

**Scranton-Temple Residency
Program, Inc.
d/b/a The Wright Center for
Graduate Medical Education**

Financial Statements and
Supplementary Information

June 30, 2012 and 2011



Scranton-Temple Residency Program, Inc.
d/b/a The Wright Center for Graduate Medical Education

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Independent Auditors' Report

Board of Directors
Scranton-Temple Residency Program, Inc.

We have audited the accompanying statement of financial position of the Scranton-Temple Residency Program, Inc. d/b/a The Wright Center for Graduate Medical Education (the "Organization") as of June 30, 2012 and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Organization as of June 30, 2011 were audited by other auditors whose report dated October 21, 2011, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Controller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2012 financial statements referred to previously present fairly, in all material respects, the financial position of the Organization as of June 30, 2012, and changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 10, 2013 on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the Organization's financial statements. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. The accompanying Schedule of Contractual Performance is also presented for purposes of additional analysis as required by the Pennsylvania Department of Public Welfare, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and related directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards and schedule of contractual performance are fairly stated in all material respects in relation to the financial statements as a whole.

ParenteBeard LLC

Wilkes-Barre, Pennsylvania
January 10, 2013

**Scranton-Temple Residency Program, Inc.
d/b/a The Wright Center for Graduate Medical Education**

Statement of Financial Position
June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Assets		
Current Assets		
Cash and cash equivalents	21,125	1,108,653
Accounts receivable	490,260	236,707
Due from The Wright Center Medical Group, P.C.	180,932	213,605
Prepaid expenses and other current assets	<u>15,399</u>	<u>26,310</u>
Total current assets	<u>707,716</u>	<u>1,585,275</u>
Long-Term Investments	3,486,699	3,379,957
Property and Equipment, net	<u>139,630</u>	<u>109,906</u>
Total assets	<u><u>\$ 4,334,045</u></u>	<u><u>\$ 5,075,138</u></u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	134,316	324,768
Promises to give to others	-	20,000
Payroll withholdings payable	235,649	171,958
Accrued wages	365,560	286,205
Accrued pension	54,528	59,858
Deferred revenue	<u>6,443</u>	<u>673,925</u>
Total current liabilities	796,496	1,536,714
Net Assets		
Unrestricted net assets	<u>3,537,549</u>	<u>3,538,424</u>
Total liabilities and net assets	<u><u>\$ 4,334,045</u></u>	<u><u>\$ 5,075,138</u></u>

See notes to financial statements

**Scranton-Temple Residency Program, Inc.
d/b/a The Wright Center for Graduate Medical Education**

Statement of Activities

Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Unrestricted Revenues and Other Support		
Federal grants	\$ 1,117,203	\$ 351,885
State grant	671,939	3,061
Hospital affiliation agreement funding residency and fellowship program	6,498,858	5,467,677
Hospital reimbursement - clinic	109,925	109,925
Temple University School of Medicine teaching undergraduate program fees	800	40,000
IRB and research fees	36,400	53,075
Interest and dividends	123,443	112,684
	<u>8,558,568</u>	<u>6,138,307</u>
Expenses		
Program services:		
Residency and fellowship program	6,098,641	5,712,297
Teaching health center graduate medical education initiative	815,995	77,305
Mid Valley primary care development project	671,939	3,061
HIV program	301,208	290,080
IRB clinical research	62,335	52,311
Psychiatry	1,229	-
Hematology and oncology	120	-
	<u>7,951,467</u>	<u>6,135,054</u>
Support services		
Management and general	624,110	323,392
	<u>8,575,577</u>	<u>6,458,446</u>
Total expenses	<u>8,575,577</u>	<u>6,458,446</u>
Expenses in excess of revenues	(17,009)	(320,139)
Other Income		
Net realized and unrealized gains and losses	16,134	400,736
(Decrease) increase in net assets	(875)	80,597
Net Assets, Beginning of Year	<u>3,538,424</u>	<u>3,457,827</u>
Net Assets, End of Year	<u>\$ 3,537,549</u>	<u>\$ 3,538,424</u>

See notes to financial statements

Scranton-Temple Residency Program, Inc.
d/b/a The Wright Center for Graduate Medical Education

Statement of Functional Expenses
Year Ended June 30, 2012

	Program Services						Support Services	2012	
	Residency and Fellowship Program	Teaching Health Center Graduate Medical Education Initiative	HIV Program	IRB Clinical Research	Mid Valley Primary Care Development Project	Psychiatry	Hematology and Oncology	Management and General	Total Program and Support Services Expenses
Salaries	\$ 4,168,980	\$ 497,492	\$ 178,766	\$ 44,136	\$ -	\$ -	\$ -	\$ 351,333	\$ 5,240,707
Employee benefits	563,715	39,892	26,369	8,504	-	-	-	56,354	694,834
Mid Valley Primary Care Development Project - pass-thru grant	-	-	-	-	671,939	-	-	-	671,939
Contract services - professional fees	270,528	187,496	831	4,125	-	1,229	120	45,630	509,959
Payroll taxes and other expenses	281,654	33,761	14,249	3,898	-	-	-	25,878	359,440
Insurance	128,089	1,179	-	-	-	-	-	7,884	137,152
Conference expenses	111,238	18,083	930	-	-	-	-	2,572	132,823
Consultant fees	56,506	2,015	-	-	-	-	-	48,034	106,555
Telephone and internet	68,901	4,213	2,400	-	-	-	-	10,081	85,595
Occupancy expense	64,102	-	-	-	-	-	-	12,655	76,757
Depreciation	56,156	10,393	4,529	253	-	-	-	255	71,586
Meeting expense	33,032	3,436	11,067	-	-	-	-	16,672	64,207
Professional dues and memberships	62,392	-	-	-	-	-	-	191	62,583
Contract services - Moses Taylor Hospital	-	-	47,766	-	-	-	-	-	47,766
Service contract expense	41,786	150	-	-	-	-	-	4,692	46,628
Library expense	39,829	419	-	-	-	-	-	3,091	43,339
Office supplies	27,673	857	22	269	-	-	-	10,822	39,643
Licenses	19,778	-	(551)	-	-	-	-	-	19,227
Recruitment expense	16,752	-	-	-	-	-	-	-	16,752
Furniture and equipment	11,471	1,898	-	-	-	-	-	2,262	15,631
Investment fees	-	-	-	-	-	-	-	13,168	13,168
Staff Travel and parking	4,856	4,775	1,640	-	-	-	-	913	12,184
Advertising	6,428	-	-	-	-	-	-	5,335	11,763
Audit fees	11,500	-	-	-	-	-	-	-	11,500
Patient care costs	3,600	-	7,799	-	-	-	-	-	11,399
Staff training and development costs	9,696	900	-	-	-	-	-	-	10,596
Auto allowance	7,214	-	-	-	-	-	-	700	7,914
Computer supplies	3,244	6,906	-	619	-	-	-	3,006	13,775
Equipment rental and maintenance	5,093	2,069	-	-	-	-	-	188	7,350
Printing and copying	6,197	-	-	-	-	-	-	-	6,197
Bank charges	3,471	-	497	-	-	-	-	1,205	5,173
Donations	3,825	-	-	-	-	-	-	250	4,075
Postage and shipping	3,147	21	-	531	-	-	-	501	4,200
Contract services - Mercy Hospital	3,300	-	-	-	-	-	-	-	3,300
Laboratory research costs	200	40	3,045	-	-	-	-	-	3,285
Answering service	2,896	-	-	-	-	-	-	-	2,896
Medication expense	-	-	1,849	-	-	-	-	-	1,849
Miscellaneous expense	1,392	-	-	-	-	-	-	438	1,830
	<u>\$ 6,098,641</u>	<u>\$ 815,995</u>	<u>\$ 301,208</u>	<u>\$ 62,335</u>	<u>\$ 671,939</u>	<u>\$ 1,229</u>	<u>\$ 120</u>	<u>\$ 624,110</u>	<u>\$ 8,575,577</u>

See notes to financial statements

Scranton-Temple Residency Program, Inc.
d/b/a The Wright Center for Graduate Medical Education

Statement of Functional Expenses
Year Ended June 30, 2011

	Program Services					Support Services	2011
	Residency and Fellowship Program	Teaching Health Center Graduate Medical Education Initiative	HIV Program	IRB Clinical Research	Mid Valley Primary Care Development Project	Management and General	Total Program and Support Services Expenses
Salaries	\$ 3,649,757	\$ 36,536	\$ 145,823	\$ 37,073	\$ -	\$ 251,859	\$ 4,121,048
Employee benefits	580,419	290	24,270	8,530	-	46,988	660,497
Contract services - professional fees	404,181	27,578	-	1,850	-	-	433,609
Payroll taxes and other expenses	244,279	2,786	11,366	3,322	-	11,381	273,134
Claims and assessments	150,000	-	-	-	-	-	150,000
Insurance	131,689	-	783	-	-	-	132,472
Conference expenses	84,598	837	6,378	-	-	-	91,813
Consultant fees	47,762	-	-	300	-	-	48,062
Service contract expense	47,768	-	150	-	-	-	47,918
Contract services - Moses Taylor Hospital	-	-	47,766	-	-	-	47,766
Meeting expense	36,473	1,919	8,332	-	-	-	46,724
Telephone and internet	43,723	-	2,400	-	-	-	46,123
Depreciation	41,757	-	2,942	592	-	-	45,291
Licenses	42,379	-	551	-	-	-	42,930
Contract services - Mercy Hospital	-	-	34,329	-	-	-	34,329
Library expense	30,695	-	-	-	-	-	30,695
Professional dues and memberships	30,039	-	-	-	-	-	30,039
Recruitment expense	21,619	3,873	-	-	-	-	25,492
Occupancy expense	24,302	-	-	-	-	-	24,302
Office supplies	16,058	-	122	564	-	-	16,744
Staff training and development costs	13,581	-	-	-	-	-	13,581
Investment fees	-	-	-	-	-	13,164	13,164
Printing and copying	12,210	-	-	-	-	-	12,210
Audit fees	11,000	-	-	-	-	-	11,000
Auto allowance	8,856	-	-	-	-	-	8,856
Answering service	7,208	-	-	-	-	-	7,208
Donations	6,840	-	-	-	-	-	6,840
Furniture and equipment	3,926	2,586	-	-	-	-	6,512
Staff Travel and parking	3,187	198	2,288	-	-	-	5,673
Bank charges	5,436	-	210	-	-	-	5,646
Advertising	2,862	702	-	-	-	-	3,564
Postage and shipping	3,189	-	-	-	-	-	3,189
Laboratory research costs	1,600	-	-	-	-	-	1,600
Patient care costs	-	-	2,370	-	-	-	2,370
Computer supplies	3,268	-	-	80	-	-	3,348
Mid Valley Primary Care Development Project - pass-thru grant	-	-	-	-	3,061	-	3,061
Medication expense	1,404	-	-	-	-	-	1,404
Equipment rental and maintenance	129	-	-	-	-	-	129
Miscellaneous expense	103	-	-	-	-	-	103
	<u>\$ 5,712,297</u>	<u>\$ 77,305</u>	<u>\$ 290,080</u>	<u>\$ 52,311</u>	<u>\$ 3,061</u>	<u>\$ 323,392</u>	<u>\$ 6,458,446</u>

See notes to financial statements

Scranton-Temple Residency Program, Inc.
d/b/a The Wright Center for Graduate Medical Education

Statement of Cash Flows

Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash Flows from Operating Activities		
(Decrease) increase in net assets	\$ (875)	\$ 80,597
Adjustments to reconcile (decrease) increase in net assets to net cash (used in) provided by operating activities:		
Net realized and unrealized gain on investments	(16,134)	(400,736)
Depreciation	71,586	45,291
Changes in assets and liabilities:		
Accounts receivable	(253,553)	(80,933)
Due from The Wright Center Medical Group, P.C.	32,673	238,772
Prepaid expenses and other current assets	10,911	(14,107)
Accounts payable	(190,452)	266,917
Promises to give to others	(20,000)	(20,000)
Payroll withholdings payable	63,691	(61,727)
Accrued wages	79,355	(55,243)
Accrued pension	(5,330)	37,217
Deferred revenue	(667,482)	669,359
	<u>(895,610)</u>	<u>705,407</u>
Cash Flows from Investing Activities		
Proceeds from sale of long-term investments	13,168	336,555
Purchase of long-term investments	(103,776)	(434,678)
Purchase of property and equipment	(101,310)	(60,911)
	<u>(191,918)</u>	<u>(159,034)</u>
Net cash used in investing activities	(191,918)	(159,034)
(Decrease) increase in cash and cash equivalents	(1,087,528)	546,373
Cash and Cash Equivalents, Beginning	<u>1,108,653</u>	<u>562,280</u>
Cash and Cash Equivalents, Ending	<u>\$ 21,125</u>	<u>\$ 1,108,653</u>

See notes to financial statements

Scranton-Temple Residency Program, Inc. d/b/a The Wright Center for Graduate Medical Education

Notes to Financial Statements
June 30, 2012 and 2011

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

The Wright Center for Graduate Medical Education (the "Organization"), is a non-profit corporation operating from facilities located in Scranton, Pennsylvania. The principal activity of the organization is to provide medical education instruction in a primary care internal residency program at hospitals and outpatient clinics.

The organizations' major program services are as follows:

Residency Program provides medical educational instruction in a primary care internal medicine residency program at affiliated hospitals and clinics. The Cardiology Fellowship Program, initiated on July 1, 2010, provides medical educational instruction focusing on a cardiovascular curriculum. These programs are operated pursuant to affiliation agreements as described in Note 7.

Teaching Health Center Graduate Medical Education Initiative was established as an internal residency program that trains graduated physicians to become American Board of Internal Medicine certified internists in Northeastern Pennsylvania. The program has promoted medical education throughout the region, at a time when the area has a serious shortage of medical manpower.

IRB (Institutional Review Board) Clinical Research is established in accordance with the Food and Drug Administration regulations. Its purpose is to review biomedical and behavioral research involving human subjects/patients in order to protect the rights of the human subjects/patients of such research.

The HIV Program is made up of the Ryan White Outpatient Early Intervention Services Program. The HIV Early Intervention Program provides comprehensive continuum of outpatient HIV primary care services to people living with HIV/AIDS in the seven counties of Northeastern Pennsylvania (Lackawanna, Luzerne, Monroe, Pike, Susquehanna, Wayne, and Wyoming). Services include HIV counseling, testing and referral; medical evaluation and clinical care, other primary care services (oral health, adherence counseling, outpatient mental health, substance abuse treatment and nutritional services), and referral to other health services.

Subsequent Events

The Organization has evaluated subsequent events for recognition or disclosure through January 10, 2013, the date the financial statements were available to be issued.

Scranton-Temple Residency Program, Inc. d/b/a The Wright Center for Graduate Medical Education

Notes to Financial Statements
June 30, 2012 and 2011

Mid Valley Primary Care Development Project

During 2011, the Organization received a \$675,000 grant from the Commonwealth of Pennsylvania Department of Public Welfare under its Acute Care Hospital Program. The grant proceeds are to be utilized to develop and conduct program services at the Jermyn, Pennsylvania primary health care clinical facility. The Organization has sub-granted performance under this grant agreement to an affiliate; The Wright Center Medical Group, P.C. ("WCMG") Program expenditures under the grant agreement were \$3,061 through June 30, 2011. The remaining monies received were expended during fiscal year 2012.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Contributions

The Organization accounts for contributions as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a temporary restriction expires, temporarily restricted net assets are re-classified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are received.

Cash and Cash Equivalents

Cash and cash equivalents include all unrestricted cash and other highly liquid investments with initial maturities of three months or less, excluding long-term investments.

Accounts Receivable

The Organization's accounts receivable consists substantially of amounts due from one of the three local hospitals under an affiliation agreement with the Organization as described in Note 7. Accounts receivable are reported at the net realizable value. Accounts are written off when they are determined by management to be uncollectible based upon management's assessment of individual accounts. Recoveries of accounts receivable written off, if any, are credited to the bad debt expense account. Management has determined a reserve for bad debts is not necessary due to the current status and nature of the accounts.

Scranton-Temple Residency Program, Inc.
d/b/a The Wright Center for Graduate Medical Education

Notes to Financial Statements
June 30, 2012 and 2011

Investments and Investment Risk

Investments in marketable securities with readily determinable fair values are measured at fair value. Realized and unrealized gains and losses are included in the change in net assets. Purchases and sales of securities and realized gains and losses are recorded on a trade-date basis.

The Organization's investments are comprised of a variety of financial instruments and are measured by the third-party investment advisor. The fair values reported in the statement of financial position are subject to various risks including changes in equity markets, the interest rate environment, and general economic conditions. Due to the level of risk associated with certain investment securities, it is reasonably possible that the amounts reported in the accompanying financial statements could change materially in the near term.

Property and Equipment

Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. Depreciation is computed using the straight-line method based on the estimated useful life of each class of depreciable asset.

Income Taxes

The Organization is a not-for-profit corporation exempt as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on their exempt income under Section 501(a) of the Internal Revenue Code.

The Organization prescribes a recognition threshold of more-likely-than-not to be sustained upon examination by the appropriate taxing authority in recording tax liabilities in the financial statements. Measurement and recognition of the tax uncertainty occurs if the recognition threshold has been met.

The Organization's policy is to recognize interest related to unrecognized tax benefits in interest expense and penalties in operating expenses.

The Organization's federal income tax returns for the years ended June 30, 2011, 2010, and 2009 remain subject to examination by the Internal Revenue Service.

Deferred Revenue

The Organization received a grant from the Commonwealth of Pennsylvania Department of Welfare under its Acute Care Hospital Program in 2011. Revenues are recognized as expenses are incurred under the grant. The balances at June 30, 2012 and 2011 are the amounts that have not yet been expended under the grant and therefore have not been recognized as revenue.

Scranton-Temple Residency Program, Inc. d/b/a The Wright Center for Graduate Medical Education

Notes to Financial Statements
June 30, 2012 and 2011

Functional Allocation of Expenses

The expenses of the Organization's various programs and supporting services have been summarized on a functional basis in the statement of activities. Accordingly, certain expenses have been allocated among the programs and supporting services benefited based on actual time and resources used.

Reclassifications

Certain items relating to 2011 have been reclassified to conform to the 2012 reporting format.

2. Pending Accounting Pronouncements

In 2011, Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2011-04, Fair Value Measurements and Disclosures (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. ASU No. 2011-04 includes new and clarified guidance on fair value measurements (highest and best use, equity instruments, managed net portfolio positions, and applications of premiums and discounts) and disclosure (quantitative information, valuation processes and sensitivity of unobservable inputs, assets not in highest and best use, and assets not measured at fair value). ASU 2011-04 is effective for periods beginning after December 15, 2011. ASU 2011-04 is not expected to have a material impact on the Organization's financial statements, but may modify financial statement disclosures for fair value measurements.

3. Due from The Wright Center Medical Group, P.C.

WCMG is an affiliated organization created to bill for patient services provided to third party payors. The Organization's faculty service program has been operated by this affiliated organization. These organizations are affiliated through the employment of a common management team, and through the shared employment of medical residents utilized by each organization in furtherance of the medical education programs. Each organization is governed by a separate and distinct board of directors.

The balance due from WCMG as of June 30, 2012 and 2011 is \$180,932 and \$213,605, respectively. The inter-company transactions arise from the fact that the two entities share a common paymaster for payroll related and certain other transactions associated with the affiliates clinical care operations. Payroll and related expenses of the faculty members and administrative employees are charged based upon employment agreements, and through the sharing of administrative services provided to each organization. Salaries and employee benefits paid to the Organization by WCMG were approximately \$4,216,000 in 2012 and \$3,358,000 in 2011. Other expenses paid to the Organization by WCMG were approximately \$1,837,000 in 2012 and \$1,435,000 in 2011. As indicated in Note 7, WCMG also sub-leases a portion of administrative offices from the Organization.

Scranton-Temple Residency Program, Inc.
d/b/a The Wright Center for Graduate Medical Education

Notes to Financial Statements
June 30, 2012 and 2011

4. Long-Term Investments

The composition of long-term investments at June 30, 2012 and 2011 as follows:

	<u>2012</u>	<u>2011</u>
Mutual funds – bonds	\$ 1,664,548	\$ 1,566,443
Mutual funds – equity securities	<u>1,822,151</u>	<u>1,813,514</u>
Total	<u>\$ 3,486,699</u>	<u>\$ 3,379,957</u>

Investment income and gains and losses for long-term investments are comprised of the following:

	<u>2012</u>	<u>2011</u>
Interest and dividends	\$ 123,443	\$ 112,684
Other income:		
Realized gain (loss) on sale of securities, net	-	(124)
Change in unrealized gains and losses	<u>16,134</u>	<u>400,860</u>
Total	<u>\$ 139,577</u>	<u>\$ 513,420</u>

Expenses relating to investments, including investment fees, amounted to \$13,168 for the year ended June 30, 2012 and \$13,164 for the year ended June 30, 2011, and are included in the management and general expenses in the accompanying statement of activities.

5. Fair Value Measurements

The Organization measures its long-term investments and promise to give to others on a recurring basis in accordance with accounting principles generally accepted in the United States of America.

Fair value is defined as the price that would be received to sell an asset or the price that would be paid to dispose of a liability in an orderly transaction between market participants at the measurement date. The framework established for measuring fair value includes a hierarchy used to classify the inputs used in measuring fair value. The hierarchy prioritizes the inputs used in determining valuations into three levels. The level in the fair value hierarchy within which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement. The levels of the fair value hierarchy are as follows:

Level 1 – Fair value is based on unadjusted quoted prices in active markets that are accessible to the Organization for identical assets. The generally provide the most reliable evidence and are used to measure fair value whenever available.

Scranton-Temple Residency Program, Inc.
d/b/a The Wright Center for Graduate Medical Education

Notes to Financial Statements
 June 30, 2012 and 2011

Level 2 – Fair value is based on significant inputs, other than Level 1 inputs, that are observable either directly or indirectly for substantially the full term of the asset through corroboration with observable market data. Level 2 inputs include quoted market prices in active markets for similar assets, quoted market prices in markets that are not active for identical or similar assets, and other observable inputs.

Level 3 – Fair value would be based on significant unobservable inputs. Examples of valuation methodologies that would result in Level 3 classification include option pricing models, discounted cash flows, and other similar techniques.

The financial instruments were measured with the following inputs at June 30, 2012 and 2011:

	2012			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments:				
Mutual funds – bonds	\$ 1,664,548	\$ 1,664,548	\$ -	\$ -
Mutual funds – equity securities	1,822,151	1,822,151	-	-
Total	\$ 3,486,699	\$ 3,486,699	\$ -	\$ -
	2011			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments:				
Mutual funds – bonds	\$ 1,566,443	\$ 1,566,443	\$ -	\$ -
Mutual funds – equity securities	1,813,514	1,813,514	-	-
Total	\$ 3,379,957	\$ 3,379,957	\$ -	\$ -
Liabilities:				
Promise to give to others	\$ 20,000	\$ -	\$ 20,000	\$ -

The carrying value of the promise to give to others approximates fair value due to its short term nature. The Organization did not have any assets or liabilities whose fair values were measured using level 3 inputs at June 30, 2012 and 2011.

**Scranton-Temple Residency Program, Inc.
d/b/a The Wright Center for Graduate Medical Education**

Notes to Financial Statements
June 30, 2012 and 2011

6. Property and Equipment

	<u>2012</u>	<u>2011</u>
Leasehold improvements	\$ 40,669	\$ 16,219
Furniture and fixtures	65,067	38,858
Medical equipment	16,837	19,755
Office equipment	18,979	24,290
Computer software	67,093	74,771
Computer equipment	150,374	163,338
Electronic medical record equipment	114,273	114,273
	<hr/>	<hr/>
Total	473,292	451,504
Less: accumulated depreciation	<u>(333,662)</u>	<u>(341,598)</u>
Property and equipment, net	<u>\$ 139,630</u>	<u>\$ 109,906</u>

Depreciation expense was \$71,586 in 2012 and \$45,291 in 2011.

7. Commitments

Operating Leases

The Organization has several leases for property and other tangible property which expire at various dates through 2016 and are classified as operating leases. Most of the leases provide for a minimum annual rental plus other operating expenses applicable to the leased assets.

Minimum future rentals on non-cancelable operating leases as of June 30, 2012 are as follows:

Years ending June 30:	
2013	\$ 100,997
2014	88,188
2015	84,585
2016	<u>84,585</u>
Total	<u>\$ 358,355</u>

Rent expense, net of sublease income, for these operating leases was \$78,836 in 2012 and \$26,700 in 2011.

Scranton-Temple Residency Program, Inc.
d/b/a The Wright Center for Graduate Medical Education

Notes to Financial Statements
June 30, 2012 and 2011

Sublease

The Organization has an agreement to sub-lease a portion of its administrative offices to its affiliate, WCMG. The sub-lease agreement requires WCMG to reimburse the Organization \$7,265 monthly for a portion of the administrative offices plus expenses associated with its occupancy.

Future minimum rentals on the sublease as of June 30, 2012 are as follows:

2013	\$ 87,177
2014	87,177
2015	87,177
2016	<u>87,177</u>
Total	<u>\$ 348,708</u>

Affiliation Agreements

Residency Program - The Organization has affiliation agreements with four Scranton, Pennsylvania hospitals in order to promote and support the Internal Medicine Residency Program. The agreements provides, in part, that the Organization will administer and operate the Residency Program within the participating hospitals and the participating hospital will provide administrative, technical and financial support for the program. Such support includes providing financial resources to support and maintain the operating budget of the Program as well as providing facilities, equipment, professional and technical support personnel. Total participating hospital contributions for the residency program was \$5,819,954 and \$5,200,961 for the years ended June 30, 2012 and 2011, respectively.

Cardiology Fellowship - The Organization has affiliation agreements with three Scranton, Pennsylvania hospitals in order to promote and support the Cardiology Fellowship Program. The agreements provides, in part, that the Organization will administer and operate the Cardiology Fellowship Program within the participating hospitals and the participating hospital will provide administrative, technical and financial support for the program. Such support includes providing financial resources to support and maintain the operating budget of the Program as well as providing facilities, equipment, professional and technical support personnel. Total participating hospital contributions for the Cardiology Fellowship Program was \$678,904 and \$266,716 for the years ended June 30, 2012 and 2011, respectively.

Retirement Plans

The Organization has a defined contribution benefit plan (the "Plan") for all eligible employees. Participants become 100% vested in the Plan after one year of service. The Organization is required to make annual contributions to the Plan equal to 8% of eligible compensation. The Organization's pension expense was \$155,248 in 2012 and \$132,472 in 2011.

The Organization also maintains an Internal Revenue Code Section 403(b) Deferred Wage Plan funded solely through employee contributions.

Scranton-Temple Residency Program, Inc.
d/b/a The Wright Center for Graduate Medical Education

Notes to Financial Statements
June 30, 2012 and 2011

8. Concentrations of Credit Risk

The Organization primary operations and service area includes Lackawanna County, Pennsylvania and its surrounding communities. The Organization receives approximately 95% of its revenues from amounts generated under the affiliation agreements mentioned in Note 7.

The Organization maintains its cash and cash equivalents with several financial institutions. Cash and cash equivalents on deposit with any one financial institution are insured to \$250,000.

9. Medical Malpractice Claims Coverage

Primary Coverage

Primary medical and professional liability coverage for the Organization is being provided on a claims-made basis through an unrelated insurance company. The coverage limits for medical malpractice claims are \$500,000 per occurrence and either \$1,500,000 for physicians and surgeons or \$3,000,000 for the entity, in the aggregate per year.

MCARE Fund Coverage

The Pennsylvania Medical Care Availability and Reduction of Error Fund ("MCARE Fund") provides excess coverage per the Pennsylvania law governing the MCARE Fund. Pursuant to the per occurrence and aggregate limits set forth in the controlling Pennsylvania statutes, the MCARE Fund provides coverage for losses in excess of the primary coverage that was in effect on the date of the incident. The cost of MCARE Fund coverage is recognized as expense in the period incurred. Increases in annual surcharges and concerns over the MCARE Fund's ability to manage and pay claims continue to result in proposals to reform or restructure the MCARE Fund. MCARE Fund coverage is currently scheduled to be reduced in 2013, unless the State Insurance Commissioner determines that additional primary insurance capacity is not available at that time, and eliminated three years after such reduction. The Organization will be required to purchase additional primary insurance to take the place of the MCARE Fund coverage as it phases out. Depending upon the ultimate resolution of this matter, the Organization may incur additional insurance costs.

**Scranton-Temple Residency Program, Inc.
d/b/a The Wright Center for Graduate Medical Education**

Schedule of Contractual Performance - Budget and Actual
Year Ended June 30, 2012

Categories	Budget	Actual 2011-12	(Under) Over
Revenues			
Commonwealth of Pennsylvania			
Department of Public Welfare	\$ 675,000	\$ 671,939	\$ (3,061)
Interest income	-	-	-
	<u>675,000</u>	<u>671,939</u>	<u>(3,061)</u>
Total revenues			
Expenses			
I. Personnel services			
A. Staff personnel	-	-	-
B. Fringe benefits	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
Total personnel services			
II. Consultant and subgrant services			
A. Consultant	175,000	174,731	(269)
B. Subgrant services	-	-	-
	<u>175,000</u>	<u>174,731</u>	<u>(269)</u>
Total consultant and subgrant services			
III. Patient services			
Total patient services	<u>-</u>	<u>-</u>	<u>-</u>
IV. Equipment	<u>200,000</u>	<u>145,308</u>	<u>(54,692)</u>
Total equipment			
	<u>200,000</u>	<u>145,308</u>	<u>(54,692)</u>
V. Supplies			
Total supplies	<u>-</u>	<u>-</u>	<u>-</u>
VI. Travel			
Total travel	<u>-</u>	<u>-</u>	<u>-</u>
VII. Other costs	<u>300,000</u>	<u>351,900</u>	<u>51,900</u>
Total other costs			
	<u>300,000</u>	<u>351,900</u>	<u>51,900</u>
Total expenses			
	<u>675,000</u>	<u>671,939</u>	<u>(3,061)</u>
Excess revenues over expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**Scranton-Temple Residency Program, Inc.
d/b/a The Wright Center for Graduate Medical Education**

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2012

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Federal Expenditures
U.S. Department of Health and Human Services,		
Affordable Care Act - Teaching Health Center Graduate Medical Education Payment Program	93.530	\$ 815,995
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	<u>301,208</u>
Total expenditures of federal awards		<u><u>\$ 1,117,203</u></u>

See note to schedule of expenditures of federal awards

**Scranton-Temple Residency Program, Inc.
d/b/a The Wright Center for Graduate Medical Education**

Note to Schedule of Expenditures of Federal Awards
June 30, 2012

1. Schedule of Expenditures of Federal Awards – Basis of Accounting and Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Scranton-Temple Residency Program d/b/a The Wright Center for Graduate Medical Education (the "Organization") and is presented using the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. Therefore, some amounts may differ from amounts presented in, or used in the preparation of, the financial statements. Federal expenditures on the accompanying schedule of expenditures of federal awards are included within various functional expense categories in the Organization's financial statements.

The Organization is currently working with the U.S. Department of Health and Human Services to transfer the Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease from the Organization's to their affiliated organization, The Wright Center Medical Group, P.C. The change is expected to be completed in fiscal year 2013.

**Independent Auditors' Report on Internal Control
Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of
Financial Statements Performed in Accordance
with *Government Auditing Standards***

Board of Directors
Scranton-Temple Residency Program, Inc.

We have audited the financial statements of the Scranton-Temple Residency Program, Inc. d/b/a The Wright Center for Graduate Medical Education (the "Organization") as of and for the year ended June 30, 2012, and have issued our report thereon dated January 10, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Organization is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Organization's internal control over financial reporting 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 Organization's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses, and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be a material weaknesses and other deficiencies that we consider to be significant deficiencies.

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 *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 Organization's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2012-02 and 2012-03 to be material weaknesses.

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 deficiencies described in the accompanying schedule of findings and questioned costs as items 2012-01, 2012-04, and 2012-05 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Organization's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Organization's responses and, accordingly, we express no opinion on it.

This report is intended for the information and use of the Board of Directors, management, others within the organization, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Parente Beard LLC".

Wilkes-Barre, Pennsylvania
January 10, 2013

**Independent Auditors' Report on Compliance
with Requirements That Could Have a Direct and
Material Effect on Each Major Program and on
Internal Control Over Compliance in
Accordance with OMB Circular A-133**

Board of Directors
Scranton-Temple Residency Program, Inc.

Compliance

We have audited Scranton-Temple Residency Program, Inc. d/b/a The Wright Center for Graduate Medical Education's (the "Organization") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended June 30, 2012. The Organization's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Organization's management. Our responsibility is to express an opinion on the Organization's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program have occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Organization's compliance with those requirements.

As described in items 2012-03 in the accompanying schedule of findings and questioned costs, the Organization did not comply with requirements regarding allowable costs that is applicable to its major programs. Compliance with such requirements is necessary, in our opinion, for the Organization to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Organization complied, in all material respects, with the requirements referred to above applicable to each of its major federal programs for the year ended June 30, 2012. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements which are required to be reported in accordance with Circular A-133 and which is described in the accompanying schedule findings and questioned costs as item 2012-06.

Internal Control over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Organization's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

Our consideration of the internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that we consider to be significant deficiencies, or material weaknesses, and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a material weakness and another deficiency that we consider to be a significant deficiency.

A deficiency in internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of significant deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2012-03 to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit the attention of those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2012-06 to be a significant deficiency.

The Organization's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Organization's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of the Board of Directors, management, others within the Organization and the federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Wilkes-Barre, Pennsylvania
January 10, 2013

**Scranton-Temple Residency Program, Inc.
d/b/a The Wright Center for Graduate Medical Education**

Schedule of Findings and Questioned Costs
June 30, 2012

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? X yes no
- Significant deficiency(ies) identified? X yes none reported

Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? X yes no
- Significant deficiency(ies) identified? X yes none reported

Type of auditor's report issued on compliance for major programs: Qualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? X yes no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
93.530	Affordable Care Act -Teaching Health Center Graduate Medical Education Payments Program
93.918	Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? yes X no

**Scranton-Temple Residency Program, Inc.
d/b/a The Wright Center for Graduate Medical Education**

Schedule of Findings and Questioned Costs
June 30, 2012

Section II - Financial Statement Findings

Finding 2012-01

Financial Statement Finding – Procurement Policies (Significant Deficiency)

Criteria

Included in the Organization's fiscal manual, three written bids must be obtained from procurement of furnishing, equipment, and supplies having a cost greater than \$2,000. Additionally, under OMB Circular A-110, the Organization is required to establish written procurement procedures that provide at a minimum to avoid purchasing unnecessary items, an analysis is made of lease and purchase alternatives to determine which would be the most economical and practical procurement for the Federal Government, and solicitations for goods and services.

Condition

There are written procedures addressing the procurement of goods and services, however, bidding documentation is not maintained.

Context

Current written procurement policies and procedures are not being followed.

Cause

Management does not enforce the policies and procedures as documented in the fiscal manual.

Effect

For procurements funded through federal and state grants, the Organization would be out of compliance.

Questioned costs

There are no questioned costs associated with this finding.

Recommendation

Management should educate all staff on the written policies and procedures regarding procurement as well as establish procedures to ensure procurement procedures are properly followed.

Management Response

See management's corrective action plan.

**Scranton-Temple Residency Program, Inc.
d/b/a The Wright Center for Graduate Medical Education**

Schedule of Findings and Questioned Costs
June 30, 2012

Finding 2012-02

Financial Statement Finding – Lack of Segregation of Duties (Material Weakness)

Criteria

The Organization should have sufficient segregation of duties to allow management or employees to prevent or detect and correct misstatements on a timely basis.

Condition

The bookkeeper is responsible for the collection of cash receipts, depositing receipts collected, and posting the relating journal entries within the general ledger. Additionally, the bookkeeper has the ability to write-off amounts within the system. The payroll process is also performed by one individual who has the responsibility for adding new employees, changing pay rates, processing and distributing payroll.

Context

The accounts receivable and payrolls processes do not have adequate segregation of duties.

Effect

There may be a misstatement in the financial statements that is not prevented or detected and corrected in a timely manner.

Questioned costs

There are no questioned costs associated with this finding.

Recommendation

Both the accounts receivable and payroll processes should be reviewed and duties should be properly segregated to allow management or employees to prevent or detect and correct misstatements on a timely basis. Additionally, the Chief Financial Officer should continue to review specific transactions and be involved in the day-to-day operations.

Management Response

See management's corrective action plan.

**Scranton-Temple Residency Program, Inc.
d/b/a The Wright Center for Graduate Medical Education**

Schedule of Findings and Questioned Costs
June 30, 2012

Finding 2012-03

Affordable Care Act – Teaching Health Center Graduate Medical Education Payments Program (CFDA #93.530) and Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease (CFDA #93.918) (Material Weakness)

Criteria

Reports reflecting the distribution of activity of each employee must be maintained for all staff members (professionals and nonprofessionals) whose compensation is charged, in whole or in part, directly to awards. The reports must reflect an after-the-fact determination of the actual activities of each employee. Budget estimates do not qualify as support for the charges to awards. Each report must account for the total activity for which employees are compensated and which is required in fulfillment of their obligations to the organization. The reports must be signed by the individual employee, or by a responsible supervisory official having firsthand knowledge of the activities performed by the employee, that the distribution of activity represents a reasonable estimate of the actual work performed by the employee during the periods covered by the reports. The reports must be prepared at least monthly and must coincide with one or more pay periods. (2 CFR 230.5)

Condition

There are no reports to reflect an after-the-fact determination of the actual activities performed by the individual charged to the grant.

Context

Currently, compensation charged to the grants are based on budget estimates of time to be charged to the grants.

Cause

Management was not aware of the requirement noted above.

Effect

Management does not have proper documentation of actual activities performed by employees charged to the grant.

Questioned Costs

Total known questioned costs are \$90,021. (\$48,632 Affordable Care Act – Teaching Health Center Graduate Medical Education Payments Program (CFDA #93.530) and \$41,389 Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease (CFDA #93.918))

**Scranton-Temple Residency Program, Inc.
d/b/a The Wright Center for Graduate Medical Education**

Schedule of Findings and Questioned Costs
June 30, 2012

Recommendation

Management should review the required regulations and implement a system to accurately support the actual activities performed by the employees to support the compensation charged to the grants.

Management Response

See management's corrective action plan.

Finding 2012-04

Financial Statement Finding – Account Reconciliations (Significant Deficiency)

Criteria

A properly designed system of internal control over financial reporting should include procedures to ensure accounts are properly reconciled and reviewed.

Condition

The Organization bills for certain amounts related to payroll and other operating expense to an affiliated organization. There is no reconciliation of the amounts charged between the entities. Management was unable to provide detail of what was included in the account at year-end. In addition, agreements for the amounts allocated did not exist in all instances.

Cause

The amounts are recorded through automated entries within the general ledger system.

Effect

The amounts recorded are not properly reconciled to supporting documentation and there is no review of the account.

Questioned Costs

There are no questioned costs associated with this finding.

Recommendation

A policy should be developed for the allocation of expenses to the affiliated organization and approved by management and the board of directors. The procedures should include a reconciliation of the amounts charged to the affiliated organization and the reconciliation should be reviewed for reasonableness by management. In addition, agreements should exist for all intercompany allocations and signed by the proper individuals of each entity.

**Scranton-Temple Residency Program, Inc.
d/b/a The Wright Center for Graduate Medical Education**

Schedule of Findings and Questioned Costs
June 30, 2012

Management Response

See management's corrective action plan.

Finding 2012-05

**Financial Statement Finding – Timely Closing of Books and Records
(Significant Deficiency)**

Criteria

A properly designed system of internal control over financial reporting should include procedures to ensure accounts are properly reconciled and reviewed to permit the entity to close its books in a timely manner.

Condition

The current procedures allow management and employees to back date transactions within the general ledger system to any current or prior period. Under various grants received by the entity, there are monthly and quarterly reporting requirements.

Context

Reports are prepared and filed timely with the granting agency, however, the amounts reported are not adequately supported by the entity's books and records for the period being reported on.

Cause

Certain accounts and reconciliations are not performed until after the reports are filed with the granting agency.

Effect

The reports filed with the funding agencies on a monthly or quarterly may be materially misstated.

Questioned Costs

There are no questioned costs associated with this finding.

Recommendation

The general ledger should be closed on a monthly basis and account reconciliations should be prepared to ensure that monthly and quarterly reporting to grant agencies is accurate.

Management Response

See management's corrective action plan.

**Scranton-Temple Residency Program, Inc.
d/b/a The Wright Center for Graduate Medical Education**

Schedule of Findings and Questioned Costs
June 30, 2012

Section III – Federal Award Findings

Finding 2012-03

Affordable Care Act – Teaching Health Center Graduate Medical Education Payments Program (CFDA #93.530) and Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease (CFDA #93.918) (Material Weakness)

Criteria

Reports reflecting the distribution of activity of each employee must be maintained for all staff members (professionals and nonprofessionals) whose compensation is charged, in whole or in part, directly to awards. The reports must reflect an after-the-fact determination of the actual activities of each employee. Budget estimates do not qualify as support for the charges to awards. Each report must account for the total activity for which employees are compensated and which is required in fulfillment of their obligations to the organization. The reports must be signed by the individual employee, or by a responsible supervisory official having firsthand knowledge of the activities performed by the employee, that the distribution of activity represents a reasonable estimate of the actual work performed by the employee during the periods covered by the reports. The reports must be prepared at least monthly and must coincide with one or more pay periods. (2 CFR 230.5)

Condition

There are no reports to reflect an after-the-fact determination of the actual activities performed by the individual charged to the grant.

Context

Currently, compensation charged to the grants are based on budget estimates of time to be charged to the grants.

Cause

Management was not aware of the requirement noted above.

Effect

Management does not have proper documentation of actual activities performed by employees charged to the grant.

Questioned Costs

Total known questioned costs are \$90,021. (\$48,632 Affordable Care Act – Teaching Health Center Graduate Medical Education Payments Program (CFDA #93.530) and \$41,389 Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease (CFDA #93.918))

**Scranton-Temple Residency Program, Inc.
d/b/a The Wright Center for Graduate Medical Education**

Schedule of Findings and Questioned Costs
June 30, 2012

Recommendation

Management should review the required regulations and implement a system to accurately support the actual activities performed by the employees to support the compensation charged to the grants.

Management Response

See management's corrective action plan.

Finding 2012-06

Affordable Care Act – Teaching Health Center Graduate Medical Education Payments Program (CFDA #93.530) (Significant Deficiency)

Criteria

Accountability for authorization is fixed in an individual who is knowledgeable of the requirements for determining activities allowed and allowable costs.

Condition

In documenting internal controls surrounding the Affordable Care Act – Teaching Health Center Graduate Medical Education Payment Program, it was noted that the Education and Community Relevance Leader, was to sign off on any invoices charged to the grant as an allowable expense. However, through a review of a sample of the expenditures it was noted that invoices were not properly approved by the Education and Community Relevance Leader but were approved by the Chief Financial Officer.

Context

Of the 25 invoices tested, 21 invoices did not have a sign off by the Education and Community Relevance Leader.

Cause

Individuals within the accounting department were not aware of this internal control.

Effect

There is an increased risk of an unallowable cost being charged to the grant.

Questioned Costs

There are no questioned costs associated with this finding.

**Scranton-Temple Residency Program, Inc.
d/b/a The Wright Center for Graduate Medical Education**

Schedule of Findings and Questioned Costs
June 30, 2012

Recommendation

There should be written policies and procedures over grant accounting. Additionally, any individuals involved in the accounting for the grant should be properly trained on the policies and procedures.

Management Response

See management's corrective action plan.



**THE WRIGHT CENTER FOR GRADUATE MEDICAL EDUCATION
CORRECTIVE ACTION PLAN
June 30, 2012**

FINDING 2012-01

Financial Statement Finding – Procurement Policies (Significant Deficiency)

Recommendation:

Management should educate all staff on the written policies and procedures regarding procurement as well as establish procedures to ensure procurement procedures are properly followed.

Action steps:

- The Purchasing Policy will be revised to reflect a threshold of \$5,000 for required bidding of furnishings, equipment and supplies. The revised policy will be presented to the Executive Committee of the Board on December 12, 2012 for recommended approval.
- Implementation of the revised policy will begin immediately after Committee approval. The Wright Center staff will be educated on the Purchasing Policy requirements prior to December 31, 2012.
- Review of the implementation of the policy will be done quarterly.

FINDING 2012-02

Financial Statement Finding – Lack of Segregation of Duties (Material Weakness)

Recommendation:

Both the accounts receivable and payroll processes should be reviewed and duties should be properly segregated to allow management or employees to prevent or detect and correct misstatements on a timely

basis. Additionally, the Chief Financial Officer should continue to review specific transactions and be involved in the day-to-day operations.

Action steps:

- **Human Resource (HR) module** of the accounting system will be installed on the computers of HR by December 14, 2102.
- Training in the use of HR module will be provided by December 21, 2012.
- **Employee Master File** will be exclusively maintained and updated by HR for any changes.
- Processing of payroll and payroll-related transactions will be done by Finance.
- Within Finance, segregation of duties will be defined and maintained. A/P Clerk will be assigned in the collection of cash receipts and depositing of collected receipts. Accounting Manager will be assigned in the posting of journal entries in the general ledger.
- Access rights to Accounting and HR systems in line with segregation of duties and temporary access rights for back-up coverage will be defined and assigned appropriately. Back-up coverage will be clearly defined by HR and Finance Directors proactively.

FINDING 2012-03

Affordable Care Act – Teaching Health Center Graduate Medical Education Payments Program (CFDA #93.530) and Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease (CFDA #93.918) (Material Weakness)

Recommendation:

Management should review the required regulations and implement a system to accurately support the actual activities performed by the employees to support the compensation charged to the grants.

Action steps:

- In compliance with OMB Circular A-21 requirement for certifying effort rendered on federally sponsored grants, the Wright Center will establish a system to facilitate certification of effort expended by employees on each federal grant.
- Each employee participating in federally sponsored grant will be required to certify that the effort expended on a grant is at least commensurate with the salary charged against the sponsored grant or project. The system will show how the salary was funded during the month and year to date. It will

allow the employee to certify and then forward the report to the supervisor for further review. The system will give option to employee to request consultation with the supervisor, as needed.

- An on-line solution for certification of effort will be set up and tested.
- Roll out of Effort Verification/Certification system will be done by February 2013.
- The Effort Reporting and Employee Verification process, as well as expectations of employee time tracking and time studies will be reviewed annually at the managers meeting and during orientation of new management staff.

FINDING 2012-04

Financial Statement Finding – Account Reconciliations (Significant Deficiency)

Recommendation:

A policy should be developed for the allocation of expenses to the affiliated organization and approved by management and the board of directors. The procedures should include a reconciliation of the amounts charged to the affiliated organization and the reconciliation should be reviewed for reasonableness by management. In addition, agreements should exist for all intercompany allocation and signed by the proper individuals for each entity.

Action steps:

- An agreement between Wright Center for Graduate Medical Education (WCGME) and Wright Center Medical Group, P.C. (WCMG) covering the payment of salary and non-salary expenses will be presented to the respective Boards for approval. This agreement will memorialize the practice of WCGME acting as common paymaster and common paying agent for both organizations.
- General Ledger (GL) codes for *due to/due from* affiliated organizations will be expanded to track accounting for payroll/payroll-related activities and non-payroll activities. GL codes 1999 and 2999 will be used to account for due to/due from (payroll), and GL codes 1998 and 2998 will be used for due to/due from (non-payroll). New codes will be set up by January 2013. These accounts will be reconciled on a monthly basis by finance personnel.

FINDING 2012-05

Financial Statement Finding – Timely Closing of Books and Records (Significant Deficiency)

Recommendation:

The general ledger should be closed on a monthly basis and account reconciliations should be prepared to ensure that monthly and quarterly reporting to grant agencies is accurate.

Action steps:

- Policies and Procedures for closing of books and records and dissemination of financial information will be updated and reviewed to promote monthly "hard close" by the 25th of the month, for the previous month.
- This policy will be presented to the Executive Committee of the WCGME Board and to the WCMG Board for recommended approval.
- Effective with the October financial statements, a "hard close" will be performed for both WCGME and WCMG on a monthly basis. Journal entries and reconciliations will be reviewed on an ongoing basis by the Finance Director with appropriate sign off.
- All management staff will be educated about the timely Closing of Books and Records and the timeline for reliable monthly "hard close" of the books. This policy will be reviewed annually in January at the managers meeting. Managers will educate all staff and encourage receipt and purchase order compliance. This policy will be emphasized during orientation of new management.

FINDING 2012-06

Affordable Care Act – Teaching Health Center Graduate Medical Education Payments Program (CFDA #93.530) (Significant Deficiency)

Recommendation:

There should be written policies and procedures over grant accounting. Additionally, any individuals involved in the accounting for the grant should be properly trained on the policies and procedures.

Action steps:

- Meetings will be scheduled to educate the Wright Center staff on the general ledger accounting codes associated with each grant so that expenses can be charged to the grant appropriately. Individuals involved in the implementation and management of grant activities will be properly trained on grant accounting policies and procedures, and will be educated on grant expectations, general as well as specific grant requirements and conditions.
- Monthly as well as year-to-date financial performance of each grant (Actual vs. Budget) and detailed grant activity transactions will be distributed to grant leadership and program managers for review and reconciliation. These documents will be used for discussion in meeting grant expected requirements and outcomes. FTE allocations and Effort Reporting and Employee verification will also be circulated.