February 22, 2021

To the Board of Directors and Management of
Codman Square Health Center, Inc. and Affiliate:

We have audited the combining financial statements of Codman Square Health Center, Inc. and Affiliate (collectively, the Health Center) for the year ended September 30, 2020, and have issued our report thereon dated February 22, 2021. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards* and the Uniform Guidance, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated November 6, 2020. Professional standards also require that we communicate to you the following information related to our audit.

<u>Required Communications</u>

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Health Center are described in Note 2 to the combining financial statements. During fiscal year 2020, the Health Center adopted the following Financial Accounting Standards Board's (FASB) Accounting Standards Updates (ASU):

- ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This new revenue recognition standard effectively eliminates the transaction-specific and industry-specific revenue recognition guidance under current accounting principles generally accepted in the United States of America (U.S. GAAP) and replaces it with a principles-based approach for determining an entity's revenue recognition policies. The Health Center adopted Topic 606 using the modified retrospective method applied to those contracts which were not completed as of October 1, 2019 (the practical expedient elected). Adoption of Topic 606 did not have a material impact on the Health Center's combining financial statements but resulted in expanded disclosures regarding the Health Center's net patient service revenue. The fiscal year 2019 combining financial statements are not restated and there was no cumulative-effect adjustment to opening net assets as of October 1, 2019.

- ASU No. 2018-08*, Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU assists entities in evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions. In addition, it clarifies whether a contribution is conditional. The Health Center adopted Topic 958 using the modified prospective method. Under the modified prospective method, this ASU only applies to agreements not entered into or completed as of October 1, 2019. Adoption of Topic 958 did not have a material impact on the Health Center's combining financial statements. The fiscal year 2019 combining financial statements are not restated and there was no cumulative-effect adjustment to opening net assets as of October 1, 2019.

There were no other new accounting policies adopted and the application of existing policies was not changed during fiscal year 2020. We noted no transactions entered into by the Health Center during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the combining financial statements in the proper period.

Required Communications (Continued)

Qualitative Aspects of Accounting Practices (Continued)

Accounting estimates are an integral part of the combining financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the combining financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the combining financial statements were:

- Management's estimate of the useful lives of property and equipment, which is based on the expected period of time the class of asset will provide future economic benefit to the Health Center.
- Management's estimate of the allocation of costs by function, which is based on square footage by department and time and effort charged by function.
- Management's estimate of the allowance for uncollectible patient, grant, and other receivables, which is based on historical collection rates and specific identification of receivables that will likely be uncollectible.
- Management's estimate of the liability for potential downside risk on the alternative payment contract with MassHealth through Boston Accountable Care Organization, Inc.

We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the combining financial statements taken as a whole.

The combining financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management concurs with and has corrected the attached misstatements detected as a result of audit procedures.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the combining financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated February 22, 2021.

Required Communications (Continued)

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Health Center's combining financial statements or a determination of the type of auditor's opinion that may be expressed on those combining statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Health Center's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

With respect to the supplementary information accompanying the combining financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the combining financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the combining financial statements or to the combining financial statements themselves.

With respect to the supplementary information (Uniform Financial Report Schedules A and B) accompanying the combining financial statements that is solely for additional analysis and is not a required part of the basic combining financial statements, this information has not been subjected to the auditing procedures applied in the audit of the basic combining financial statements and, accordingly, we provide no assurance and have not expressed an opinion on it.

Comments, Observations and Recommendations

Prior Year Items Addressed

- The Health Center properly reconciled cash, property and equipment, and accounts payable without variances.
- The Health Center hired an internal employee to oversee Codman Eye Care Affiliate (CECA) accounting. This employee was properly reconciling accounts monthly and understands the day-to-day activities of CECA.
- The Health Center had properly completed all new hire forms for all employees tested.
- The Health Center, with the help of outside council, implemented several recommendation related to their information technology general controls to help prevent future infiltrations.

<u>Comments, Observations and Recommendations</u> (Continued)

Prior Year Items in Process

<u>Control Deficiency</u>

Payroll Allocations and Cost Allocation Plan

The Health Center previously underwent a governmental audit of one of their Federal programs, noting the lack of a formal time and effort policy. The Health Center should implement and enforce a formal time and effort policy requiring time studies on an as needed basis to ensure consistency and accuracy of the allocation of employee's time spent on any state or federally funded programs. We understand employees use timesheets to track their total time worked; however, the allocation of time spent on various grants is predetermined based on budgeted allocation for the grants. The Health Center should review their full cost allocation plan and update to include reference to this policy and make any other necessary changes to the policy.

<u>Best Practice Recommendations</u>

Risk Assessment Plan

The Health Center's management should develop a periodic procedure for assessing and monitoring fraud risks relative to financial operations. The risk assessment should encompass consideration of:

- The possibility of fraud or other misuse of assets
- Internal control over financial reporting
- Changes in the business and regulatory environment
- Protection of computerized systems and data

Performance of a formal and structured periodic risk assessment in these areas will help management ensure that controls remain relevant to face challenges posed by:

- Changes to fiscal department staffing and systems and banking controls
- Changes in economic conditions
- Changes in regulations
- Growth in the Health Center's operations

The Health Center currently has a committee that periodically reviews risk management matters. As part of this process, the Health Center should consider performing periodic internal audit procedures to address identified risk areas. The development of the monitoring program will allow management to ensure that existing fraud risks are identified and addressed as appropriate.

Property and Equipment

Although the Health Center had implemented a new fixed asset software, management continues to have difficulties in reconciling the fixed asset report from the software to the general ledger. Management should formally reconcile fixed assets to the general ledger on, at least, a quarterly basis. In addition, the fixed asset listing includes many old or obsolete items. Management should take a physical inventory of assets and compare it to the fixed asset listing, disposing of any items no longer in use. During fiscal year 2020, the Health Center made significant improvements to the listing disposing of many old and obsolete items, however; there is still a manual reconciliation process from the fixed asset listing to the general ledger. Management should resolve the discrepancy in the fixed asset software so that in the future, a report can be generated from the fixed asset software that ties directly to the general ledger. This will make the reconciliation process much more efficient for management.

Comments, Observations and Recommendations (Continued)

Prior Year Items in Process (Continued)

Best Practice Recommendations (Continued)

Accounts Receivable Reserve

Though reserve methodologies were followed in determining contractual and bad debt concessions against patient accounts receivable, we suggest management formalize this methodology and include it in their accounting policies and procedures manual.

Current Year Items

Control Deficiencies

Revenue Recognition Policies and Procedures

During fiscal year 2020, the Health Center adopted revenue recognition standards Topic 606 and Topic 958. Management should formalize and document the accounting treatment, procedures and calculations of these standards in their policies and procedures manual.

340B Contract Pharmacy

During fiscal year 2020, the Health Center started a contract pharmacy relationship with Boston Medical Center Health Systems, Inc. (BMC). During our testing of the various contract pharmacies, we selected nine transactions from this pharmacy and had difficulty obtaining the required backup to complete our testing. Management should reach out to their contact at BMC to discuss the importance of providing backup documentation for transactions selected for our compliance testing timely. Much of the requested information is something management should be reviewing on a monthly basis, which is imperative as part of maintaining compliance with the 340B program.

Provider Relief and Payroll Protection Program Expense Tracking

During fiscal year 2020, the Health Center received various funding in response to the COVID-19 pandemic, including Federal Provider Relief Funds (PRF) and a Payroll Protection Program (PPP) loan. Management did not properly track expenditures of these funds throughout the year. As a result, an audit adjustment of $127,669 was required to reduce PRF revenue as the funds were not expended during the fiscal year. Management should ensure all funds are properly expended in accordance with the funder requirements before recognition of revenue and that costs are tracked throughout the year to avoid any improper expenditure of funds including unallowed costs and previously reimbursed costs.

Comments, Observations and Recommendations (Continued)

Current Year Items (Continued)

Best Practice Recommendation

Fee Schedule

Abortion procedure codes are included on the Health Center's fee schedule. Although the Health Center does not perform abortions, and no abortions were performed by the Health Center during fiscal year 2020, the Health Center should remove any and all abortion procedure codes from their fee schedule to avoid any possibility of accidental billings, which will trigger non-compliance with their grants from the U.S. Department of Health and Human Services, Health Resources and Services Administration.

In addition, during our testing of forty third-party billing transactions, we noted two instances of the amounts billed not agreeing to the Health Center's fee schedule. It was noted that the amounts billed differed due to the lab fee schedule of CPa Billing (third party biller) being different than the Health Center's fee schedule. Management should work with CPa Billing to ensure all procedure codes are billed at the same rate and agree to the Health Center's fee schedule. An annual internal review process of comparing fee schedules should be implemented to safeguard against incorrect billings. If the Health Center is going to rely on the billing rates used by CPa Billing for lab fees, the Health Center should update their fee schedule to agree to CPa Billing's rates.

Other Matters for Your Information

New Lease Accounting

Last year, we made the Board of Directors and management aware of the new lease standard, ASU No. 2016-02, *Leases (Topic 842),* issued by FASB. Since then, the FASB also issued several amendments to the initial guidance. The new lease standard codified in Topic 842 supersedes the existing lease guidance in Topic 840. The core principle of the new guidance is for lessees to recognize lease assets and lease liabilities for those leases classified as operating leases, as defined in the new standard.

In June 2020, the FASB issued ASU No. 2020-05 to defer the effective date of the lease guidance for non-public companies for an additional year. Therefore, the new lease standard is effective for fiscal years beginning after December 15, 2021. Early application is still allowed.

With respect to the transition to the new guidance, the FASB offers two methods of adopting this standard – Modified Retrospective Approach and an Optional Transition Method:

- **Modified Retrospective Approach** requires lessees and lessors to recognize and measure leases at the beginning of the earliest period presented in the financial statements. The modified retrospective approach includes a number of optional practical expedients that entities may elect to apply.

- **Optional Transition Method** is a practical expedient that allows an entity to present comparative financial statements for the year before adoption in accordance with the old standard, while the new standard is applied for presentation of leases in the year of adoption.

This information is intended solely for the use of the Finance Committee, the Board of Directors, and management of the Health Center, and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

AAFCPAs, Inc.
Certified Public Accountants

Client: ***47049 - The Codman Square Health Center, Inc.***
Engagement: ***47049 - Codman Square Health Center, Inc.***
Period Ending: ***9/30/2020***
Trial Balance: ***TB - Epace Trial Balance***
Workpaper: ***AJE - CSHC***

Account	Description	W/P Ref	Debit	Credit	SOA Effect
		Unadjusted changes in net assets without donor restrictions			$ 2,275,918
Adjusting Journal Entries					
Adjusting Journal Entries JE # 1		**B-05**			
Client proposed adjustement to properly state pharmacy activity as of and for the year ended September 30, 2020.					
1420-000000	A/R Pharmacy Acct-GENERAL		438,922.00		
1424-000000	A/R Walgreens-GENERAL		142,053.00		
2012-1142	Rx A/P CVS STORE-Pharmacy CVS Offsite 340B		7,827.00		
1420-1140	A/R Pharmacy Acct-Pharmacy - CSHC Site			267,036.00	
1424-1143	A/R Walgreens-Pharmacy Walgreens Offsite340B			142,053.00	
2010-1140	General A/P-Pharmacy - CSHC Site			120,167.00	
4426-1140	Cost of Pharmacy Drugs-Pharmacy - CSHC Site			59,546.00	
Total			**588,802.00**	**588,802.00**	59,546
Adjusting Journal Entries JE # 2		**13**			
To reduce Provider Relief Fund revenue to equal amount substatiated by allowable costs.					
3994-000000	SUPPLEMENTAL THIRD-PARTY PMTS-GENERAL		127,669.00		
9999-0016	Conditional Grant Advance Liability			127,669.00	
Total			**127,669.00**	**127,669.00**	(127,669)
Adjusting Journal Entries JE # 3		**FSAID-14**			
To remove donated meals as they do not meet the requirements for in-kind.					
3467-1038	Donations-other-NON-GRANT COVID-19		96,932.00		
4781-1038	Donations-NON-GRANT COVID-19			96,932.00	
Total			**96,932.00**	**96,932.00**	-
Adjusting Journal Entries JE # 4		**UV-01**			
To properly state depreciation expense and accumulated depreciation as of and for the year-ended September 30, 2020.					
4912-1007	Depreciation-EPIC-Management Information		99,828.00		
1838-000000	A/D - EPIC Implementation-GENERAL			99,828.00	
Total			**99,828.00**	**99,828.00**	(99,828)
	Total Adjusting Journal Entries		**913,231.00**	**913,231.00**	
	Total All Journal Entries		**$ 913,231.00**	**$ 913,231.00**	
				Effect of adjustments	(167,951)
		Adjusted changes in net assets without donor restrictions			$ 2,107,967

Client:	***47049 - The Codman Square Health Center, Inc.***
Engagement:	***47049 - Codman Square Health Center, Inc.***
Period Ending:	***9/30/2020***
Trial Balance:	***TB-2 - CS Eye Care***
Workpaper:	***AJE - CECA***

Account	Description	W/P Ref	Debit	Credit	SOA Effect
		Unadjusted changes in net assets without donor restrictions			$ (218,672)
Adjusting Journal Entries					
Adjusting Journal Entries JE # 1		**SSTT-01**			
To properly record capital contribution from CSHC as increase in net assets.					
2032-000000	Accrued expenses - other		1.00		
2078-000000	Additional Paid-in Capital		12,342.00		
2070-000000	Contributed Capital			12,343.00	
Total			**12,343.00**	**12,343.00**	-
	Total Adjusting Journal Entries		**12,343.00**	**12,343.00**	
	Total All Journal Entries		**$ 12,343.00**	**$ 12,343.00**	
		Adjusted changes in net assets without donor restrictions			$ (218,672)