
 This was implemented on 6/30/2021.