

**Lee Memorial Health System
 Prior Year Audit Findings
 September 30, 2023**

Management summarized their corrective actions related to the following comments and recommendations noted in connection with our previous audit of the System’s consolidated financial statements as of and for the year ended September 30, 2022.

Category	Prior Year Audit Findings and Management’s Corrective Actions
<p>RELIANCE ON INTERNAL CONTROLS OF THIRD-PARTY SERVICE ORGANIZATIONS</p> <p>Control Deficiency</p> <p><i>Reference No. 2022-001</i></p>	<p>Management relies on information provided by several third-party service or trust organizations, such as SEI Private Trust Company, Northern Trust Bank, Web-TPA and others, in the preparation of its financial statements and disclosures. As part of the System’s internal control over financial reporting, various departments obtain the third-party organizations’ Service Organization Controls (SOC) Report over the suitability of design and operating effectiveness of the organizations’ controls. However, financial management does not currently request or obtain a copy of all such reports and does not review each report for exceptions in internal controls that may impact the information used by management. Additionally, each SOC report includes certain control objectives that can only be achieved if complementary user entity (the System) controls are suitably designed and operating effectively. Financial management has not identified and evaluated the applicable control objectives for each third-party service organization or identified the related user entity controls to be compared to the System’s current internal controls over financial reporting. Any exceptions in the design and effectiveness of the Service Organizations’ controls or gaps in the design of effectiveness of the System’s (complementary user entity) controls may result in a failure to detect a material misstatement of information included in the System’s consolidated financial statements.</p> <p>We recommend management prepare a schedule identifying all third-party service organizations that provide services or data used by the System in its financial reporting, the type of service and nature of the data provided, the type of SOC report obtained, and the date the SOC report is available to the System. Further, we recommend management develop a process and documentation template for an annual review of the SOC report by an individual familiar with the data and its impact on the System’s accounting and reporting. The review should include, but not limited to:</p> <ul style="list-style-type: none"> ▪ Evaluation of the type of SOC report (SOC 1 vs. SOC 2, etc.), the period covered by the SOC report compared to the System’s financial reporting period and the availability of any bridge documentation if the periods are non-conterminous, ▪ Evaluation of the identified control objectives and alignment with the inherent risks related to the impacted financial statement accounts and assertions (e.g., do the control objectives align with management’s identification of potential errors or “what could go wrong” that may lead to a material misstatement in the System’s financial reporting), ▪ Evaluation of the nature of the auditor’s opinion, identified control exceptions, and responses and/or remediations as it relates to control objectives relevant to the System’s financial reporting. ▪ Identification of User Entity Controls (UEC’s) for relevant control objectives and mapping to the System’s designed and implemented UECs and documentation of performance of those controls.

Category	Prior Year Audit Findings and Management's Corrective Actions
<p>RELIANCE ON INTERNAL CONTROLS OF THIRD-PARTY SERVICE ORGANIZATIONS (Continued)</p> <p>Control Deficiency</p> <p>Reference No. 2022-001</p>	<p>Management bears the ultimate responsibility for the fair presentation of its consolidated financial statements. Proper evaluation of SOC reports and responsive design and implementation of UECs by the System provides management with a basis for reliance on data or services provided by its third-party service organizations. We also recommend management consider any proposed new service provider's internal controls and availability of a SOC report as a condition for vendor selection.</p> <p><u>Management's Corrective Actions:</u></p> <p><i>Processes have been put in place to complete a review of appropriate Service Organization Controls (SOC) reports each year and document findings. First, the auditor's opinion is reviewed to make sure there are no issues, and the report has an unqualified opinion. Next the controls are reviewed to identify those that align with Lee Health policies. The controls identified are then reviewed for effectiveness and confirmed there were no issues found. This review assists Lee Health in confirming risks are minimal. If any issues are found, the vendor will be contacted to request additional information regarding the specific control issues identified.</i></p>
<p>ERRORS IN FOUNDATION ACCOUNTING AND REPORTING</p> <p>Control Deficiency</p> <p>Reference No. 2022-002</p>	<p>On a monthly basis, Lee Memorial Health System Foundation, Inc. (the Foundation) uses a summarized pledge cash flow Blackbaud report to properly state the reported pledges receivable balance. The summarized pledge cash flow report should reconcile to the pledge status report, a detail of pledges outstanding at any given date, and to supporting pledge documentation. While Foundation management reconciled the monthly Blackbaud reports, they did not reconcile the September 30, 2022 annual reports and were unable to support the reported balance of pledges receivable at year-end. Additionally, the reported September 30, 2022 balance of the allowance for uncollectible pledges was misstated. Upon investigation, management was ultimately able to determine valid pledges receivable and adjust the reported balances.</p> <p>On a monthly basis, Foundation management also reconciles reported monthly contribution revenue and the appropriate classification as restricted or unrestricted support to Blackbaud monthly contributions report. However, the Blackbaud annual contributions report used to support the year-to-date contribution revenue and classification per the financial statements did not reconcile to the general ledger or the individual monthly reports. Upon investigation, management was subsequently able to reconcile and adjust reported amounts and, at the date of this report, we are executing our audit procedures related to contribution revenue and the classification of net position at September 30, 2022.</p> <p>We recommend management work with Blackbaud to identify the correct use and report generation from the software for the Foundation's financial reporting. We also recommend management fully document the accounting and reporting processes specific to the Foundation, including the generation of required Blackbaud year-to-date reports and data, such that, in the event of a loss of personnel, new personnel may be quickly trained without delays in financial reporting.</p>

Category	Prior Year Audit Findings and Management's Corrective Actions
<p>ERRORS IN FOUNDATION ACCOUNTING AND REPORTING (Continued)</p> <p>Control Deficiency</p> <p><i>Reference No.</i> 2022-002</p>	<p>Additionally, we recommend review the Foundation-specific month-end close procedures and internal controls responsive to the risk of, and able to prevent or detect, errors such as those identified during our year-end audit procedures.</p> <p><u>Management's Corrective Actions:</u></p> <p><i>Processes have been put in place to make sure that all reports tie to source documents. On a monthly basis, annual cash flow and contribution reports are reconciled to the pledge report by Financial Services. Any variances noted are immediately communicated to Foundation staff and any needed corrections are made. Foundation staff have created standard work documentation on how to run reports from Blackbaud to provide accurate and consistent data each time the report is created. Documentation to support the proper classification of whether a pledge is revocable or non-revocable, and a grant is conditional or unconditional is included in the standard work process documentation. Additional staff has been trained on how to perform the most critical processes so that multiple people can do the work should the need arise.</i></p>
<p>TIMELY AND ACCURATE RECONCILIATIONS DURING THE FINANCIAL STATEMENT CLOSE PROCESS</p> <p>Control Deficiency</p> <p><i>Reference No.</i> 2022-003</p>	<p>In performance of our year-end audit procedures, we identified, and management corrected, errors in reported balances. We also identified errors or omissions in reconciliations or management prepared audit schedules or supporting documentation, requiring additional effort by management and the audit team to ultimately support recorded balances or identify the necessary adjustment. Additionally, certain data used in management's estimates and reconciliations is exported from systems or data bases, or third-party service providers' data sites that only provide information in "real time" (e.g., as of the date the report is generated) and certain reports were not run as of September 30 or were not retained and were therefore unavailable to support recorded balances. A misstatement above our materiality threshold that is not detected and corrected by management is generally an indicator of a deficiency in internal controls.</p> <p>We recommend management evaluate the corrected and uncorrected misstatements and difficulties encountered with certain reconciliations or audit schedules to identify opportunities for improvement such that management's close process and internal controls may better prevent or detect such misstatements and produce audit schedules and supporting documentation that clearly and fully supports reported balances and management representations.</p> <p><u>Management's Corrective Actions:</u></p> <p><i>Management has thoroughly reviewed proposed adjustments from the prior year, has worked to refine the balance sheet account review process. Management has automated the reporting of the controller closing scorecard to insure that no accounts are missed each period. Management has also worked with the staff to identify account analysis reports to be used in account reconciliation. Reports that must be run at period close have been identified so that they are run timely. These efforts should result in more timely, complete, and accurate review and reconciliation of accounts.</i></p>

Category	Prior Year Audit Findings and Management's Corrective Actions
<p>MISCLASSIFICATION OF DEPOSITS AND PREPAYMENTS IN ACCOUNTS PAYABLE</p> <p>Control Deficiency</p> <p><i>Reference No. 2022-004</i></p>	<p>Management records all payments to vendors through Lawson Infor FSM's accounts payable module, including processed payments of certain expenses including the prepayment of certain debt and lease payments for the following month (generally due on the 1st day of the following month). The offsetting account to these prepayments is accounts payable, resulting in month-end accounts payable balances reported net of these debit balances. Management does not currently reclassify the debit balances in month-end accounts payables to prepaid expenses and other current assets, resulting in an understatement of both current assets and liabilities in the consolidated financial statements. With the adoption of GASB 87, it is possible the System will experience a greater volume and materiality of these debit balances in accounts payable at month-end.</p> <p>We recommend management develop a month-end closing process to identify and reclassify those debit balances in accounts payable to prepaid expenses. Alternatively, management may consider the creation of a prepaid lease liability clearing account (classified as a current asset) for use as the offsetting general ledger credit to those prepayments, rather than the accounts payable general ledger account. The same clearing account would then be used upon reduction of the recorded lease liability in the following month. In this manner, management would not be required to perform a month-end manual reclassification of debit balances in accounts payable.</p> <p><u>Management's Corrective Actions:</u></p> <p><i>As a result of the setup of the Accounts Payable general ledger module, the processing of these prepayments is unavoidable. As such, management has developed a process whereby the Accounts Payable Financial Analyst will analyze the period end debit balances in Accounts Payable and prepare an entry to reclassify any prepayments to a prepaid expense asset account.</i></p>

Lee Memorial Health System
Audit Findings
September 30, 2023

The following comments and recommendations were noted in connection with our audit of the System’s consolidated financial statements as of and for the year ended September 30, 2023.

Category	Definition
Control 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.
Significant Deficiency	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.
Material Weakness	A deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the System ’s financial statements will not be prevented or detected and corrected on a timely basis.

Category	Description and Recommendation
Identification of Subscription-Based Information Technology Arrangements (SBITAs) Significant Deficiency Reference No. 2023-001	<p>The System adopted GASB Statement 96, <i>Subscription-Based Information Technology Arrangements</i> (GASB 96), during the year ended September 30, 2023. Management relied on the System’s IT personnel to identify arrangements meeting the criteria of GASB 96. The omission of several significant SBITAs resulted in a \$38.2 million understatement of right-of-use subscription assets recorded by management as of September 30, 2023.</p> <p>We recommend management design and implement internal controls to ensure that personnel with sufficient knowledge of GASB 96 criteria review all new and renewed IT subscription and license agreements that meet the criteria are properly capitalized and amortized. Additionally, a quarterly review of monthly disbursements and expenses posted to selected IT general ledger account and department criteria by accounting personnel to identify potential SBITAs not communicated to or received by accounting personnel will help ensure that recorded SBITA right-of-use assets and subscription liabilities are complete.</p> <p><u>Management’s Response:</u></p> <p><i>Management will continue to streamline its SBITA accounting and reporting processes to ensure those arrangements meeting the GASB 96 criteria are properly identified and accounted for, including a periodic review of IT expenses and contracts. Finance management will work closely with their IT counterparts to continually review any new or amended contracts. Management is also developing a process/workflow for contract approval, which will include the establishment of an oversight committee. This process will provide an access point for management to help ensure their ability to identify GASB 96 arrangements on or before the respective effective dates.</i></p>

Category	Description and Recommendation
<p>Existence, Completeness, and Accuracy of Retail Pharmacy Accounts Receivable</p> <p>Control Deficiency</p> <p>Reference No. 2023-002</p>	<p>Approximately \$20.9 million of retail pharmacy accounts receivable are included in other current assets in the consolidated balance sheet as of September 30, 2023. Management relies on a third-party service organization, Central Pay, to maintain the details of the retail pharmacy individual billed claims and payments. Management does not receive a sufficiently detailed aged accounts receivable listing at the invoice/patient level to support the existence, completeness and accuracy of the recorded receivable. Additionally, absent the supporting detail, management is unable to perform an adequate assessment of the collectability of outstanding retail pharmacy accounts receivable balances.</p> <p>We recommend management work with Central Pay to receive, on a monthly basis, sufficiently detailed aged accounts receivable data, reconciled to the reported accounts receivable balance. Additionally, absent an appropriate Service Organization Controls (SOC) Report over the suitability of the design and operating effectiveness of Central Pay's controls, we recommend management design and implement internal controls to verify the existence, completeness and accuracy of the information provided by Central Pay to support the recorded retail pharmacy accounts receivable.</p> <p><u>Management's Response:</u></p> <p><i>Management will perform a thorough review of the terms of the Central Pay contract and, if necessary, will request an amendment to the contract to provide for Central Pay's periodic reporting of the invoice or patient level details of billed claims and payments to the System. Management will also refine and document the entire Retail Pharmacy financial reporting process and internal controls as follows:</i></p> <ul style="list-style-type: none"> • <i>Prepare Retail Pharmacy process documentation, via Visio, from a financial accounting and reporting perspective, including sub-processes for receipt and filling prescription, billing and recognition of revenue, cash receipts and application of payment to accounts receivable, fees and claims write-offs, and monthly financial reporting.</i> • <i>Document of all internal controls related to these sub-processes, including identification of responsible parties for each internal control, the timing and frequency of each control, the necessary system reports and other supporting documentation and procedures designed to verify the completeness and accuracy of the reports and information, and the required documentation of the performance of such controls.</i> • <i>Refine and document the process and policies for assessing the collectability of accounts receivable balances and the approval of any write-offs or adjustments of individual accounts receivable balances.</i> • <i>Creation of separate Retail Pharmacy general ledger accounts (currently included in miscellaneous service revenue), with separate accounts for billed revenue and deductions from revenue.</i>

Category	Description and Recommendation
<p>Existence, Completeness, and Accuracy of the Transfer and Depreciation of Completed Capital Projects</p> <p>Control Deficiency</p> <p><i>Reference No. 2023-003</i></p>	<p>Management performs a year-end analysis of all completed capital projects placed in service during the fiscal year and records an adjustment to transfer the project costs to the appropriate capital asset class (e.g., buildings, etc.) and to record estimated depreciation of those transferred assets from the date placed in service through year-end. The individual assets from those project costs are entered into the fixed asset subledger the following fiscal year. In performance of our testing, BDO identified two assets that were completed and placed in service during the year ended September 30, 2022 but were not included in the prior year transfer and depreciation adjustment, resulting in a misclassification of capital assets and an understatement of depreciation expense that was “trued-up” during the year ended September 30, 2023. Additionally, certain completed capital projects for the Trauma District, and the estimated depreciation expense, were overstated in the prior year as the actual assets transferred were assigned longer useful lives than estimated. In consideration of the significant volume and material dollar amounts of capital asset acquisitions and construction, for both the System and Trauma District, it is probable material misclassifications of capital assets by asset class and misstatements of depreciation expense will continue to occur.</p> <p>We recommend that accounting personnel continue to work with capital projects personnel to refine the current process to ensure that all capital projects are supported by, and reconciled to, individual asset invoices, contracts, or other supporting documentation, and that assets placed in service are timely identified, transferred and entered into the fixed asset subledger and depreciated in the proper period. We recommend that management consider performing the review and reconciliation on a monthly or quarterly basis during the year rather than at the end of each fiscal year.</p> <p><u>Management’s Response:</u></p> <p><i>Management will work with Supply Chain to improve the process for entering receipts timely to ensure invoices are processed within the month of invoice date, which will provide additional time for the finance personnel to properly classify assets and accrue depreciation should there be insufficient time to transfer the expenditure to the fixed asset system. Additionally, management will update the utility in the Capital Tracking application used by finance personnel to more easily identify “ready-use” projects with expenditures greater than or equal to 90% of the “adjusted budget” amount. During the monthly review process, finance personnel will indicate a project as “complete” and follow-up on any outstanding purchase orders.</i></p>

Category	Description and Recommendation
<p data-bbox="214 275 435 464">Reconciliation of Payroll Reports to Reported Compensation Expense Control Deficiency</p> <p data-bbox="214 499 386 554"><i>Reference No.</i> 2023-004</p>	<p data-bbox="467 275 1406 485">During the year ended September 30, 2023, the System implemented the cloud-based version of its general ledger payroll module. After the implementation, management was unable to generate or obtain year-to-date payroll reports and information previously used to reconcile and support recorded compensation expense. Management was ultimately able to reconcile recorded annual compensation and related benefit expenses from the payroll reports to the general ledger within an acceptable margin of error.</p> <p data-bbox="467 520 1406 667">We recommend that accounting personnel continue to work with the software vendor to design routine system reporting with information sufficient to reconcile compensation and benefits earned and paid per the payroll registers to the related general ledger recorded expense and to design and implement a formal payroll reconciliation process on a monthly and annual basis.</p> <p data-bbox="467 703 760 730"><u>Management's Response:</u></p> <p data-bbox="467 766 1406 976"><i>Management has been working with the software vendor, Infor, to design and implement a system generated report with the information necessary to facilitate a timely reconciliation of payroll expense to the general ledger for each payroll period and for the annual reporting period. Management currently completes a monthly reconciliation to ensure accurate reporting of payroll transactions; however, this process is a work-around to the universal standard of reconciling payroll register reports generated from the source system.</i></p>
<p data-bbox="214 1010 435 1157">IT Logical Access and Change Management General Controls Control Deficiency</p> <p data-bbox="214 1192 386 1247"><i>Reference No.</i> 2023-005</p>	<p data-bbox="467 1010 1406 1064">BDO's IT assurance specialists performed a review of the System's IT general controls over logical access and change management and noted the following:</p> <ul data-bbox="479 1100 1406 1703" style="list-style-type: none"> <li data-bbox="479 1100 1406 1520">▪ Management represented that a periodic review of access is performed for all platforms and systems; however, evidence of the reviews, including documentation of the completeness and accuracy of the system generated user access listing, results of the review of roles and permissions assigned to individuals and the timely update of access modification requests was not sufficiently documented and retained for certain platforms. We recommend management identify standard documentation and a sufficient document retention period as part of its policies and procedures, and ensure such documentation, including documentation of the completeness and accuracy of the system generated user access listing, the nature and results of the review, and the individual performing the review, is maintained for all access reviews performed. If the review is performed by an individual with access to that system, a separate individual should review and document the appropriateness of the reviewer's access. <li data-bbox="479 1526 1406 1703">▪ We noted that three individuals had access to both build and migrate changes in EPIC based on the level of evidence provided. Management has represented that additional security measures in EPIC segregate these abilities; however, we were not able to timely review evidence supporting that assertion. We recommend that management document the additional security measures and consider performing and documenting a periodic review of all change activity. <p data-bbox="467 1738 760 1766"><u>Management's Response:</u></p> <p data-bbox="467 1772 1406 1822"><i>IT management will evaluate and incorporate feasible recommendations in its existing IT access provisioning policy and process documentation.</i></p>

Category	Description and Recommendation
<p data-bbox="219 268 438 457">Reliance On Internal Controls Of Third-Party Service Organizations Control Deficiency</p> <p data-bbox="219 493 397 556">Reference No. 2023-006</p>	<p data-bbox="479 268 1421 661">Consistent with the prior year, management relies on information provided by several third-party service or trust organizations, such as SEI Private Trust Company, Northern Trust Bank, Web-TPA and others, in the preparation of its consolidated financial statements and disclosures. As part of the System's internal control over financial reporting for the current year, various departments obtained, and financial management reviewed, certain third-party organizations' Service Organization Controls (SOC) Reports over the suitability of design and operating effectiveness of the organizations' controls. In response to the control deficiency identified in the prior year, management implemented procedures and templates to document their review of the SOC reports. While a significant improvement over the prior year, management's assessment did not include SOC Reports for all significant third-party service organizations. Additionally, management performed and documented its assessments near or after year-end.</p> <p data-bbox="479 693 1421 1081">We recommend management continue to refine its SOC Report review process, including documentation of their inventory of all third-party service organizations used by the System, the availability and expected timing of the issued SOC Report, and the responsible party for each SOC Report review. We further recommend management consider acceleration of its SOC Report review processes and performance and documentation of ongoing monitoring of the identified user entity controls throughout the year. We also recommend management consider any proposed new service provider's internal controls and availability of a SOC report as a condition for vendor selection. Management bears the ultimate responsibility for the fair presentation of its consolidated financial statements. Proper evaluation of SOC reports and responsive design and implementation of UECs by the System provides management with a basis for reliance on data or services provided by its third-party service organizations.</p> <p data-bbox="479 1113 771 1144"><u>Management's Response:</u></p> <p data-bbox="479 1176 1421 1417"><i>Management acknowledges these recommendations as next steps in the development of the SOC Report review process. Finance management will document a current inventory of the System's reliance on service organizations and the expected availability and timing of SOC reporting for each. Management will document the review of each SOC Report annually, upon release of the respective SOC Report. Management will also consider the availability of relevant, effective SOC reporting as new third-party service organizations are considered for vendor selection.</i></p>