



**Bill Fraher, CPA**

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**CAPE COD MUNICIPAL HEALTH GROUP**

**MANAGEMENT LETTER**

June 30, 2011



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The Steering Committee  
Cape Cod Municipal Health Group

Dear Steering Committee Members:

In planning and performing my audit of the financial statements of the Cape Cod Municipal Health Group for the year ended June 30, 2011, I considered its internal control structure in order to determine my auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure. However, during my audit, I noted certain matters involving the internal control structure and other operational matters that I am presenting for your consideration.

My consideration of the internal control structure was for the limited purpose described in the preceding paragraph and would not necessarily disclose all matters that would be considered reportable conditions under standards established by the American Institute of Certified Public Accountants. In addition, because of inherent limitations in any internal control structure, errors or irregularities may occur and not be detected by such control structure.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. *A material weakness* is a deficiency or combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the Cape Cod Municipal Health Group's financial statements will not be prevented or detected and corrected on a timely basis. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses.

Other matters involving the internal control structure and other operational matters are presented in the following report. These matters were considered in determining the nature, timing and extent of the audit tests applied in my audit of the financial statements, and this report does not affect my report on those financial statements dated May 15, 2012. I have not considered the internal control structure since the date of my report.

This report is intended solely for the use of the Steering Committee and Group management and is not intended and should not be used by anyone other than these specified parties.

Bill Fraher, CPA  
Boston, Massachusetts  
May 15, 2012

**Section I - Control Deficiencies**

Under auditing standards, there are three categories of internal control deficiencies and other matters that can be identified during an audit. These three categories are material weaknesses, significant deficiencies and control deficiencies. Any items that are identified as material weaknesses or significant deficiencies require modification of the auditor's report on internal control and compliance (which is presented in the report on the financial statements).

***I-A. Material Weaknesses***

There were no material weaknesses noted during this year's audit.

***I-B. Significant Deficiencies***

***I-B-1. Accounting and Financial Reporting Controls – Significant Deficiency***

As discussed in last year's management letter and consistent with how Massachusetts joint purchase groups typically operate, the Group has placed significant control over the accounting and financial reporting functions in the hands of the Group Treasurer. The Treasurer performs or supervises all functions and controls that initiate, record and process accounting transactions and financial reporting. These functions include posting cash transactions, controlling unused checks, processing cash receipts and cash disbursements, preparing financial reports and reconciling monthly bank statements.

The Group has instituted several mitigating controls including detailed monthly review of group financial statements and reports; review of monthly changes in cash report documenting reconciling items; Steering Committee approval of group expenditures; mailing and monitoring of duplicate bank statements to a board member; as well as an on-going risk assessment process.

Despite these mitigating controls, the potential internal control risks have not been reduced to an appropriate level. As a result, the combination of duties assigned to the Treasurer constitutes a significant deficiency. I understand the Group has considered these aspects of its internal control and currently feels there is an acceptable level of risk which would not warrant additional expenditures at this time. The Group will continue to monitor and evaluate these aspects of its internal control annually as part of its risk assessment program.

***I-C. Control Deficiencies***

***I-C-1. General Ledger Year End Closing and Audit Processes***

There were several issues noted with the year end closing and audit processes. These are outlined below:

- Final 6-30-11 general ledger trial balances were not available for audit purposes until February, 2012. Although there are items that need to be received for the year end closing process (final quarterly settlements, year end reinsurance reports, etc.) most information should be available by mid September. A final closed trial balance for the year should be available by September 30<sup>th</sup>. This trial balance should reflect as many year end adjustments as possible.
- Despite the year end trial balance being provided in February, 2012, a number of large adjustments were required as part of the audit. These included adjustments for reinsurance (\$78,000), dental claims payable (\$96,000), prescriptions claims payable (\$89,411), COBRA prepayments (\$305,000) and rebates receivable (\$1,000,000). Most of these amounts (with the exception of the rebates receivable) should have been known several months before a final trial balance was provided for the audit.
- The audit continues to be performed later than in prior years. Over the past four years final audit reports have been issued in March through June, much later than necessary.
- The timeliness of obtaining information requested for the audit and answers to audit questions needs to be improved.

The Group should review existing policies and procedures related to the year end closing and audit processes. In these policies and procedures, the Group may want to set a time table for the completion of a year end trial balance and start/completion dates for an audit. The final piece of information needed for the audit is typically the claims run out (lag) report through the subsequent September, which is typically available in late October. Unless unusual circumstances are encountered, a draft audit report should be available by the end of November.

***I-C-2. Monthly Warrant Process***

Each month, a warrant is prepared showing all invoices to be approved and paid in that month. This warrant is the Group's only document summarizing all invoices approved for payment. In many months, this warrant is manually altered with the addition of invoices and correction of incorrect amounts.

The Group should have a final monthly warrant prepared and signed with proper Committee approval. Any invoices paid after the warrant is prepared (or any subsequent payments made by wire transfer) should appear on the next month's warrant. If there are corrections required to warrant amounts, a revised warrant should be prepared and approved at the next Committee Meeting.

***I-C-3. COBRA Prepayments***

The general ledger account for COBRA prepaid at June 30, 2011 was overstated by approximately \$300,000. This was due to payments received under the ARRA being recorded as a prepayment rather than revenue.

COBRA prepayments should be a fixed reconcilable amount – it represents amounts for those individuals that have paid in advance for COBRA coverage. Total prepaid COBRA amounts should be available for each month and reconciled to the general ledger. If this reconciliation was in place, the Group would have realized that the ARRA revenue was improperly posted to this prepaid account. The Group should implement a better tracking methodology for COBRA payments and reconcile prepaid amounts to the general ledger on a periodic basis.