

## **Provider Association- Conference Call 1/30/17- Fiscal Review of Providers**

Led by Joanne Howard

- See attached handout - Fiscal Reviews- Fiscal Reporting and Data Analysis
- OPWDD's goal to review every agency - mostly desk audit
- Not reviewing any one thing, rather looking for overall good fiscal health
- New CFR- Schedule 2 A will be helpful to the review, but may also look at cost reports, financial statements, 990's, media information (like newspaper reports), etc.
- Will look past #'s on financial statements- will review the notes to the financial statements carefully
- This is NOT a new practice, OPWDD has been doing this for years. Typically done "behind the scenes". Now will put more effort into the process
- These reviews do not take the place of a Limited Fiscal Review
- DDRO's will use this information when reviewing responses to RFP's
- In future will gather averages so you can compare one provider to another. This will be made available to providers.
- The goal is fiscal soundness (annual performance) and stability (consistency over years) of providers



1/30/17

## **Fiscal Reviews**

### **Fiscal Reporting and Data Analysis**

**Purpose:** To assess provider financial soundness in terms of annual operating performance as well as at a point in time and financial stability or consistency of performance over time and to become aware of governance or integrity issues.

**Process:** Review audited financial statements (stand-alone, combined, and consolidated) and the accompanying disclosure notes and, or 990s—informational federal tax returns—and, occasionally, other sources of information including but not limited to the CFR, internet, OPWDD Audit team findings, A-133 audits pertaining to Federal grants. Our Bureau's IT team assists us particularly for analysis of rate transformation impacts. There is frequent collaboration between unit reviewers to produce a consensus report and to guarantee accuracy and validity of assessment.

#### **The Examination:**

##### **Performance Soundness (Statement of Activities)**

*Operational Performance*—Changes in Net Assets (surplus/deficit) from mission related activities.

*Bottom line performance*—annual results of operations combined with impact of changes in pension liability, changes in equity interest in other enterprises, and other non-routine items such as gains and losses on disposition of property/fixed assets

*Variances*—with comparative reports, note material variances from one year to the next

##### **Cash Flow and Liquidity**

*Cash balance*--reasonableness test based on size of operations and comparison to prior year, fluctuations measured against changes in Accounts Receivable

*Current ratio*—should be 1 or higher

*Line of Credit borrowing*—in comparison to maximum borrowing potential and in comparison to prior years, incidence of conversion of short term debt into long term debt.

*Compliance with debt obligations and covenants*

*Investments*—size of portfolio

*Permanent Endowment*—absence or presence of deficiencies

*Revolving Debt/Refinancing*

*Debt that is financed at higher than market rates of interest*

##### **Stability/Risk Assessment**

*Negative net assets*—a major red flag

*Net Assets*—in relation to size of operations (review criteria is = or > 10% for small entities and =or < 10% for large entities) and compared to prior years, be aware of erosion from successive deficit years

*Change in net assets*—consistency from year to year

*Debt Level*--in relationship to size of operations, net assets, and net book value of fixed assets and prior years' levels; restructuring to extend terms of debt, specific debt that exceeds the net book value of the underlying asset(s) and debt that increases substantially from one year to the next

*Related Parties/Affiliates*—impact on provider in terms of interdependence, size and volume of transactions, advances to affiliates, risk in terms of provider guaranteeing debt or use of provider's assets as debt collateral, performance and stability of affiliates and therefore drain or contribution to provider well-being

*Investments*—levels and direction of changes in levels

*Self-insurance plans*—particularly risky for small providers, look at costs and trending patterns

*Defined benefit pension plan*—funded status

*Mergers*—may be programmatically sound but fiscally risky

*Disallowances*—that are material and compromise or jeopardize fiscal viability

*Unpaid payroll taxes, Federal and state taxes and other defaults on obligations*

*Contingent liabilities*-materiality

*Impact of Rapid Growth or Constriction*

### **Governance and Integrity**

*Board composition*--presence of employees and relatives and number of independent members, and business transactions with board members—apply reasonableness tests

*Excessive executive compensation*—in relation to the size and scope of the organization

*Other exclusive benefits for the highly compensated*

*Related party transactions*—preponderance and reasonableness—arm's length

*Employer contributions to pension benefits*—all employees vs. highly compensated

*Redirection of State funds*

*Audit opinions other than unmodified*

*Appropriateness of investments and holdings*

### **Compliance**—timeliness in CFR reporting

### **Next Steps: Incorporate Metrics**

Select specific metrics—begun

Establish baselines—need database

Establish ranges for scoring

Test effectiveness

Implement