COUNTY OF SANTA CLARA

CONTROLLER-TREASURER DEPARTMENT – INTERNAL AUDIT DIVISION

INTERNAL AUDIT REPORT

A Follow-up Audit to the *Internal Audit Report: Custody Audit - Valley Medical Center*

Assignment 10190-A
August 8, 2016

Conclusion

This is a follow-up audit to the *Internal Audit Report: Custody Audit - Valley Medical Center.* This audit included 17 recommendations to Valley Medical Center's Finance operations. It is anticipated that this report will be submitted to the Board of Supervisor's Finance and Government Operations Committee in fall 2016.

Implementation of the audit recommendations made improvements in:
1. Fixed asset accountability.
2. Safeguarding petty cash.
3. Reconciling general ledger balances to SAP.
4. Streamlining credit card account reconciliations.

Table One below summarizes the recommendation status. Appendix A provides additional description of each recommendation's status.

Table One			
Priority	**Implemented**	**No Longer Applicable**	**Total**
One[1]	1	-	1
Two[2]	11	2	13
Three[3]	2	1	3
Total	14	3	17

Objective

The audit objective was to evaluate the implementation status of the recommendations made in the *Internal Audit Report: Custody Audit - Valley Medical Center* issued May 1, 2009.

Scope

The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing.* The scope included follow-up on all 17 recommendations made in the initial audit. The audit was conducted February through August 2016.

Methodology

A follow-up audit evaluates the progress made on recommendations. It included determining whether the implementation is properly substantiated. During a follow-up audit, IAD does not change the initial findings, recommendations, or priority levels assigned. This report was reviewed by the department and their written response is attached. We appreciate the cooperation and participation of department staff which led to the successful conclusion of this project.

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[1] This would be the highest priority level. Priority 1 recommendations would address issues of noncompliance with federal, State and local laws, regulations, ordinances and County Charter. In addition, this priority level would also include recommendations that would or could result in significant ($250,000 or more) increases in revenue or decreases in expenditures. This will include significant weaknesses in internal controls. Lastly, recommendations to make significant changes in Federal, State, or local policy through amendments to existing laws, regulations and policies would also be included.

[2] This would be the intermediate priority level. Recommendations include in this level would include recommendations that would result in moderate ($50,000 to $250,000) increases in revenue or decreases in expenditures. Also included would be recommendations to make changes in local policy through amendments to existing County ordinances and policies and procedures. In addition, Priority 2 recommendations would include recommendations to revise existing departmental or program policies and procedures that would result in improved service delivery, increased operations efficiency, greater program effectiveness, improved control over the safeguarding of assets or the accuracy and completeness of financial data.

[3] This would be the lowest priority level. Recommendations included in this level would address program related policies and procedures that would not have a significant impact on revenues or expenditures, but would result in modest improvements to service delivery, operational efficiency, or program effectiveness.

Background The Institute of Internal Auditors' professional standards and the Internal Audit Division's procedures, as approved by the Board of Supervisors, require follow up on recommendations. As such, follow-up audits are included in the FY17 work plan. This audit was performed to meet these standards.

Signature on file

Rebecca Haggerty RH
Internal Audit Manager
August 8, 2016

Attachments:
Appendix A, STATUS OF AUDIT RECOMMENDATIONS
Valley Medical Center Management Response
Internal Audit Report: Custody Audit - Valley Medical Center issued May 1, 2009

APPENDIX A
STATUS OF AUDIT RECOMMENDATIONS

This Appendix summarizes the status of all recommendations made in the *Internal Audit Report: Custody Audit - Valley Medical Center*. It identifies those recommendations that are implemented, partially implemented, not implemented, no longer applicable, or will not be implemented.

Finding / Recommendation Number	Priority	Finding/Recommendation	Implementation Status	Comments
1		**Equipment costing $1.3 million was not properly accounted for.**		
1.1	1	SCVHHS Finance should initiate the removal of the $1.3 million equipment from the general ledger by submitting a write off request to the Finance Agency Director by April 2009.	Implemented	Write off of $1.3 million equipment was approved by the County Executive in May 2009, and it was removed from the general ledger.
1.2	2	Beginning with the FY 2009 physical inventory, SCVHHS Finance should remind departments, as part of its annual physical inventory instructions, to verify the asset tag or serial number prior to confirm the existence of the fixed asset.	Implemented	SCVHHS contracted with HCA Asset Management LLC, to conduct the FY16 physical inventory. The contractor has been instructed to verify asset tags and serial numbers.
2		**Information needed to conduct the fixed asset physical inventory is missing or incorrect on the fixed asset list.**		
2.1	2	VMC Departments should coordinate with Materials Management to enter a working description of the fixed asset during the creation of the purchase requisition. This process should be in place by June 30, 2009.	Implemented	Fixed asset descriptions are being updated to reflect a working description naming convention.

Finding / Recommendation Number	Priority	Finding/Recommendation	Implementation Status	Comments
2.2	2	For the fixed assets already purchased, SCVHHS Finance should work with departments to obtain a working description to be used for the annual physical inventory. This should be done prior to the FY 2009 physical inventory.	Implemented	For the FY15 inventory, fixed asset descriptions were updated to reflect a working description naming convention.
2.3	2	SCVHHS Finance should work with the departments during the physical inventory process to identify fixed assets with no asset tags or incorrect tags. Asset tags with the same number should be placed on equipment with missing tags and the incorrect tags should be correct in the fixed asset list for future physical inventories. This should be done prior to the FY 2009 physical inventory.	Implemented	SCVHHS contracted with HCA Asset Management to perform the FY16 physical inventory. This contract requires that HCA identify fixed assets with no tags and/or incorrect tags, correct or replace the identify tags, and make appropriate adjustments to the fixed asset listing for future physical inventories.
2.4	2	SCVHHS Finance should ensure that the fixed asset list has serial numbers or other equivalent identifying information for all fixed assets prior to the annual physical inventory. This should be done prior to the FY 2009 physical inventory.	Implemented	The fixed asset inventory listing includes serial numbers or other identifying information.

Finding / Recommendation Number	Priority	Finding/Recommendation	Implementation Status	Comments
3		**VMC needs to improve its accountability over fixed assets.**		
3.1	2	SCVHHS Finance should work with the VMC departments to make the requested changes in the fixed asset list to reduce confusion and improve the efficiency of the physical inventory. This should be done prior to the FY 2009 physical inventory. Department's requested changes include description, serial number, asset tag, and fixed asset item found during inventory but not on the fixed asset list. Specifically: - Two departments request cost center changes for same assets, and - Four departments requested changes to same assets description, serial number, or asset tag.	No Longer Applicable	This recommendation related to a full assets reviewed during the 2009 inventory. Since a full inventory was conducted in 2015, a full inventory is in process for 2016 and seven years have passed, it is no longer considered necessary to follow up on the certain assets from 2009.
3.2	2	SCVHHS Finance should add to its annual physical inventory instructions an explanation of how items are to be identified. This should be done prior to the FY 2009 physical inventory.	Implemented	SCVHHS contracted with HCA asset management to perform the FY16 physical inventory. The scope of the contract includes detail instructions for identifying inventory items.

Finding / Recommendation Number	Priority	Finding/Recommendation	Implementation Status	Comments
3.3	2	SCVHHS Finance should submit a list of VMC departments that did not conduct the physical inventory by the due date to the SCVHHS Chief Executive Officer and to the Controller-Treasurer Department. This should be done for the FY 2008 physical inventory.	No Longer Applicable	SCVHHS contracted with HCA to conduct the physical inventory for FY16; therefore, VMC departments will no longer be tasked with conducting the physical inventory.
4		**Controls need to be improved over petty cash usage.**		
4.1	2	The total petty cash at the Cashier's Office should be counted and reconciled daily or weekly (if not used daily), in accordance with the County Cash Handling Policy. If the Cashier's Office performs the reconciliation at a different schedule than that required by the County Cash Handling Policy, a written request should be submitted the Controller-Treasurer Department for approval to deviate from the County policy. This should be done by March 31, 2009.	Implemented	The Cashier's Office reconciles petty cash/change monies daily; therefore, it complies with the Controller-Treasurer Cash Handling Policy and Procedure.

Finding / Recommendation Number	Priority	Finding/Recommendation	Implementation Status	Comments
4.2	2	For the petty cash located at the various VMC departments, the Cashier's Office should confirm with the designated custodian at least once a year to verify existence and to inquire regarding the usage requirement. Because this confirmation frequency deviates from the County Cash Handling Policy, a written request should be submitted to the Controller-Treasurer's Department for approval. In addition, the Cashier's Office should notify the Controller-Treasurer Department after the annual confirmation of petty cash located outside the Cashier's Office. This should be done by June 30, 2009.	Implemented	The Cashier's Office complies with the Controller-Treasurer Cash Handling Policy and Procedure. Quarterly, the Cashier's Office reconciles petty cash usage.
4.3	2	The Cashier's Office should update its records to reflect the cash shortages, cash overages, and the changes in location. This should be done by March 31, 2009.	Implemented	The Cashier's Office uses an annual log to track for cash overages and/or shortages.
4.4	2	The Cashier's Office should notify the Controller-Treasurer Department of the net cash shortage and the new petty cash balance. This should be done by March 31, 2009.	Implemented	The Cashier's Office issues a notification to the Controller-Treasurer Department for cash shortages using the annual log to track cash overage and/or shortage.

Finding / Recommendation Number	Priority	Finding/Recommendation	Implementation Status	Comments
5		**Certain VMC general ledger asset account balances are not accurately reflected in SAP, the County's official financial system.**		
5	2	SCVHHS Finance should work with the Controller-Treasurer Department, as part of its work plan to submit reconciled financial statements, to ensure that all general ledger balances in Lawson tie to SAP, starting with June 30, 2008 balances.	Implemented	SCVHHS no longer uses Lawson as its financial system. Instead the SUN system is used and it is reconciled to SAP monthly.
6		**The Cashier's Office should streamline its credit card account reconciliation process.**		
6.1	3	The Cashier's Office should immediately stop entering all the credit card sales slip into an Excel spreadsheet as part of its reconciliation of the credit card account.	Implemented	The Cashier's Office no longer enters credit card sales information into an Excel spreadsheet.
6.2	3	The Cashier's Office should immediately eliminate tying out each credit card sale and reconcile only the total monthly sales to the total in the monthly vendor transaction report.	Implemented	The Cashier's Office no longer ties out each credit sale to the detail transaction report.
7		**VMC should proceed with establishing an interface between ARCHIBUS and SAP systems to eliminate duplicate data entry.**		
7	3	VMC should proceed with improving the fixed asset process and determine whether it would be beneficial to develop an interface between ARCHIBUS and SAP to eliminate duplicate entry of the fixed asset data fields.	No Longer Applicable	Archibus is no longer used, so an interface with SAP is no longer being considered.

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SANTA CLARA
VALLEY
HEALTH & HOSPITAL SYSTEM

Finance Administration
2325 Enborg Lane, Suite 360
San Jose, California 95128
Phone: (408) 885-6883
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DATE: October 6, 2016

TO: Rebecca Haggerty, Internal Audit Manager

FROM: Diane Brack, Controller, Department of Finance DB

SUBJECT: Internal Audit Report: *A Follow-up Audit to* the *Internal Audit Report: Custody Audit - Valley Medical Center*

Thank you for the opportunity to review and respond to the Internal Audit Report: A Follow-up to the Internal Audit Report: Custody Audit – Valley Medical Center, issued August 8, 2016. I agree with the status of the audit recommendations, and that all recommendations still applicable have been implemented.

We appreciate the efforts and good work of the Internal Audit Department on this project.

Bill Perrone, CIA
Internal Audit Manager

May 1, 2009 Assignment 10190

To: Distribution List

Subject: Internal Audit Report: Custody Audit – Valley Medical Center

We have completed a custody audit of Valley Medical Center as of June 30, 2007. We conducted the audit from April through October 2008.

We thank the staff of Valley Medical Center and the Santa Clara Valley Health and Hospital Finance for their cooperation. Their assistance contributed significantly to the successful completion of the audit.

Respectfully submitted,

Signature on file

Bill Perrone, CIA
Internal Audit Manager

Distribution List:

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COUNTY OF SANTA CLARA

CONTROLLER-TREASURER DEPARTMENT – INTERNAL AUDIT DIVISION

INTERNAL AUDIT REPORT

Custody Audit – Valley Medical Center

Assignment 10190
May 1, 2009

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Executive Summary

Conclusion

Based upon our testing results, we express an unqualified opinion on $597,033,138 of the reported assets.

We noted opportunities for improvements and made recommendations regarding fixed asset accountability, safeguarding of petty cash, reconciling general ledger balances in Lawson to SAP, streamlining credit card account reconciliation process, and establishing an interface between ARCHIBUS and SAP.

VMC is in agreement with all the findings and recommendations contained in this report.

Audit Objective and Scope

The audit objective was to perform a financial audit of the Valley Medical Center assets as specified by the County Charter. The audit's scope included:

- Testing internal controls over the assets
- Verifying the existence, valuation, and completeness of amounts of the assets
- Determining whether the assets under the department's control are fairly presented in conformity with generally accepted accounting principles as of June 30, 2007

The audit covers only funds that are reported in budget unit 921.

Audit Background

The Santa Clara County Charter Section 602(b) requires an audit upon the vacancy in any office charged with the responsibility for County assets. Ms. Susan Murphy resigned on October 2006 and Mr. Michael Skehan became director on September 2007. We mutually agreed to a June 30, 2007 audit date.

We conducted our audit in accordance with the Professional Practices Framework established by the Institute of Internal Auditors.

Signature on file

Bill Perrone, CIA
Internal Audit Manager

Findings and Recommendations

Finding 1 **Equipment costing $1.3 million was not properly accounted for.**

A VMC department identified equipment costing approximately $1.3 million as located during the annual physical inventory even though it is no longer on the premises. The department asserts that the equipment was used for trade-in in 1999 but was unable to locate the transfer and disposition form; thus, the equipment remains on the fixed asset list. The annual physical inventory should be conducted in a manner that accurately accounts for all fixed assets. The department filled out the transfer and disposition form in 2006, at the request of SCVHHS Finance, as the original document was missing.. The equipment was identified as located because the department confirmed the existence of the fixed asset without verifying the asset tag number or serial number. Confirming the existence of fixed assets that are no longer there overstates the County's asset balances in the general ledger.

Recommendation 1.1 SCVHHS Finance should initiate the removal of the $1.3 million equipment from the general ledger by submitting a write off request to the Finance Agency Director by April 2009. [Priority 1]

Recommendation 1.2 Beginning with FY 2009 physical inventory, SCVHHS Finance should remind departments, as part of its annual physical inventory instructions, to verify the asset tag or serial number prior to confirming the existence of the fixed asset. [Priority 2]

Finding 2 **Information needed to conduct the fixed asset physical inventory is missing or incorrect on the fixed asset list.**

The VMC departments do not always have the necessary information on the fixed asset list to conduct an efficient annual fixed asset physical inventory. The fixed asset list should be complete and accurate. The following issues regarding the fixed asset list need to be addressed:

- Of the 37 items tested, approximately 30% of the equipment had descriptions on the fixed asset list that were not understood by the department or were incorrect.
- Of the 37 items tested, approximately 40% of the items did not have a fixed asset tag on the equipment or the fixed asset tag number on the equipment did not match the number on the fixed asset list.
- Of the 37 items tested, about 90% of the items did not have serial numbers on the fixed asset list. Efforts have been made to improve the process of entering the serial numbers but still about 30% of items purchased in FY 07 did not have serial numbers.

Because of the missing or incorrect information of the needed data as noted above, certain departments had to obtain additional information

(purchase order, invoice, property record form, contract release, etc.) from the Santa Clara Valley Health and Hospital (SCVHHS) Finance to locate the fixed assets that were tested. Important information should be available and accurate to assist the departments in conducting an efficient and effective annual fixed asset physical inventory.

The cause for the fixed asset description not being meaningful is due to the descriptions being entered by people who do not use the equipment or conduct the physical inventory. The lack of fixed asset tag or incorrect fixed asset tag was due to old tags falling off, fixed asset tags not placed in a location that can be seen, or changes to asset tags (from VMC to SCVHHS) that were not updated in the fixed asset list. The serial numbers are not consistently entered because fixed assets can be received at locations other than Equipment Control, the central receiving location. Without the necessary information, it becomes more difficult to conduct an efficient and effective fixed asset physical inventory.

Recommendation 2.1 VMC Departments should coordinate with Materials Management to enter a working description of the fixed asset during the creation of the purchase requisition. This process should be in place by June 30, 2009. [Priority 2]

Recommendation 2.2 For the fixed assets already purchased, SCVHHS Finance should work with departments to obtain a working description to be used for the annual physical inventory. This should be done prior to the FY 2009 physical inventory. [Priority 2]

Recommendation 2.3 SCVHHS Finance should work with the departments during the physical inventory process to identify fixed assets with no asset tags or incorrect tags. Asset tags with the same number should be placed on equipment with missing tags and the incorrect tags should be correct in the fixed asset list for future physical inventories. This should be done prior to the FY 2009 physical inventory. [Priority 2]

Recommendation 2.4 SCVHHS Finance should ensure that the fixed asset list has serial numbers or other equivalent identifying information for all fixed assets prior to the annual physical inventory. This should be done prior to the FY 2009 physical inventory. [Priority 2]

Finding 3 **VMC needs to improve its accountability over fixed assets.**

During the fixed asset physical inventory as of 7/31/07, approximately 65% (or approximately $52 million) of the fixed assets were identified by the VMC departments as located. The remaining fixed assets include unable to locate items, transferred/traded/disposed items where the proper forms were not completed, and items departments did not respond by the due date. These remaining items are in various stages of being researched by SCVHHS Finance. All items in the fixed asset list should be properly accounted for.

Some of the reasons why the departments were unable to locate the fixed assets include:

- Two departments indicate that fixed assets belonging to another cost center are on their cost center's list and remain uncorrected from year to year.
- One department was confused as to how to classify the fixed assets and marked items previously transferred as unable to locate.
- Four departments state their requested changes to the fixed asset list such as description, serial number, asset tag, or fixed asset item found during inventory but not on the fixed asset list were not made. Thus these errors reappear year to year.

VMC is aware of the issues and challenges departments face and has several projects underway, including looking at several technology options, to improve the annual physical inventory process.

Recommendation 3.1 SCVHHS Finance should work with the VMC departments to make the requested changes in the fixed asset list to reduce confusion and improve the efficiency of the physical inventory. Department's requested changes include description, serial number, asset tag, and fixed asset item found during inventory but not on the fixed asset list. This should be done prior to the FY 2009 physical inventory. [Priority 2]

Recommendation 3.2 SCVHHS Finance should add to its annual physical inventory instructions an explanation of how items are to be identified. This should be done prior to the FY 2009 physical inventory. [Priority 2]

Recommendation 3.3 SCVHHS Finance should submit a list of VMC departments that did not conduct the physical inventory by the due date to the SCVHHS Chief Executive Officer and to the Controller-Treasurer Department. This should be done for the FY 2008 physical inventory. [Priority 2]

Finding 4 **Controls need to be improved over petty cash usage.**

Net cash shortage of $604 ($491 overage and $1,095 shortage), out of $15,500 in petty cash, was identified during our audit. The cash shortages and overages were located at various VMC departments; no cash discrepancies were noted for the cash at the Cashier's Office. Proper controls should be established to protect assets with inherent risks such as cash. The County Cash Handling Policy requires daily reconciliation or weekly if cash is not used daily. The VMC cash is located at the Cashier's Office and at the various VMC departments. The cash in the Cashier Office's big vault and the cash out at the VMC departments are not reconciled and accounted for in accordance with the County Cash Handling Policy. The cash in the big vault is reconciled approximately every two weeks instead of daily or weekly as required by the County Cash Handling Policy. The cash located at the VMC departments have not been reconciled since 2004, except for locations that requested

additional change funds or returned a portion of their change funds. The cause of the cash shortage and overage is due to the following:

- Employees from two departments added their own money to the petty cash fund without notifying the Cashier's Office.
- Departments transfer petty cash funds from one location to another or combined co-pay funds from several locations without notifying Cashier's Office.
- Two locations did not know they had co-pay change funds until we requested confirmation.
- One department was authorized $500 in petty cash but $450 were receipts from 2003 that have not been submitted for reimbursement.

Recommendation 4.1 The total petty cash at the Cashier's Office should be counted and reconciled daily or weekly (if not used daily), in accordance with the County Cash Handling Policy. If the Cashier's Office performs the reconciliation at a different schedule than that required by the County Cash Handling Policy, a written request should be submitted the Controller-Treasurer Department for approval to deviate from the County policy. This should be done by March 31, 2009. [Priority 2]

Recommendation 4.2 For the petty cash located at the various VMC departments, the Cashier's Office should confirm with the designated custodian at least once a year to verify existence and to inquire regarding the usage requirement. Because this confirmation frequency deviates from the County Cash Handling Policy, a written request should be submitted to the Controller-Treasurer's Department for approval. In addition, the Cashier's Office should notify the Controller-Treasurer Department after the annual confirmation of petty cash located outside the Cashier's Office. This should be done by June 30, 2009. [Priority 2]

Recommendation 4.3 The Cashier's Office should update its records to reflect the cash shortages, cash overages, and the changes in location. This should be done by March 31, 2009. [Priority 2]

Recommendation 4.4 The Cashier's Office should notify the Controller-Treasurer Department of the net cash shortage and the new petty cash balance. This should be done by March 31, 2009. [Priority 2]

Finding 5 **Certain VMC general ledger asset account balances are not accurately reflected in SAP, the County's official financial system.**

Valley Medical Center uses Lawson, a different general ledger system than SAP, the County's official accounting system. Thus, certain general ledger asset account balances (Prepaid Expenses, Inventories, Due From Other Government Agencies, and Accounts Receivable) in Lawson do not tie to SAP year end balances for fiscal years 2004 to 2007. All general ledger balances in supplemental systems should tie to the County's official financial system, SAP. The year-end balances in SAP do not tie to

Lawson for fiscal years 2004 to 2007 because of the different closing dates for Lawson and SAP. VMC's year-end process extends beyond SAP's year-end closing schedule; thus, after year-end closing dates in SAP, journal entries cannot be entered by SCVHHS Finance to tie Lawson balances to SAP. If the general ledger balances are not properly reflected in SAP, the County's true asset balances are not known and proper visibility is not present in order to manage County funds.

SCVHHS Finance has developed a work plan to submit financial statements, reconciling Lawson and SAP balances, to the Controller-Treasurer Department prior to submission to the external auditors.

Recommendation 5 SCVHHS Finance should work with the Controller-Treasurer Department, as part of its work plan to submit reconciled financial statements, to ensure that all general ledger balances in Lawson tie to SAP, starting with June 30, 2008 balances. [Priority 2].

Finding 6 **The Cashier's Office should streamline its credit card account reconciliation process.**

During our audit, we identified two opportunities where the Cashier's Office can streamline the credit card account reconciliation process. The Cashier's Office performs monthly reconciliation as required by the Controller-Treasurer Department. One opportunity is to eliminate the entering of each credit card transaction into an Excel spreadsheet, which is then used to reconcile with the monthly bank statements. The second opportunity is to stop tying each credit card sales slip to the detail transaction report from the credit card vendor; typing the monthly total credit card sales to the detail vendor transaction report is sufficient. Tying out the monthly totals is an adequate reconciliation procedure as there have been no errors noted in previous years' reconciliations of matching each credit card sale. In addition, the average balance is only about $50,000 and thus does not warrant a more detailed reconciliation process. The Cashier's Office thought that their detailed process of reconciliation was required by the Controller-Treasurer Department. Streamlining the account reconciliation process will enable staff to reallocate resources to perform other important duties.

Recommendation 6.1 The Cashier's Office should immediately stop entering all the credit card sales slip into an Excel spreadsheet as part of its reconciliation of the credit card account. [Priority 3]

Recommendation 6.2 The Cashier's Office should immediately eliminate tying out each credit card sale and reconcile only the total monthly sales to the total in the monthly vendor transaction report. [Priority 3]

Finding 7 **VMC should proceed with establishing an interface between ARCHIBUS and SAP systems to eliminate duplicate data entry.**

VMC uses its facilities management system, ARCHIBUS, to issue fixed asset tags as well as to track some fixed assets for Facilities and low value assets. When Equipment Control receives an item, information that has already been entered in SAP is re-entered in ARCHIBUS. Fixed asset and non-fixed asset data should be entered only once. Examples of the duplicate data entry include description, serial #, fund number, date of receipt, acquisition method, building location, cost center, sub class, depreciation method, vendor code, purchasing document number, etc. VMC is aware of the need to establish an interface between ARCHIBUS and SAP and contacted the Controller-Treasurer Department's ASAP team in 2005 to begin discussions of creating an interface. The Controller-Treasurer Department developed the technical and functional specifications and is waiting for VMC's review of the specifications to proceed. However, due to other pressing priorities, VMC did not have the resources to continue working with the Controller-Treasurer Department to proceed with establishing the interface. Entering the same data twice is not efficient use of the employee's time and increases the likelihood for errors.

Recommendation 7 VMC should proceed with improving the fixed asset process and determine whether it would be beneficial to develop an interface between ARCHIBUS and SAP to eliminate duplicate entry of the fixed asset data fields. [Priority 3]

INDEPENDENT AUDITOR'S REPORT

Michael Skehan
Valley Medical Center
San Jose, California

We have audited the accompanying Valley Medical Center Statement of Assets as of June 30, 2007. This statement is the responsibility of Valley Medical Center. Our responsibility is to express an opinion on this statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Statement of Assets is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Statement of Assets. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall presentation of the Statement of Assets. We believe that our audit provides a reasonable basis for our opinion.

Additionally, the Statement of Assets is presented to report the assets for which the manager has custodial responsibility and is not intended to present fairly the financial position and results of operations of Valley Medical Center.

In our opinion, the Statement of Assets referred to above, presents fairly, in all material respects, the assets under the control of the department as of June 30, 2007, in conformity with generally accepted accounting principles.

May 1, 2009

Signatures on file

Bill Perrone, CIA	Jena Trinh
Internal Audit Manager	Senior Internal Auditor

Santa Clara County, Internal Audit Division

COUNTY OF SANTA CLARA
VALLEY MEDICAL CENTER
STATEMENT OF ASSETS
JUNE 30, 2007

		Reported Assets	Client Adjustment	Audit Adjustments	Adjusted Balance
Cash and Investments	(Note 2)	$4,891,926	$0	$0	$4,891,926
Imprest Cash	(Note 3)	$15,500	$0	($604)	$14,896
Receivables	(Note 4)	$96,761,698	$0	$94,688	$96,856,387
Due From Intrafund (VHP)	(Note 5)	$282,843,731	($281,358,936)	$0	$1,484,795
Due from Other Funds	(Note 6)	$2,942,100	$0	$0	$2,942,100
Due from Other Gov't	(Note 7)	$32,406,738	$0	$0	$32,406,738
Inventories	(Note 8)	$15,115,549	$0	$0	$15,115,549
Prepaid Expenses	(Note 9)	$3,452,633	$0	$0	$3,452,633
Deferred Costs	(Note 10)	$459,590	$0	$0	$459,590
Advances to Other Funds	(Note 11)	$1,374,709	$0	$0	$1,374,709
Fixed Assets	(Note 12)	$467,315,624	($27,999,823)	($1,281,987)	$438,033,814
TOTAL		$907,579,799	($309,358,759)	($1,187,902)	$597,033,138

The accompanying notes are an integral part of this statement.

COUNTY OF SANTA CLARA
VALLEY MEDICAL CENTER
NOTES TO THE STATEMENT OF ASSETS
JUNE 30, 2007

Note 1 Summary of Significant Accounting Policies

Valley Medical Center's Statement of Assets is prepared in accordance with generally accepted accounting principles (GAAP). The Statement of Assets is presented to report the assets for which Valley Medical Center has responsibility and is not intended to present fairly the financial position and results of operations of Valley Medical Center. The following is the summary of significant accounting policies.

Valley Medical Center accounts for its financial activities in the Enterprise Fund using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. VMC also uses the Capital Project Fund and Trust Funds.

Note 2 Cash and Investments

The cash and investments balance consists of cash in the County's commingled pool. Monthly, the Internal Audit Division audits the cash in the pool; therefore, Internal Audit did not include testing for the commingled cash and investment pool in this custody audit. The cash and investments balance consist of the following accounts:

Capital Projects Fund	$20,003,862
Enterprise Fund	($17,635,261) *
Hospital Trust Fund	$2,236,600
Ira Greene Trust Fund	$286,726
Total Cash and Investments	$4,891,926

***** The cash and investment balance for the Enterprise Fund is negative because of the audit adjustments to comply with GASB requirements. The commingled cash balance prior to the GASB adjustments is $49,397,089.60.

Note 3 Imprest Cash

The Controller-Treasurer authorizes departments, including Valley Medical Center, to utilize imprest (petty) cash funds for minor purchases. The audit adjustment of $604 represents a net cash shortage ($491 overage and $1,095 shortage). See Finding 4.

Note 4 Receivables

Receivables consist of accounts receivable (for facilities charges and professional fees generated as a result of providing services), insurance rebate receivable, and other receivables. Under the accrual method of accounting, receivables are recorded when services are rendered. Total receivables consist of the following:

Patient Receivables	409,990,398.20
Allowance for doubtful account	($315,088,421)
Total Accounts Receivable, net	$94,901,977
Insurance Rebate Receivable	370,879.85
Other Receivables	$1,583,530
Total Receivables	$96,856,387

The audit adjustment of $94,688 represents a reduction to the insurance rebate receivable and clearing out the negative portion of the patient receivable balances.

Note 5 Due from Intrafund

The amount represents a receivable from Valley Health Plan for services provided to the Healthy Family Program. The client adjustment is the elimination of balances that are due from one VMC fund to another.

Note 6 Due from Other Funds

The amount represents transfers from the Enterprise Fund to the Hospital Facilities Bond Fund for the payment of bond debt relating to the Bascom and West Wing construction project.

Note 7 Due from Other Governmental Agencies

Due from other governmental agencies consist of receivables from the State for Medi-Cal, Realignment/Sales Tax, and other programs. The amount consists of:

Realignment/Sales Tax	$1,690,829
Medi-Cal Disportionate Share Hospital Program (SB 855)	$6,019,127
Safety Net Care Program	$17,686,951
North Tower Construction (SB1732)	$1,575,737
Proposition 99	$542,876
Medi-Cal Outpatient Care (AB 915)	$4,800,000
Miscellaneous-Federal	$91,218
	$32,406,738

Note 8 Inventories

Inventories are stated at cost (using the first-in, first-out method) and represents pharmacy and medical supplies. The balance consists of:

Pharmacy	$10,464,296
Central Supply	$571,143
Dietary	$82,324
Medical Supplies	$3,997,785
Total Inventory	$15,115,549

Note 9 Prepaid Expenses

The amount represents prepayments for software maintenance, software license, contractor maintenance, utilities, education, etc.

Note 10 Deferred Costs

The balance represents the unamortized portion of the 1998 Lease Revenue Bonds Series A.

Note 11 Advances to Other Funds

The advance is between VMC and the Multiple Facilities Construction Fund and represents the unspent bond proceeds held by the County. The balance can be used by VMC for future capital project expenditures.

Note 12 Fixed Assets

Fixed assets are recorded at original cost. Although VMC is accounted for under the accrual basis of accounting, book value depreciation is not tested. In a custody audit, departments are responsible for the fixed assets at the original cost, regardless of the current net book value.

Land	$2,898,528
Land Improvement	$21,559,170
Building Improvement	$343,458,036
Leasehold Improvement	$2,273,727
Vehicles	$334,151
Furniture and Equipment	$55,497,097 *
Application Software Developmen	$12,013,106
Total Fixed Assets	$438,033,814

The $1,281,987 audit adjustment to reduce the fixed asset balance reflects the removal of equipment several years ago but the item was identified as located during the physical inventory. See Finding 1.

The client adjustment of $27,999,823 represents fixed assets that were not located during the annual physical inventory but are still reflected on the books. Fixed assets that were not found include unable to locate items, transferred/traded/disposed items where the proper forms were not completed, and items that may exist but the departments were unable to confirm existence by the annual inventory certification due date. These items will be reviewed annually to determine whether they should be written off. See Finding 3.

***** The amount includes $2,380 of low value assets. Because low value asset items are individually less than the $5,000 threshold requirement for classification as fixed assets, they were not tested.

Dedicated to the Health of the Whole Community

FINANCIAL SERVICES

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Date: April 30, 2009

To: Bill Perrone

From: David Claude
Nancy Kaatz

Re: Custody Audit Response

The following is in response to your Internal Audit report for the Custody Audit of VMC for FY07:

Finding 1 **Equipment costing $1.3 million was not properly accounted for.**

A VMC department identified equipment costing approximately $1.3 million as located during the annual physical inventory even though it is no longer on the premises. The department asserts that the equipment was used for trade-in in 1999 but was unable to locate the transfer and disposition form; thus, the equipment remains on the fixed asset list The annual physical inventory should be conducted in a manner that accurately accounts for all fixed assets. The department filled out the transfer and disposition form in 2006, at the request of SCVHHS Finance, as the original document was missing. The equipment was identified as located because the department confirmed the existence of the fixed asset without verifying the asset tag number or serial number. Confirming the existence of fixed assets that are no longer there overstates the County's asset balances in the general ledger.

Recommendation 1.1 SCVHHS Finance should initiate the removal of the $1.3 million equipment from the general ledger by submitting a write off request to the Finance Agency Director by April 2009. [Priority 1]

Recommendation 1.2 Beginning with FY 2009 physical inventory, SCVHHS Finance

should remind departments, as part of its annual physical inventory instructions, to verify the asset tag or serial number prior to confirming the existence of the fixed asset. [Priority 2]

Response

The asset referred to above was identified for write-off prior to 2006, and was included in VMC's 2008 write off list. SCVHHS Finance has discussed the need for a better process for identifying trade-ins with the County Controller/Treasurer's Office, County Procurement, and SCVHHS Product Management. SCVHHS Finance agrees with the recommendations and will continue to work with VMC and other County departments to improve and formalize the process.

Finding 2

Information needed to conduct the fixed asset physical inventory is missing or incorrect on the fixed asset list.

The VMC departments do not always have the necessary information on the fixed asset list to conduct an efficient annual fixed asset physical inventory. The fixed asset list should be complete and accurate. The following issues regarding the fixed asset list need to be addressed:

- Approximately 30% of the equipment tested had descriptions on the fixed asset list that were not understood by the department or were incorrect.
- Approximately 40% of the tested items did not have a fixed asset tag on the equipment or the fixed asset tag number on the equipment did not match the number on the fixed asset list.
- About 90% of the items tested did not have serial numbers on the fixed asset list. Efforts have been made to improve the process of entering the serial numbers but still about 30% of items purchased in FY 07 did not have serial numbers.

Because of the missing or incorrect information of the needed data as noted above, certain departments had to obtain additional information (purchase order, invoice, property record form, contract release, etc.) from the Santa Clara Valley Health and Hospital (SCVHHS) Finance to locate the fixed assets that were tested. Important information should be available and accurate to assist the departments in conducting an efficient and effective annual fixed asset physical inventory.

The cause for the fixed asset description not being meaningful is due to the descriptions being entered by people who do not use the equipment or conduct the physical inventory. The lack of fixed asset tag or incorrect fixed asset tag was due to old tags falling off,

fixed asset tags not placed in a location that can be seen, or changes to asset tags (from VMC to SCVHHS) that were not updated in the fixed asset list. The serial numbers are not consistently entered because fixed assets can be received at locations other than Equipment Control, the central receiving location. Without the necessary information, it becomes more difficult to conduct an efficient and effective fixed asset physical inventory.

Recommendation 2.1 VMC Departments should coordinate with Materials Management to enter a working description of the fixed asset during the creation of the purchase requisition. This process should be in place by June 30, 2009. [Priority 2]

Recommendation 2.2 For the fixed assets already purchased, SCVHHS Finance should work with departments to obtain a working description to be used for the annual physical inventory. This should be done prior to the FY 2009 physical inventory. [Priority 2]

Recommendation 2.3 SCVHHS Finance should work with the departments during the physical inventory process to identify fixed assets with no asset tags or incorrect tags. Asset tags with the same number should be placed on equipment with missing tags and the incorrect tags should be correct in the fixed asset list for future physical inventories. This should be done prior to the FY 2009 physical inventory. [Priority 2]

Recommendation 2.4 SCVHHS Finance should ensure that the fixed asset list has serial numbers or other equivalent identifying information for all fixed assets prior to the annual physical inventory. This should be done prior to the FY 2009 physical inventory. [Priority 2]

Response The above recommendations have been part of SCVHHS's annual work plans and progress has been made. Additional temporary resources were hired to work with the VMC departments to make the requested changes in the fixed asset list to reduce confusion and improve the efficiency of the physical inventory. Currently only 9% of major moveable equipment does not have serial numbers recorded in the fixed asset system. SVCHHS Finance agrees with the recommendations and will continue to improve its fixed asset list.

Finding 3 **VMC needs to improve its accountability over fixed assets.**

During the fixed asset physical inventory as of 7/31/07, approximately 65% (or approximately $52 million) of the fixed

assets were identified by the VMC departments as located. The remaining fixed assets include unable to locate items, transferred/traded/disposed items where the proper forms were not completed, and items departments did not respond by the due date . These remaining items are in various stages of being researched by SCVHHS Finance. All items in the fixed asset list should be properly accounted for.

Some of the reasons why the departments were unable to locate the fixed assets include:

- Departments indicate that fixed assets belonging to another cost center are on their cost center's list and remains uncorrected from year to year.
- One department was confused as to how to classify the fixed assets and marked items previously transferred as unable to locate.
- Departments state their requested changes to the fixed asset list such as description, serial number, asset tag, or fixed asset item found during inventory but not on the fixed asset list were not made. Thus these errors reappear year to year.

VMC is aware of the issues and challenges departments face and has several projects underway, including looking at several technology options, to improve the annual physical inventory process.

Recommendation 3.1 SCVHHS Finance should work with the VMC departments to make the requested changes in the fixed asset list to reduce confusion and improve the efficiency of the physical inventory. Department's requested changes include description, serial number, asset tag, and fixed asset item found during inventory but not on the fixed asset list. This should be done prior to the FY 2009 physical inventory. [Priority 2]

Recommendation 3.2 SCVHHS Finance should add to its annual physical inventory instructions an explanation of how items are to be identified. This should be done prior to the FY 2009 physical inventory. [Priority 2]

Recommendation 3.3 SCVHHS Finance should submit a list of VMC departments that did not conduct the physical inventory by the due date to the SCVHHS Chief Executive Officer and to the Controller-Treasurer Department. This should be done for the FY 2008 physical inventory. [Priority 2]

Response

As internal audit indicated SCVHHS Finance is aware of these issues and has been working on them. The 65% located rate is primarily due to the delay in write-offs of disposed equipment, and would have been in excess of 90% if disposals and other write-offs were current. SCVHHS will attain this higher rate after the 2009 inventory process. The book value of the 35% of items that were not shown as located (unable to locate disposed, traded, follow up or inventory in progress) was $5.3 million in 2007.

Write-offs and adjustments (reclassifications to building, software, etc.) were submitted for 2005, 2006 and 2007 as part of SCVHHS Finance's clean up efforts. SCVHHS Finance started its fixed asset clean up effort in 2000 after the hiring of a new Director of General Accounting. Write offs in the amounts of $4.7 million and $5.1 million were submitted in 2001 and 2002. Due to staff vacancies this project was delayed in 2003 and 2004, and write-offs and clean up efforts did not resume until 2005. In 2005 SCVHHS Finance discovered that the disposal process at VMC did not include County Property Disposal. As a result assets were not being removed from the County's SAP fixed asset list. SCVHHS Finance met with VMC Property Control, SCVHHS IS, and County Property Disposal to reestablish the disposal process. SCVHHS Finance also undertook the task of researching items that departments were indicating disposed or unable to locate to provide documentation and determine if any other issues existed, rather than submit wholesale write-offs based on the unable to locate comment from departments. As a result of the above circumstances write-offs were not submitted for 2000, 2003, and 2004. Write-offs and adjustments have been submitted for 2005, 2006 and 2007, and include disposals and write-offs that occurred in the normal course of business, as well as catch up adjustments for years prior to 2006. Also, additional temporary resources were hired to work with the VMC departments to make the requested changes in the fixed asset list to reduce confusion and improve the efficiency of the physical inventory. SCVHHS agrees with the other recommendations and will implement them during its 2009 inventory plan.

Finding 4

Controls need to be improved over petty cash usage.

Net cash shortage of $604 ($491 overage and $1,095 shortage), out of $15,500 in petty cash, was identified during our audit. The cash shortages and overages were located at various VMC departments; no cash discrepancies were noted for the cash at the Cashier's Office. Proper controls should be established to protect assets with inherent risks such as cash. The County Cash Handling Policy

requires daily reconciliation or weekly if cash is not used daily. The VMC cash is located at the Cashier's Office and at the various VMC departments. The cash in the Cashier Office's big vault and the cash out at the VMC departments are not reconciled and accounted for in accordance with the County Cash Handling Policy. The cash in the big vault is reconciled approximately every two weeks instead of daily or weekly as required by the County Cash Handling Policy. The cash located at the VMC departments have not been reconciled since 2004, except for locations that requested additional change funds or returned a portion of their change funds. The cause of the cash shortage and overage is due to the following:

- Employees from two departments added their own money to the petty cash fund without notifying the Cashier's Office.
- Departments transfer petty cash funds from one location to another or combined co-pay funds from several locations without notifying Cashier's Office.
- Two locations did not know they had co-pay change funds until we requested confirmation.
- One department was authorized $500 in petty cash but $450 were receipts from 2003 that have not been submitted for reimbursement.

Recommendation 4.1 The total petty cash at the Cashier's Office should be counted and reconciled daily or weekly (if not used daily), in accordance with the County Cash Handling Policy. If the Cashier's Office performs the reconciliation at a different schedule than that required by the County Cash Handling Policy, a written request should be submitted the Controller-Treasurer Department for approval to deviate from the County policy. This should be done by March 31, 2009. [Priority 2]

Recommendation 4.2 For the petty cash located at the various VMC departments, the Cashier's Office should confirm with the designated custodian at least once a year to verify existence and to inquire regarding the usage requirement. Because this confirmation frequency deviates from the County Cash Handling Policy, a written request should be submitted to the Controller-Treasurer's Department for approval. In addition, the Cashier's Office should notify the Controller-Treasurer Department after the annual confirmation of petty cash located outside the Cashier's Office. This should be done by June 30, 2009. [Priority 2]

Recommendation 4.3 The Cashier's Office should update its records to reflect the cash

shortages, cash overages, and the changes in location. This should be done by March 31, 2009. [Priority 2]

Recommendation 4.4 The Cashier's Office should notify the Controller-Treasurer Department of the net cash shortage and the new petty cash balance. This should be done by March 31, 2009. [Priority 2]

Response SCVHHS Finance has implemented the recommendations. The issues above were primarily due to the retirement of the previous Cashier and resource shortages due to the increased volume from new programs.

Finding 5 **Certain VMC general ledger asset account balances are not accurately reflected in SAP, the County's official financial system.**

Valley Medical Center uses Lawson, a different general ledger system than SAP, the County's official accounting system. Thus, certain general ledger asset account balances (Prepaid Expenses, Inventories, Due From Other Government Agencies, and Accounts Receivable) in Lawson do not tie to SAP year end balances for fiscal years 2004 to 2007. All general ledger balances in supplemental systems should tie to the County's official financial system, SAP. The year-end balances in SAP do not tie to Lawson for fiscal years 2004 to 2007 because of the different closing dates for Lawson and SAP. VMC's year-end process extends beyond SAP's year-end closing schedule; thus, after year-end closing dates in SAP, journal entries cannot be entered by SCVHHS Finance to tie Lawson balances to SAP. If the general ledger balances are not properly reflected in SAP, the County's true asset balances are not known and proper visibility is not present in order to manage County funds.

SCVHHS Finance has developed a work plan to submit financial statements, reconciling Lawson and SAP balances, to the Controller-Treasurer Department prior to submission to the external auditors.

Recommendation 5 SCVHHS Finance should work with the Controller-Treasurer Department, as part of its work plan to submit reconciled financial statements, to ensure that all general ledger balances in Lawson tie to SAP, starting with June 30, 2008 balances. [Priority 2].

Response After the County converted to SAP in 2003, the Controller/Treasurer's Office stopped accepting post closing entries submitted by SCVHHS Finance. Although these adjusting

entries are needed in order to reconcile the County's system to the audited financials, all receipt and disbursement transactions and cash balances have always been posted to SAP monthly. In 2007 Macias and Gini issued a management recommendation addressing the difficulty in identifying SAP adjustments posted after year end that VMC should include in its financials. In response to this recommendation SCVHHS Finance and the County Controller/Treasurer developed a process to reconcile the two systems prior to the annual external audit start. The first iteration of this process took place in September of 2008. It will be further refined in 2009. Additionally, SCVHHS Finance has committed to making the SAP general ledger the official general ledger for audit purposes. Monthly reconciliation processes are currently being developed for implementation later this fiscal year.

Finding 6 **The Cashier's Office should streamline its credit card account reconciliation process.**

During our audit, we identified two opportunities where the Cashier's Office can streamline the credit card account reconciliation process. The Cashier's Office performs monthly reconciliation as required by the Controller-Treasurer Department. One opportunity is to eliminate the entering of each credit card transaction into an Excel spreadsheet, which is then used to reconcile with the monthly bank statements. The second opportunity is to stop tying each credit card sales slip to the detail transaction report from the credit card vendor; typing the monthly total credit card sales to the detail vendor transaction report is sufficient. Tying out the monthly totals is an adequate reconciliation procedure as there have been no errors noted in previous years' reconciliations of matching each credit card sale. In addition, the average balance is only about $50,000 and thus does not warrant a more detailed reconciliation process. The Cashier's Office thought that their detailed process of reconciliation was required by the Controller-Treasurer Department. Streamlining the account reconciliation process will enable staff to reallocate resources to perform other important duties.

Recommendation 6.1 The Cashier's Office should immediately stop entering all the credit card sales slip into an Excel spreadsheet as part of its reconciliation of the credit card account. [Priority 3]

Recommendation 6.2 The Cashier's Office should immediately eliminate tying out each credit card sale and reconcile only the total monthly sales to the total in the monthly vendor transaction report. [Priority 3]

Response SCVHHS Finance agrees with the above recommendations. The recommendations were implemented in 2008.

Finding 7 **VMC should proceed with establishing an interface between ARCHIBUS and SAP systems to eliminate duplicate data entry.**

VMC uses its facilities management system, ARCHIBUS, to issue fixed asset tags as well as to track some fixed assets for Facilities and low value assets. When Equipment Control receives an item, information that has already been entered in SAP is re-entered in ARCHIBUS. Fixed asset and non-fixed asset data should be entered only once. Examples of the duplicate data entry include description, serial #, fund number, date of receipt, acquisition method, building location, cost center, sub class, depreciation method, vendor code, purchasing document number, etc. VMC is aware of the need to establish an interface between ARCHIBUS and SAP and contacted the Controller-Treasurer Department's ASAP team in 2005 to begin discussions of creating an interface. The Controller-Treasurer Department developed the technical and functional specifications and is waiting for VMC's review of the specifications to proceed. However, due to other pressing priorities, VMC did not have the resources to continue working with the Controller-Treasurer Department to proceed with establishing the interface. Entering the same data twice is not efficient use of the employee's time and increases the likelihood for errors.

Recommendation 7 VMC should proceed with improving the fixed asset process and determine whether it would be beneficial to develop an interface between ARCHIBUS and SAP to eliminate duplicate entry of the fixed asset data fields. [Priority 3]

Response SCVHHS Finance will revisit this recommendation as part of its FY 2010 work plan and determine if it is beneficial.