

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF THE INSPECTOR GENERAL**

DISTRICT OF COLUMBIA

**NOT-FOR-PROFIT
HOSPITAL CORPORATION/
UNITED MEDICAL CENTER**
**Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters
for the Years Ended September 30, 2013, and 2012**



**CHARLES J. WILLOUGHBY
INSPECTOR GENERAL**

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General

Inspector General



April 11, 2014

The Honorable Vincent C. Gray
Mayor
District of Columbia
Mayor's Correspondence Unit, Suite 316
1350 Pennsylvania Avenue, N.W.
Washington, D.C. 20004

The Honorable Phil Mendelson
Chairman
Council of the District of Columbia
John A. Wilson Building, Suite 504
1350 Pennsylvania Avenue, N.W.
Washington, D.C. 20004

Dear Mayor Gray and Chairman Mendelson:

In connection with the audit of the District of Columbia's (the District) general purpose financial statements for fiscal year (FY) 2013, KPMG LLP (KPMG) submitted the enclosed report on internal control and on compliance and other matters for the Not-for-Profit Hospital Corporation, commonly known as United Medical Center (Medical Center), OIG Report No. 14-1-05HW(a). This report sets forth KPMG's comments and recommendations to improve internal control and other operating efficiencies.

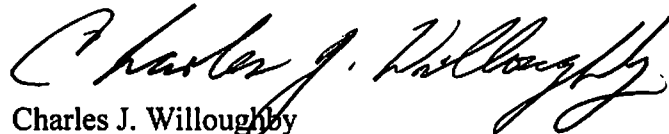
This report identifies one significant deficiency. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is important enough to merit attention by those charged with governance. The significant deficiency identified in the report is 2013-01, Internal Controls over Operating Expenses and Related Liabilities. Additionally, tests performed of compliance disclosed no instances of noncompliance or other matters required to be reported under *Government Auditing Standards*.

While the Office of the Inspector General will continue to assess the District's implementation of recommendations, it is the responsibility of District government management to ensure that agencies correct the deficiencies noted in audit reports. This Office will work with managers, as appropriate, to help them monitor the implementation of recommendations.

Mayor Gray and Chairman Mendelson
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If you have questions or need additional information, please contact me or Ronald W. King,
Assistant Inspector General for Audits, at (202) 727-2540.

Sincerely,



Charles J. Willoughby
Inspector General

Enclosure

CJW/ws

cc: See Distribution List

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**Mayor Gray and Chairman Mendelson
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**The Honorable Barbara Mikulski, Chairwoman, Senate Committee on Appropriations,
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The Honorable Richard Shelby, Ranking Member, Senate Committee on Appropriations,
Attention: Dana Wade (via email)
The Honorable Tom Udall, Chairman, Senate Subcommittee on Financial Services and General
Government, Attention: Marianne Upton (via email)
The Honorable Mike Johanns, Ranking Member, Senate Subcommittee on Financial Services
and General Government, Attention: Dale Cabaniss (via email)
Mr. Paul Geraty, CPA, Public Sector Audit Division KPMG LLP (1 copy)**



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**Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements Performed in Accordance With
*Government Auditing Standards***

To the Board of Directors
Not-For-Profit Hospital Corporation:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Not-For-Profit Hospital Corporation, commonly known as United Medical Center (the Medical Center), a component unit of the District of Columbia, which comprise the statements of net position as of September 30, 2013 and 2012, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated February 17, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Medical Center's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Medical Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Medical Center's internal control.

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 and correct, 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control as described in Appendix I that we consider to be a significant deficiency when aggregated.



Not-For-Profit Hospital Corporation
February 17, 2014
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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Medical Center's basic financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests did not disclose instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Medical Center's Response to Findings

The Medical Center's responses to the matters identified in our audit are described in Appendix I. We did not audit the Medical Center's responses and accordingly, we express no opinion on them. The status of deficiencies and instances of noncompliance identified in the prior year are presented in Appendix II.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Medical Center's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Medical Center's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

February 17, 2014

2013-01. Internal Controls over Operating Expenses and Related Liabilities

Criteria

In order to comply with accounting standards and financial reporting requirements, entities need to maintain financial management systems that provide effective control over accountability for all funds, property, and other assets. Internal control and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination. The documentation should appear in management directives, administrative policies, or operating manuals and maybe in paper or electronic form. All documentation and records should be properly managed and maintained. Pursuant to the District of Columbia (the District) and Federal Law, the District's Office of the Chief Financial Officer (OCFO) is directed to oversee and supervise the financial functions of the Medical Center; therefore, the financial reporting process is a collaborative effort between the OCFO and the Chief Executive Officer of the Medical Center. The Medical Center management has responsibility to properly monitor the internal control environment of the financial reporting process.

Condition

The Medical Center's procurement, accounts payable and expense processes are performed internally by the Medical Center and require a considerable amount of time and coordination between numerous internal departments. It is essential for the Medical Center to ensure completeness, existence and accuracy of the transactional level detail processed. To accomplish this, the Medical Center must maintain a robust internal control environment, which requires multiple reviews, authorizations, monitoring and reconciliations to ensure the information presented in the basic financial statements represents the underlying books and records of the Medical Center. During the current year financial statement audit, we identified the following control exceptions related to certain process level transactions in the areas of accounts payable, operating expenses and other liabilities and accruals:

Management review of financial transactions – We noted instances where there was a lack of precision regarding management's review over certain financial transactions related to accounts payable, expenses and accruals, in that certain discrepancies regarding the accuracy of these transactions were not identified.

Monitoring of procurement and vendor management – We noted that management places significant reliance on the information held within the material management system and thus should continue to enhance its monitoring controls to ensure accuracy of the underlying data.

Account Classification – We identified certain instances where expenses and related liabilities recorded in the general ledger were not properly eliminated or reclassified to the appropriate financial statement line item for presentation in the basic financial statements.

Cause

The conditions noted above are the result of the following:

- The need to continue to stress the importance of the financial procedures and policies in place to facilitate the accounting for the underlying financial transactions recorded in the financial statements.
- The precision of the internal controls, specifically related to management's review, were not consistently designed to perform at a sufficiently low level in order to prevent, detect and/or mitigate

the deficiencies identified through the financial statement audit, specifically in the areas of accounts payable, operating expenses and related accruals.

Effect

Certain accounting adjustments were required to ensure the Medical Center's financial statements were fairly stated as of and for the year ended September 30, 2013. Additionally, if not remediated, the control exceptions could result in a possibility of errors at the transaction level and financial reporting.

Recommendation

We recommend the Medical Center continue to strengthen its process to monitor and review the underlying transactions recorded in the general ledger specifically pertaining to operating expenses and related liabilities for the following key controls:

- Strengthen the process to ensure that financial transactions related to operating expenses, accounts payable and related accruals are accurately reported.
- Strengthen the current control environment related to segregation of duties over procurement to ensure appropriate level of monitoring.
- Strengthen internal controls over the review of account classification related to expense and liability accounts to ensure balances are presented accurately.

View of Responsible Officials

Management has reviewed the conditions identified and recognizes the need to strengthen its processes around the monitoring and reviewing of underlying transactions recorded in the general ledger specifically pertaining to operating expenses and related liabilities. To accomplish this, it is essential that the OCFO and the Medical Center management maintain a robust internal control environment, which requires multiple reviews, authorizations, monitoring and reconciliations to ensure the information presented in the basic financial statements represents the underlying books and records of the Medical Center.

One common area of difference with ensuring accurate financial information is the timing of when invoices are received. The accounts payable department receives invoices routinely however they are not presented on a timely basis. The delay in receipt of invoices causes the OCFO to estimate expense during month-end close. As a result of this delay, differences can occur between the accrual amount (the estimate) and the actual amount of an invoice paid. To remedy this situation, the OCFO will establish a process that requires all invoices be provided to the accounts payable department by the fifth (5th) workday of each month. Guidelines will be established for departments and vendors to ensure invoices are received on a timely basis. In addition, the OCFO will review payments and accrual estimates to ensure they are recorded accurately and in the proper accounting period.

The segregation of duties over procurement will be expanded to ensure new vendor setups are closely monitored. New vendor setups will be approved by the OCFO before they are processed and entered into the Meditech system.

The review of account classification related to liability accounts will be monitored on a monthly basis to ensure appropriate classification of assets and liabilities on the Medical Center's financial statements.

Status of Prior Year Internal Control Deficiencies Identified over Financial Reporting

Deficiency Number	Description	Severity of Deficiency	Fiscal Year 2012 Status
2012-01	Management Review and Financial Reporting Preparation	Significant Deficiency	Remediated
2012-02	Lack of Access Controls over Information Technology	Significant Deficiency	Remediated

Status of Prior Year Instances of Noncompliance

There were no instances of noncompliance identified during the fiscal year 2012 financial statement audit.