

DRAFT COPY 01/10/11

**MODOC MEDICAL CENTER**

**COUNTY OF MODOC,  
CALIFORNIA**

**MANAGEMENT LETTER**

**JUNE 30, 2009**

\_\_\_\_\_, 2011

To the Board of Supervisors,  
And the Management of Modoc Medical Center  
County of Modoc, California

Ladies and Gentlemen:

We have audited the basic financial statements of the Modoc Medical Center (Medical Center) for the year ended June 30, 2009 and have issued our report thereon dated \_\_\_\_\_, 2011. In planning and performing our audit of the basic financial statements of the Medical Center, we considered internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements. An audit does not include examining the effectiveness of internal control and does not provide assurance on internal control. We have not considered internal control since the date of our report. During our audit we noted certain matters involving internal control and other operational matters that are presented for your consideration. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve internal control or result in other operating efficiencies and are summarized as follows:

**STATUS OF PRIOR YEAR MANAGEMENT LETTER COMMENTS**

**HOSPITAL AUXILIARY**

**RECOMMENDATION:**

As a result of the FY 2008 audit, we recommended that the Medical Center perform an analysis to determine if the operating of the Hospital Auxiliary should be consolidated with that of the Medical Center. GASB 14, *The Financial Reporting Entity* and GASB 39, *Determining Whether Certain Organizations Are Component Units*, provide several checklists that can assist with documenting the determination.

**STATUS AS OF JUNE 30, 2009**

Implemented - Management has provided a GASB 14 checklist and determined the Auxiliary to be immaterial to the Medical Center as a whole.

DRAFT COPY 01/10/11

**SAFEGUARDING ASSETS - PETTY CASH**

**RECOMMENDATION:**

As a result of the FY 2008 audit, we recommended that the Medical Center implement a stronger internal control to limit the accessibility to petty cash to authorized individuals in order to ensure appropriate controls over the use of the funds.

**STATUS AS OF JUNE 30, 2009**

Not implemented – Due to the timing of the June 30, 2009 audit, this recommendation is not implemented as of June 30, 2009.

**CONTROL OVER MAILING DISBURSEMENTS**

**RECOMMENDATION:**

As a result of the FY 2008 audit, we recommended that the Medical Center implement stronger internal controls to ensure signed checks are mailed by someone other than the accounts payable clerks who prepare the checks and initiate the warrant requests. Segregating the duties of preparing and mailing checks to vendors can improve controls over cash and reduce the possibility of the misappropriation of funds.

**STATUS AS OF JUNE 30, 2009**

Not implemented – Due to the timing of the June 30, 2009 audit, this recommendation is not implemented as of June 30, 2009.

**CONTROLS OVER PROCUREMENT**

**RECOMMENDATION:**

As a result of the FY 2008 audit, we recommended that the Medical Center implement stronger policies and procedures to ensure the risk of entering a duplicate invoice is mitigated. We also recommended that the Medical Center review its current purchasing policies to ensure they comply with Countywide purchasing policies, including policies covering bidding, purchasing selection criteria, and the proper documentation of sole source purchase justifications.

**STATUS AS OF JUNE 30, 2009**

Not implemented – Due to the timing of the June 30, 2009 audit, this recommendation is not implemented as of June 30, 2009.

## INVENTORY VALUATION

### RECOMMENDATION:

As a result of our FY 2008 audit, we recommended that the Medical Center implement procedures to ensure inventory is properly valued at the lower of cost or market at June 30, in accordance with GAAP.

### STATUS AS OF JUNE 30, 2009

Not implemented – Due to the timing of the June 30, 2009 audit, this recommendation is not implemented as of June 30, 2009.

## PATIENT CHARGES

### RECOMMENDATION:

As a result of the FY 2008 audit, we recommended that the Medical Center review its current policies and procedures to ensure they are properly designed and implemented to ensure patient charges were fully supported, and that the supporting documentation is maintained in the patient billing file.

### STATUS AS OF JUNE 30, 2009

Not implemented – Due to the timing of the June 30, 2009 audit, this recommendation is not implemented as of June 30, 2009.

## STORING BACK-UP COPIES OF ELECTRONIC DATA FILES OFF-SITE

### RECOMMENDATION:

As a result of the FY 2008 audit, we recommended that the Medical Center follow the policy of storing back-up copies of electronic data offsite. Storing back-up copies of the electronic data files offsite would help protect the data and allow the Medical Center to function in case of a disaster. We also recommended that the facilities storing the computer servers is properly ventilated to prevent loss of data.

### STATUS AS OF JUNE 30, 2009

Not implemented – Due to the timing of the June 30, 2009 audit, this recommendation is not implemented as of June 30, 2009.

DRAFT COPY 01/10/11

## FORMAL USER ACCOUNT AUDIT PROCEDURES

### RECOMMENDATION:

As a result of the FY 2008 audit, we recommended that management implement policies and procedures to develop more stringent auditing policies and procedures to ensure that user rights are appropriately assigned. For example, department managers should be required to review user access profiles on an annual basis to ensure user access is consistent with job responsibilities.

### STATUS AS OF JUNE 30, 2009

Not implemented – Due to the timing of the June 30, 2009 audit, this recommendation is not implemented as of June 30, 2009.

## FORMAL DISASTER PLAN

### RECOMMENDATION:

As a result of the FY 2008 audit, we recommended that the Medical Center develop a formal, documented plan which should include the following items:

- Objectives of the plan
- Location of, and access to, off-site storage
- A listing of all data files that would have to be obtained from the off-site storage location
- Identification of a back-up location (name and telephone number) with similar or compatible equipment for emergency processing (management should make arrangements for such back-up with another company, a computer vendor, or a service center; the agreement should be in writing)
- The individual to be responsible for the overall implementation of the disaster plan
- The assignment of responsibilities to appropriate IT personnel and the specific procedures to be performed by these individuals and their subordinates; and
- Priority of critical applications and reporting requirements during the emergency period

Additionally, the Medical Center should test the plan to determine whether it will be workable in an emergency situation and whether the Medical Center has considered all significant points relative to disaster planning.

### STATUS AS OF JUNE 30, 2009

Not implemented – Due to the timing of the June 30, 2009 audit, this recommendation is not implemented as of June 30, 2009.

**NEW FINANCIAL REPORTING AND AUDITING STANDARDS EFFECTIVE FOR FISCAL YEAR  
2009/2010**

**INFORMATIONAL ONLY**

**GOVERNMENTAL ACCOUNTING STANDARD No. 51**

In June 2007, the GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This statement establishes accounting and financial reporting standards for many different types of assets that may be considered intangible assets, including easements, water rights, timber rights, patents, trademarks, and computer software. This statement is not effective until June 30, 2010.

**GOVERNMENTAL ACCOUNTING STANDARD No. 53**

In June 2008, The GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This Statement is intended to improve how state and local governments report information about derivative instruments—financial arrangements used by governments to manage specific risks or make investments—in their financial statements. The Statement specifically requires governments to measure most derivative instruments at fair value in their financial statements that are prepared using the economic resources measurement focus and the accrual basis of accounting. The guidance in this Statement also addresses hedge accounting requirements. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2009, with earlier application encouraged.

**GOVERNMENTAL ACCOUNTING STANDARD No. 54**

In March 2009, The GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. This statement is not effective until June 30, 2011.

**GOVERNMENTAL ACCOUNTING STANDARD No. 57**

In December 2009, the GASB issued Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. This statement addresses issued related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plan. This statement is effective for periods beginning after June 15, 2011.

## **GOVERNMENTAL ACCOUNTING STANDARD No. 58**

In December 2009, the GASB issued Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*. This statement provides accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. This statement is effective for periods beginning after June 15, 2009.

## **STATEMENT ON AUDITING STANDARDS (SAS) NO. 117**

### **COMPLIANCE AUDITS**

The AICPA's Auditing Standards Board (ASB) has issued Statement on Auditing Standard 117, which supersedes SAS No. 74, *Compliance Auditing Considerations in Audits of Governmental Entities and Recipients of Governmental Financial Assistance*. This standard addresses the application of GAAS to a compliance audit. It is effective for compliance audits for fiscal periods ending on or after June 15, 2010. Early implementation is permitted.

## **STATEMENT ON AUDITING STANDARDS (SAS) NO. 118**

### **OTHER INFORMATION IN DOCUMENTS CONTAINING AUDITED FINANCIAL STATEMENTS**

The AICPA's Auditing Standards Board (ASB) has issued Statement on Auditing Standards 118, *Other Information in Documents Containing Audited Financial Statements*. This standard addresses the auditor's responsibility in relation to other information in documents containing audited financial statements and the auditor's report thereon. In the absence of any separate requirement in the particular circumstances of the engagement, the auditor's opinion on the financial statements does not cover other information, and the auditor has no responsibility for determining whether such other information is properly stated. This standard establishes the requirement for the auditor to read the other information of which the auditor is aware because the credibility of the audited financial statements may be undermined by material inconsistencies between the audited financial statements and other information. It is effective for audits of financial statements for periods beginning on or after December 15, 2010. Early application is permitted.

## **STATEMENT ON AUDITING STANDARDS (SAS) NO. 119**

### **SUPPLEMENTARY INFORMATION IN RELATION TO THE FINANCIAL STATEMENTS AS A WHOLE**

The AICPA's Auditing Standards Board (ASB) has issued Statement on Auditing Standards 119, *Supplementary Information in Relation to the Financial Statements as a Whole*. This standard addresses the auditor's responsibility when engaged to report on whether supplementary information is fairly state, in all material respects, in relation to the financial statements as a whole. The information covered by this standard is presented outside the basic financial statements and is not considered necessary for the financial statements to be fairly presented in accordance with the applicable financial reporting framework. It is effective for audits of financial statements for periods beginning on or after December 15, 2010. Early application is permitted.

To the Board of Supervisors,  
And the Management of Modoc Medical Center  
\_\_\_\_\_, 2011  
Page 7 of 8

DRAFT COPY 01/10/11

**STATEMENT ON AUDITING STANDARDS (SAS) NO. 120**

**REQUIRED SUPPLEMENTARY INFORMATION**

The AICPA's Auditing Standards Board (ASB) has issued Statement on Auditing Standards 120, *Required Supplementary Information*. This standard addresses the auditor's responsibility with respect to information that a designated accounting standard setter requires to accompany an entity's basic financial statements. In the absence of any separate requirements in the particular circumstances of the engagement, the auditors' opinion on the basic financial statements does not cover required supplementary information. It is effective for audits of financial statements for periods beginning on or after December 15, 2010. Early application is permitted.

\*\*\*\*\*

Our audit procedures are designed primarily to enable us to form an opinion on the financial statements, and therefore may not bring to light all weaknesses in policies or procedures that may exist. We aim, however, to use our knowledge of the Medical Center gained during our work to make comments and suggestions that we hope will be useful to you.

We would be pleased to discuss these comments and recommendations with you at any time.

This report is intended solely for the information and use of the Board of Supervisors, medical center management, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Rancho Cucamonga, California  
\_\_\_\_\_, 2011