

SCANTIC VALLEY REGIONAL HEALTH TRUST

Management Letter

Year Ended June 30, 2014

SCANTIC VALLEY REGIONAL HEALTH TRUST

Management Letter

For the Year Ended June 30, 2014

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Management Letter

To the Honorable Board
Scantic Valley Regional Health Trust
Longmeadow, Massachusetts

We have audited the basic financial statements of the Scantic Valley Regional Health Trust (the Group) in Longmeadow, Massachusetts as of and for the fiscal year ended June 30, 2014, and have issued our report thereon dated April 7, 2015.

In planning and performing our audit of the financial statements of the Scantic Valley Regional Health Trust as of and for the year ended June 30, 2014; in accordance with auditing standards generally accepted in the United States of America, we considered Scantic Valley Regional Health Trust's internal accounting control over financial reporting (internal control) as a basis for designing our auditing procedures 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 Group's internal control. Accordingly, we do not express an opinion on the effectiveness of the Group's internal control.

The management of the Scantic Valley Regional Health Trust is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by them are required to assess the expected benefits and related costs of control procedures. The objectives of such a system are to provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with required authorization, and then recorded properly to permit the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America.

Our consideration of internal control was for the limited purpose described in the above paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a 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 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. We consider the following deficiency to be a significant deficiency in internal control:

A significant deficiency was identified as Item 2014-1.

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.

This communication is intended solely for the information and use of the Scantic Valley Regional Health Trust board, others within the organization, and other regulatory bodies and is not intended to be and should not be used by anyone other than these specified parties.

However, as a result of our study and evaluation, and in an effort to be of assistance to the Group, we are submitting for your consideration comments and recommendations intended to improve operations and internal accounting control, including any significant deficiencies noted. After you have had an opportunity to consider our comments and recommendations, we would be pleased to discuss them with you.

Scanlon & Associates, LLC

Scanlon & Associates, LLC
South Deerfield, Massachusetts

April 7, 2015

CURRENT YEAR COMMENTS AND RECOMMENDATIONS

Significant Deficiency

SCANTIC VALLEY REGIONAL HEALTH TRUST

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CURRENT YEAR COMMENTS AND RECOMMENDATIONS

Significant Deficiency

2014-1 Segregation of Duties

The Treasurer has both custodial and recordkeeping responsibilities for the Group. The Treasurer is responsible for depositing cash receipts, preparing and signing checks, reconciling bank accounts and maintaining the general ledger. An internal weakness is created when one individual has both custodial and recordkeeping responsibilities for the same asset.

The Group should be aware of the risks involved when one person has both access to and reconciliation responsibility with regards to liquid assets. We understand that complete segregation of duties is impractical given the nature and size of the Group.

Auditing Standards require that we communicate this deficiency in writing. The Group should consider the cost benefit of implementing additional controls to mitigate this significant deficiency.

Management's Response

Management is aware of the risks implicit in the assignment of duties within the Treasurer's position. Management has considered the costs and benefits of hiring additional personnel to achieve greater segregation of duties. Management will continue to monitor the Treasurer's position and the relevant internal controls over financial reporting.

PRIOR YEAR COMMENTS AND RECOMMENDATIONS

Other Items

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PRIOR YEAR COMMENTS, RECOMMENDATIONS AND CURRENT STATUS

Other Items

1. Deposit and Investment Policy

Governmental Accounting Standards Board (GASB) Statement #40 requires financial statement disclosure of key policies affecting the management of cash deposits. We noted that the Group does not have a formal written investment policy in place.

The Group's deposits and investments for the past three years were as follows:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Depository and Money			
Market Accounts	\$ 2,124,640	\$ 2,147,365	\$ 2,167,607
Certificates of Deposit	<u>5,976,673</u>	<u>4,983,875</u>	<u>5,422,762</u>
Total	<u>\$ 8,101,313</u>	<u>\$ 7,131,240</u>	<u>\$ 7,590,369</u>

As a result of the significant balances maintained in deposit and investment assets, the Group may want to consider procuring the services of an investment manager to oversee the portfolio in accordance with management's assertions as outlined in an investment policy. An investment policy would strengthen internal controls over deposits and investments and help manage interest rate risk. It should be noted that the Treasurer has adequately addressed custodial credit risk by insuring or collateralizing all of the Group's deposits and investments.

Recommendation

We recommend that the Group, working with the Treasurer, adopt a written deposit and investment policy. The Group should consider alternative investment arrangements that meet the expectation of management with regard to risk, liquidity and rate of return.

Current Status

The Group has not formally adopted a written deposit and investment policy. We continue to recommend that a formal policy be established.

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PRIOR YEAR COMMENTS, RECOMMENDATIONS AND CURRENT STATUS

Other Items

2. Procurement

The Group has historically sought competitive quotes for its reinsurance policies as well as certain contractor services. The Group is not required to follow the requirements of Massachusetts General Laws (MGL), Chapter 30B related to procurement. However, having a procurement policy will ensure that the Group is obtaining goods and services at a favorable price and that goods and services are procured from the most responsible provider. The Group should also be aware, when procuring services, of the potential for conflicts of interest and related party transactions. Any conflicts of interest or related party issues should be adequately disclosed so as to provide adequate documentation of arm's length transactions.

Recommendation

We recommend that the Group establish formal policies related to procurement and conflicts of interest. These policies will help promote sound business practices and provide guidance in identifying and monitoring business relationships.

Current Status

The Group has informal policies governing procurement of goods and services. We continue to recommend that formal written policies be established.

3. Employees Versus Independent Contractors

Currently, the Group's workers are paid as independent contractors rather than employees, including the paid Wellness Coordinator position. The Internal Revenue Service (IRS) provides specific guidance on the proper classification of workers as either contractors or employees. If an individual treated as an independent contractor is subsequently judged by the IRS to be an employee, the Group would be responsible for prior payroll taxes and could be assessed interest and penalties.

Recommendation

We recommend the Group consider confirming the classification of the Wellness Coordinator as a contractor with an attorney and/or IRS guidelines to assure compliance with applicable regulations.

Current Status

The Group has not formally confirmed the classification of the Wellness Coordinator position.

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Other Items

4. Wellness Program Incentive Items

The wellness program offers incentive gifts to encourage participation in various programs and screenings. Incentive gifts have included \$100 gift cards, i-pods, water bottles and other items. The budget set by the Board to purchase incentive items has increased over the past few years. The use of incentive items is an invaluable tool in promoting programs and encouraging participation. However, certain incentive items such as gift cards are considered cash equivalents and should be adequately controlled. The inventory of unused incentive items should be properly secured, preferably in a locked cabinet. Also, a list of the recipients of the incentive items should be maintained and distributed to the Group Treasurer.

Recommendation

We recommend that management consider adopting written documentation of procedures related to incentive gifts. The procedures should include the adequate securing of unused inventory items and documentation of the recipients of incentive gifts.

Current Status

Formal procedures have not been adopted. However, documentation of incentive gifts and associated inventory is provided to the Treasurer upon request.

5. Financial Policies and Procedures Manual

In order to improve and maintain the existing system of internal controls, the Group should consider documenting the policies, procedures and controls over key financial transactions. A written Financial Policies and Procedures Manual will improve the efficiency and consistency of transaction processing. The Manual will also establish responsibilities for specific duties, such as Incurred, but not Reported Claims Development and Claims Reconciliation Reporting.

Recommendation

We recommend the Group develop and document a Financial Policies and Procedures Manual. The documentation should describe relevant procedures as they are intended to be performed and explain the design and purpose of control-related procedures.

Current Status

Auditing standards currently in effect require auditors to consider and evaluate what the auditee is doing internally as part of an ongoing "Risk Assessment" process and to communicate in writing if a formalized practice has not been established. Part of the assessment includes review of available, documented policies and procedures including your risk assessment process. We continue to recommend that the Group work toward adopting a formal Policies and Procedures Manual, including a Risk Assessment Policy.

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PRIOR YEAR COMMENTS, RECOMMENDATIONS AND CURRENT STATUS

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6. Claims Reconciliations

We noted that the Group does not perform periodic internal audits of claims paid. Internal audits are an important control measure used to provide some assurance that procedures historically relied on Group Benefits Strategies (GBS) to perform these functions. It was noted that there are limited reconciliation procedures performed between the actual claims paid by the Treasurer and the underlying records and detail maintained by GBS. This reliance and the lack of substantial reconciliations increase the risk that errors or irregularities could occur and not be detected.

Recommendation

We recommend that reconciliations be performed on a periodic basis between the amounts paid by the Treasurer and the detail claims data maintained by GBS.

Current Status

The practice remained unchanged in Fiscal Year 2014. We continue to recommend that reconciliations be performed between the amounts paid by the Group and the detail claims data maintained externally. The proper reconciliation of cash payments to the paid monthly activity in the log reports would provide additional disbursement controls and provide a more accurate year-end claims liability estimate.