



**San Joaquin County Clinics (SJCC) Audit Committee
Minutes of September 29, 2020 Meeting**

**San Joaquin General Hospital (SJGH)
Web Conference Meeting
French Camp, CA**

Present

Rod Place (SJCC Board Chair); Brian Heck (SJCC Board Member); Dr. Farhan Fadoo (SJCC CEO); Alice Soulligne (SJCC COO); Kris Zuniga (SJCC CFO); Adelé Gribble (SJCC ACS OTC)

1. Call to Order

This inaugural meeting of the SJCC Audit Subcommittee was called to order by Rod Place at 4:06 p.m. Today we will discuss our Audit Committee Function, go over the Audit Committee Composition and Meeting Frequency, the process of selecting an independent auditor as well as the separation of San Joaquin County Clinics (SJCC) from San Joaquin General Hospital (SJGH).

2. Review of SJCC Bylaws: Article VIII – Section 8 (Kris Zuniga, FQHC CFO)

Kris Zuniga advised they looked to SJCC's Bylaws for the function of our Audit Committee, specifically Article VIII – Section 8 of our Bylaws. This reads as follows:

The corporation shall have an Audit Committee consisting of at least three (3) directors and may include nonvoting advisors. Directors who are officers of the corporation or who receive, directly or indirectly, any consulting, advisory, or other compensatory fees from the corporation (other than for service as director) may not serve on the audit committee. The Audit Committee shall perform the duties and adhere to the guidelines set forth in the corporation's audit policy guidelines as amended from time to time by the board. Such duties include, but are not limited to:

- (a) Assisting the Board in choosing an independent auditor and recommending termination of the auditor, if necessary;
- (b) Negotiating the independent auditor's compensation;
- (c) Conferring with the independent auditor regarding the corporation's financial affairs; and
- (d) Reviewing and accepting or rejecting the independent auditor's report.

Members of the Audit Committee may be compensated for their service on the Audit Committee in excess of that provided to directors for their service on the board. If the corporation has a Finance Committee, a majority of the Audit Committee may not concurrently serve as member of Finance Committee, and the chair of the Audit Committee may not serve on the Finance Committee.

Rod Place asked for clarification that there needs to be three members on the Audit Committee. He asked if they all need to be part of the Board. Kris stated this is correct, they need to be Board Members but can also include nonvoting advisors, such as Dr. Fadoo and Kris or anyone else. Kris advised if someone is on the Audit Committee, and not the Chair, they could also serve on the Finance Committee.

3. Audit Committee Composition (Kris Zuniga, FQHC CFO)

The suggested Audit Committee members are Rod Place and Brian Heck. Brian will be the Chairman of the Audit Committee and Rod will continue to chair the Finance Committee while serving as a member on the Audit Committee. Brian and Kris Zuniga will meet one-on-one to go over the FQHC finances in greater detail to prepare him for his new role.

Rod will reach out to two additional Board members to serve on the audit committee. By next month's meeting we will have the required three directors on the Audit Committee.

4. Audit Committee Frequency (Kris Zuniga, FQHC CFO)

Kris Zuniga advised SJCC will hold monthly audit committee meetings initially and will reevaluate frequency in six months. With everything going on and the clinic separation from the hospital, it is going to be pertinent that we hold these audit committees frequently to ensure we are on track and doing everything we said we were going to do.

5. Independent Auditor Selection Process (Kris Zuniga, FQHC CFO)

Kris Zuniga advised in selecting an independent auditor, we have received two proposals; one from the County and San Joaquin General Hospital's auditor (Eide Bailly) and an independent auditor (BKD Advisors).

- Two CPA firm proposals: BKD CPA's & Advisors versus Eide Bailly
- Eide Bailly

Professional Fees	2019/2020
Audit of financial statements of San Joaquin County Clinics - FY 2020	\$ 30,000
Audit of financial statements of San Joaquin County Clinics - FY 2019	30,000
Preparation of financial statements	10,000
Total	\$ 70,000

- Pros:
 - EB is the independent auditor for the County of San Joaquin and SJGH. Upon completion of the SJGH audit, they will be very familiar with the balance sheet of SJCC and thus audit fees could be mitigated.
 - EB is helping to facilitate the SJCC/SJGH split.
- Cons:
 - EB does not display a familiarity with the FQHC business.
 - EB is the independent auditor for the County of San Joaquin and SJGH. There could be a risk that EB will not put our interests first.

Above are the Pros and Cons listed for EB selected as the independent auditor. Our audit would be scheduled right after the hospital's audit. Because they are helping facilitate the separation, they would already familiar with our balance sheet.

Below is BKD's proposal:

- BKD CPA's & Advisors

Proposed Fees

San Joaquin County Clinics	
For the 2019 Fiscal Year	2020
Financial Statement Audit in Accordance with Government Auditing Standards	\$30,000 to \$40,000
Compliance Audit under Uniform Guidance if needed	\$6,000 per major program
Beginning balance work for fiscal 2019 to establish beginning equity	\$10,000

- Pros:
 - BKD has a large portfolio of FQHC clients and is highly visible within the California Primary Care Association (CPCA).
 - Kris Zuniga has first-hand experience with both BKD audit and Medicare Cost Report services.
- Cons:
 - Due to their would-be acclimation period, overall BKD audit fees could be more than EB audit fees.

6. Separation of SJCC from SJGH (Kris Zuniga, FQHC CFO)

Kris Zuniga stated an extension of the independent audit is the separation of the clinics from the hospital. On July 22, 2020, Eide Bailly audit partner conducted a meeting with the Hospital Executives and the FQHC, specifically addressing the independence of the FQHC. He presented this as a realization that there are articles of incorporation that we have our Bylaws. At that point he wasn't aware of the Co-applicant agreement that makes us an FQHC. This is when the idea of the clinics being independent from the Hospital was introduced to County officials and Hospital executives.

We followed up with a second meeting on August 13, 2020 and essentially everyone at that meeting was of the same realization that the hospital has no jurisdiction over the clinics and the clinics should function as their own entity and their own fund under the county system. They have since had weekly meetings with Eide Bailly to have a collective game plan. This includes all the accountants; Kris Zuniga, Chris Roberts, David Showalter of EB and the accountants from the County Auditor Controller as well, making sure they are on track with the audit, bringing up weekly issues to get this project done. This includes a County Audit, Hospital Audit and an FQHC Audit. They are engaging outsiders to assist us in identifying various pieces of the overall project or facilitating roles within the overall project.

Kris advised they are recommending we go with BKD as our independent auditor. Stemming from our weekly meetings, Chris Roberts (SJGH CFO) has requested additional hands-on-deck from EB which is separate from the audit function they are performing. He is asking for temporary folks to help him carve out the clinics and identify what assets and liabilities belong to whom. EB will have a two-pronged role, not only are they the auditors

of the hospital, they will be assisting the hospital accounting team and carving out the clinics. Kris stated they will be a part of that process as well. Below is the plan for this separation and audit:

- BKD – SJCC Independent Auditor
- EB – SJCC Separation Assistance
- Toyon – SJCC supplemental revenues and SJCC Financial Statement Assistance.

Toyon & Associates is a third consulting group who will be assisting us with the identification of historical supplemental revenues and the creation of historical financial statements. The comparative advantage that Toyon exhibits is the fact that their consultant (Robert Steele) we work with used to be one of the main accountants at SJGH for many years, so he has specific knowledge about the financial transactions and the general ledger for multiple fiscal years.

Rod Place asked who would be paying for these audits. Kris advised SJCC will pay for BKD and their work. The assistance on the separation by EB, the hospital will pay the larger end on that. SJGH has engaged with Toyon and we are generating our own agreement with Toyon, SJCC will therefore have our own fees for their services as well. Kris advised the EB and Toyon expenses will be more borne by the hospital versus the FQHC.

Dr. Fadoo advised the FQHC management felt this diversified portfolio of outside help would be the best approach to making sure we have people working on this project that know enough of the background but also a component of independent representation.

Kris displayed an outline of the projected timeline below:

SJCC SEPARATION ANTICIPATED PROJECT PLAN

<u>PROJECT ITEM</u>	<u>ESTIMATED COMPLETION</u>
1. ESTABLISHMENT OF SJCC COUNTY ENTERPRISE FUND	OCT 2020
2. ESTABLISHMENT OF COUNTY INFRASTRUCTURE FOR SJCC	OCT 2020
3. NOTIFICATION OF PLANNED SEPARATION TO SJCC PAYERS	OCT 2020
4. IDENTIFICATION OF SJCC FINANCIAL SYSTEMS	OCT 2020
5. IDENTIFICATION OF SJCC GAAP FINANCIAL STATEMENTS	NOV 2020
6. EXECUTION OF SJCC MOU'S WITH THE BH, & SJGH	NOV 2020
7. CASH DEPOSIT INTO SJCC CASH OPERATING ACCOUNT	NOV 2020
8. TRANSFER OF SJCC EMPLOYEES FROM SJGH	NOV 2020
9. EXECUTION OF NEW CONTRACTS WITH SJCC PAYERS	DEC 2020
10. SJGH AUDIT COMPLETION	DEC 2020
11. SJCC AUDIT COMPLETION	MAR 2021
12. IMPLEMENTATION OF NEW SJCC FINANCIAL SYSTEMS	SUMMER 2021

The Project Plan listed above will be the items that will drive the monthly meetings going forward. The committee will discuss each item in more detail at each subsequent meeting.

7. Adjournment (Brian Heck, Audit Committee Chairman)

There being no further discussion, the meeting was adjourned at 4:57 pm.