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POLICY

This policy applies to The Johns Hopkins Health System Corp. (JHHS) and the following affiliated entities: The Johns Hopkins Hospital (JHH), Johns Hopkins Bayview Medical Center (JHBMC), Howard County General Hospital (HCGH), Johns Hopkins Community Physicians (JHCP), Johns Hopkins Medical Services Corporation (JHMSC), Johns Hopkins Medicine International (JHMI), Ophthalmology Associates (OA), Johns Hopkins Employer Health Programs (EHP), Johns Hopkins Medical Management Corporation (JHMMC), Priority Partners (PP), Johns Hopkins Pharmaquip, Inc. (JHPQ), Johns Hopkins Home Health Services, Inc. (JHHHS), Johns Hopkins Pediatrics Home, Inc. (JHPAHI), Johns Hopkins HealthCare (JHHC), Johns Hopkins Home Care Group (JHHCG), Suburban Health Center (SHC), Broadway Acquisition and Development, and HCGH OB/GYN Associates Series, LLC (HCGH OBGYN).

Purpose

The purpose of this policy is to document the control environment over the financial reporting for JHHS and its affiliates.


In May, 2006, the AICPA issued SAS 112, "Communicating Internal Control Related Matters Identified in an Audit" ("SAS112"). This pronouncement is effective for financial periods ending on or after December 15, 2006 – or fiscal year 2007 for JHHS and its affiliates. SAS 112 is effective for the entire fiscal year, not just as of June 30, 2007; thus, all controls must be documented for the entire fiscal year, as appropriate. It makes the definitions of control exceptions consistent with the PCAOB's Auditing Standard No. 2 – "An Audit of Internal Control over Financial Reporting Performed in conjunction with an Audit of Financial Statements", defining significant deficiency and material weakness. The classification of a control deficiency now depends upon the likelihood of a misstatement and the potential magnitude or materiality.

<u>Type of deficiency</u>	<u>Likelihood of Misstatement</u>	<u>Potential Magnitude</u>	<u>Type of Communication</u>
Internal control deficiency	Remote likelihood (<5-10%)	Inconsequential	Management letter
Significant deficiency	More than remote	More than inconsequential	Formal Audit Committee
Material Weakness	More than remote	Material	Formal Audit Committee

More than remote likelihood means reasonably possible (chance of event is more than remote but less than likely) or probable (the future event is likely to occur) as defined in SFAS 5, Accounting for Contingencies.

The auditors are not required to perform additional procedures to identify deficiencies in internal controls. However, during the course of an audit, the auditor may become aware of control deficiencies. The auditor must then evaluate the identified deficiency and determine whether it is an internal control deficiency, a significant deficiency or a material weakness. A qualitative assessment will ensue which will include the nature of the account that had an error, its balance, its effect on other accounts, etc. Compensating controls can reduce or eliminate the exposure.

A SAS 112 control memorandum has been prepared for each affiliate documenting the controls over financial reporting.

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Procedures

Each Director is responsible for documenting the control environment over financial reporting for each of their affiliates. Every control outlined in the SAS 112 memorandum should be performed timely and accurately and clearly documented each month. The SAS 112 memorandum is to be updated as frequently as needed, but at a minimum annually. Each affiliate SAS 112 memorandum is attached – see exhibit listing below.

Exhibit Listing (please see below):

Exhibit 1	JHHS Consolidated SAS 112 memo
Exhibit 2	JHHSC/OA/HSI SAS 112 memo
Exhibit 3	JHH SAS 112 memo
Exhibit 4	JHBMC SAS 112 memo
Exhibit 5	HCGH SAS 112 memo
Exhibit 6	HCGH OB/GYN SAS 112 memo
Exhibit 7	JHCP SAS 112 memo
Exhibit 8	EHP SAS 112 memo
Exhibit 9	MSC SAS 112 memo
Exhibit 10	JHMMC/SHC SAS 112 memo
Exhibit 11	JHHC SAS 112 memo
Exhibit 12	PP SAS 112 memo
Exhibit 13	JHHCG SAS 112 memo
Exhibit 14	JHI SAS 112 memo

RESPONSIBILITIES

Controller, JHHS	Ensure that all controls identified in the SAS 112 memorandum are being completed timely and accurately.
Directors of Finance, JHHS	Ensure that appropriate Director sign offs on controls identified in the SAS 112 memorandum are being performed timely and accurately. Ensure SAS 112 memorandum is updated at least annually.

SPONSOR

Vice President of Finance/CFO and Treasurer, JHHS


REVIEW CYCLE

Three (3) years

APPROVAL

President, JHHS

Date

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EXHIBIT 1

Johns Hopkins Health System and Affiliates Assessment of Controls over Financial Reporting SAS 112 -

“Communicating Internal Control Matters Identified in an Audit”

The following is an analysis and assessment of internal controls over financial reporting in response to the issuance of Statement on Auditing Standard No. 112 - Communicating Internal Control Matters Identified in an Audit (“SAS 112”).

Background:

SAS 112 was issued in May 2006 and is effective for fiscal year’s ending after 12/15/06. SAS 112 is effective for the entire fiscal year, not just as of June 30, 2007; thus, all controls must be documented for the entire fiscal year, as appropriate. It makes the definitions of control exceptions consistent with the PCAOB’s Auditing Standard No. 2, defining significant deficiency and material weakness. The classification of a control deficiency now depends upon the likelihood of a misstatement and the potential magnitude or materiality.

<u>Type of deficiency</u>	<u>Likelihood of Misstatement</u>	<u>Potential Magnitude</u>	<u>Type of Communication</u>
Internal control deficiency		Remote likelihood (<5-10%)	Inconsequential
Significant deficiency	Management letter	More than inconsequential	Formal Audit Committee
Material Weakness	More than remote	Material	Formal Audit Committee

More than remote likelihood means reasonably possible (chance of event is more than remote but less than likely) or probable (the future event is likely to occur) as defined in SFAS 5, Accounting for Contingencies.


The auditors are not required to perform additional procedures to identify deficiencies in internal controls. However, during the course of an audit, the auditor may become aware of control deficiencies. The auditor must then evaluate the identified deficiency and determine whether it is an internal control deficiency, a significant deficiency or a material weakness. A qualitative assessment will ensue which will include the nature of the account that had an error, its balance, its effect on other accounts, etc. Compensating controls can reduce or eliminate the exposure.

Materiality:

It is critical to assess materiality for the balance sheet, statements of operations and changes in net assets and cash flows. The benchmark for inconsequential threshold is 20% of materiality threshold. Materiality for the statements of operations and changes in net assets and the cash flows is equal to 1% of total revenues; the balance sheet being 1% of total assets.

		<u>Materiality</u>	<u>20% Benchmark</u>
Estimated FY 07 revenues	\$2.2 billion x 1%	\$22,000,000	\$4,400,000
Estimated FY 07 total assets	\$2.2 billion x 1%	\$22,000,000	\$4,400,000

The assessment of materiality is subjective and goes beyond the amount of any error found. In addition, qualitative factors must also be taken into account whenever assessing materiality. The auditors will attempt to extrapolate the error found to its maximum potential impact on the financial statements; that is, they will evaluate how large an error could have been as opposed to just the actual error.

 <p>JOHNS HOPKINS MEDICINE JOHNS HOPKINS HEALTH SYSTEM</p>	<p>The Johns Hopkins Health System Policy & Procedure</p>	<p><i>Policy Number</i></p>	<p>FIN126</p>
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Continuum of Internal Controls:

Internal controls typically fall into one of the following areas.

- Unreliable – Control activities are not designed or in place. The environment is unpredictable.
- Informal – Control activities are designed and in place but they are not adequately documented.
- Standardized – Control activities are designed, in place and adequately documented.
- Monitored – Control activities are standardized. There is periodic testing for effective design and operation with reporting to management.
- Optimized – Controls are integrated. There is real-time monitoring by management and continuous improvement.

Assessment of Critical Controls:

In order for an auditor to rely on an internal control, it must be documented. Informal controls are not as reliable as formal controls, and therefore other compensating controls or procedures will be required to offset a negative outcome from an informal control. Identification of significant accounts, key controls and disclosures over financial reporting is the basis for an assessment.

Significant accounts:

There are no significant accounts as all accounts are contained in each of the affiliate entities. This memorandum is used to document consolidation procedures.

Key Controls:

Aside from all the control procedures identified in compiling each affiliates financial statements. The following are key controls relied upon in the preparation of JHHS' consolidated financial statements.

- Each affiliate's excess of revenues over expenses per the Excel combined financial statements is compared to the BCS SAP report monthly. Accounting – JHHS.
- The consolidated financial statements are reviewed by the Controller prior to issuance.
- Quarterly, the consolidated financial statements are compiled into a quarterly report, and reviewed by the Controller, CFO, and President of JHHS prior to issuance.

Disclosures:


On an annual basis, detailed footnote disclosures are prepared for complete audited financial statements. These disclosures are prepared by the Director of Accounting – JHHS. Detailed documentation supporting the amounts included in the footnotes is provided to the auditors for their review and verification.

Other Areas of Risk:

Reserves – Reserves are contained in each affiliate's financial statements.

Fraud prevention – JHHS has a no tolerance policy when it involves fraud. This tone is portrayed from top levels of management. Employees found to have perpetrated fraudulent activities are terminated immediately. Each employee signs the JHHS employee hand book that includes the code of conduct. A whistle blower hotline exists for employees to report anonymously any potential activities that involve fraud.


Prior year management letter comments – All prior year management letter comments are resolved as

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quickly as possible. Unresolved prior year management letter comments could potentially be significant deficiencies. JHHS has an Audit Coordinating Committee that meets monthly to discuss, among other things, management letter comments and their resolution.

Prior year adjustments – All prior year adjustments are evaluated to ensure that they are not areas of adjustment in the current year. There were no adjustments made in FY 06.

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**Johns Hopkins Health System Corp/Ophthalmology Associates/HSI
 Assessment of Controls over Financial Reporting
 SAS 112 -
 “Communicating Internal Control Matters Identified in an Audit”**

The following is an analysis and assessment of internal controls over financial reporting in response to the issuance of Statement on Auditing Standard No. 112 - Communicating Internal Control Matters Identified in an Audit (“SAS 112”).

Background:

SAS 112 was issued in May 2006 and is effective for fiscal year’s ending after 12/15/06. SAS 112 is effective for the entire fiscal year, not just as of June 30, 2007; thus, all controls must be documented for the entire fiscal year, as appropriate. It makes the definitions of control exceptions consistent with the PCAOB’s Auditing Standard No. 2, defining significant deficiency and material weakness. The classification of a control deficiency now depends upon the likelihood of a misstatement and the potential magnitude or materiality.

<u>Type of deficiency</u>	<u>Likelihood of Misstatement</u>	<u>Potential Magnitude</u>	<u>Type of Communication</u>
Internal control deficiency	Management letter	Remote likelihood (<5-10%)	Inconsequential
Significant deficiency	More than remote	More than inconsequential	Formal Audit Committee
Material Weakness	More than remote	Material	Formal Audit Committee

More than remote likelihood means reasonably possible (chance of event is more than remote but less than likely) or probable (the future event is likely to occur) as defined in SFAS 5, Accounting for Contingencies.

The auditors are not required to perform additional procedures to identify deficiencies in internal controls. However, during the course of an audit, the auditor may become aware of control deficiencies. The auditor must then evaluate the identified deficiency and determine whether it is an internal control deficiency, a significant deficiency or a material weakness. A qualitative assessment will ensue which will include the nature of the account that had an error, its balance, its effect on other accounts, etc. Compensating controls can reduce or eliminate the exposure.


Materiality:

It is critical to assess materiality for the balance sheet, statements of operations and changes in net assets and cash flows. The benchmark for inconsequential threshold is 20% of materiality threshold. Materiality for the statements of operations and changes in net assets and the cash flows is equal to 1% of total revenues; the balance sheet being 1% of total assets.

		<u>Materiality</u>	<u>20% Benchmark</u>
Estimated FY 07 revenues	\$161 million x 1%	\$1,610,000	\$322,000
Estimated FY 07 total assets	\$208 million x 1%	\$2,080,000	\$416,000

The assessment of materiality is subjective and goes beyond the amount of any error found. In addition, qualitative factors must also be taken into account whenever assessing materiality. The auditors will attempt to extrapolate the error found to its maximum potential impact on the financial statements; that is, they will evaluate how large an error could have been as opposed to just the actual error.

Continuum of Internal Controls:

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Internal controls typically fall into one of the following areas.

- Unreliable – Control activities are not designed or in place. The environment is unpredictable.
- Informal – Control activities are designed and in place but they are not adequately documented.
- Standardized – Control activities are designed, in place and adequately documented.
- Monitored – Control activities are standardized. There is periodic testing for effective design and operation with reporting to management.
- Optimized – Controls are integrated. There is real-time monitoring by management and continuous improvement.

Assessment of Critical Controls:

In order for an auditor to rely on an internal control, it must be documented. Informal controls are not as reliable as formal controls, and therefore other compensating controls or procedures will be required to offset a negative outcome from an informal control. Identification of significant accounts, key controls and disclosures over financial reporting is the basis for an assessment.

Significant accounts:

The following is a listing of significant accounts, frequency of account reconciliation, and review frequency:


<u>Account</u>	<u>Frequency of Reconciliation</u>	<u>Review Frequency</u>
Cash	Monthly	Every other Month
Accounts receivable	Monthly	Every other Month
A/R reserves	Monthly	Every other Month
Debt service reserves	Monthly	Every other Month
Investments	Monthly	Every other Month
A/P & accruals	Monthly	Every other Month
Accrued payroll	Monthly	Every other Month
Intercompany accts	Monthly	Every other Month
LTD	Monthly	Every other Month
All Others	Min Quarterly	Min Quarterly

All reviews are performed by the Director of Accounting, and documented via initialing on the account recs and noted on summary sheet.

Key Controls:

Aside from the review of significant accounts mentioned above, the following are other key controls relied upon in the preparation of financial statements.

- Two levels of formal financial statement review exist. These formal review sessions are documented via sign in sheets. Detailed statistical and other fluctuation analyses, including significant financial statement fluctuations, are included in these financial statement reviews.
 - 1) 9th Day review – consisting of the JHHS CFO and Controller, and all the Finance heads of each Affiliate and the Directors of Accounting – JHHS.
 - 2) 10th Day review – consisting of the JHHS President, CFO, Controller and all the Finance heads of each Affiliate and the Directors of Accounting – JHHS.

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- All manual journal entries greater than \$250,000 for JHHSC, \$10,000 for OA, and \$50,000 for HIS are reviewed and signed off by the Director of Accounting – JHHS.
- Financial statements are prepared by the Senior Accountant, and reviewed by the Director of Accounting – JHHS, and then reviewed by the Controller – JHHS. This review is performed after the two formal review sessions mentioned above, and is focused on ensuring completeness of the financial statement packages as opposed to explaining critical account balances or fluctuations; therefore, no formal process of approval exists.
- On a quarterly basis, a consolidated financial statement report is prepared for external distribution that includes a combining statements of operations and changes in net assets, balance sheets, and statements of cash flows, as well as statistical data and management’s discussion and analysis of the quarter and year-to-date financial results. This quarterly report is reviewed by all levels of the JHHS organization.

Disclosures:

On an annual basis, detailed footnote disclosures are prepared for complete audited financial statements. These disclosures are prepared by the Senior Accountant and Director of Accounting – JHHS. Detailed documentation supporting the amounts included in the footnotes is provided to the auditors for their review and verification. Additionally, the Director of Accounting prepares the Financial Statement Disclosure Checklist (FSDCL), provided by PWC, on an annual basis to ensure completeness of disclosures.

Other Areas of Risk:


Reserves – At June 30, 2006, JHHS included approximately \$4 million in reserves on its balance sheet for issues which might be identified in the future that relate to June 30, and prior. The reserve balance is located in the other accrued expense accounts. These accounts are monitored monthly during the review process.

Implementation of Enterprise Resource Planning System – Effective January 1, 2007 JHHS Affiliates have implemented SAP’s enterprise resource planning (“ERP”) financial systems in the area of supply chain, H.R./Payroll, grants and government contracts and general ledger/financial reporting. The effective date follows years of preparation, testing and training for the new system. Several committees from leadership including a committee of the Johns Hopkins Medicine Board of Trustees had oversight responsibilities for the implementation and the Office of Hopkins internal audit had participation in the implementation plan.

Fraud prevention – JHHS has a no tolerance policy when it involves fraud. This tone is portrayed from top levels of management. Employees found to have perpetrated fraudulent activities are terminated immediately. Each employee signs the JHHS employee hand book that includes the code of conduct. A whistle blower hotline exists for employees to report anonymously any potential activities that involve fraud.

Prior year management letter comments – All prior year management letter comments are resolved as quickly as possible. Unresolved prior year management letter comments could potentially be significant deficiencies. JHHS has an Audit Coordinating Committee that meets monthly to discuss, among other things, management letter comments and their resolution.

Prior year adjustments – All prior year adjustments are evaluated to ensure that they are not areas of adjustment in the current year. There were no adjustments made in FY 06.

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EXHIBIT 3

Johns Hopkins Hospital Assessment of Controls over Financial Reporting SAS 112 -

“Communicating Internal Control Matters Identified in an Audit”

The following is an analysis and assessment of internal controls over financial reporting in response to the issuance of Statement on Auditing Standard No. 112 - Communicating Internal Control Matters Identified in an Audit (“SAS 112”).

Background:

SAS 112 was issued in May 2006 and is effective for fiscal year’s ending after 12/15/06. SAS 112 is effective for the entire fiscal year, not just as of June 30, 2007; thus, all controls must be documented for the entire fiscal year, as appropriate. It makes the definitions of control exceptions consistent with the PCAOB’s Auditing Standard No. 2, defining significant deficiency and material weakness. The classification of a control deficiency now depends upon the likelihood of a misstatement and the potential magnitude or materiality.

<u>Type of deficiency</u>	<u>Likelihood of Misstatement</u>	<u>Potential Magnitude</u>	<u>Type of Communication</u>
Internal control deficiency		Remote likelihood (<5-10%)	Inconsequential
Significant deficiency	Management letter	More than inconsequential	Formal Audit Committee
Material Weakness	More than remote	Material	Formal Audit Committee

More than remote likelihood means reasonably possible (chance of event is more than remote but less than likely) or probable (the future event is likely to occur) as defined in SFAS 5, Accounting for Contingencies.


The auditors are not required to perform additional procedures to identify deficiencies in internal controls. However, during the course of an audit, the auditor may become aware of control deficiencies. The auditor must then evaluate the identified deficiency and determine whether it is an internal control deficiency, a significant deficiency or a material weakness. A qualitative assessment will ensue which will include the nature of the account that had an error, its balance, its effect on other accounts, etc. Compensating controls can reduce or eliminate the exposure.

Materiality:

It is critical to assess materiality for the balance sheet, statements of operations and changes in net assets and cash flows. The benchmark for inconsequential threshold is 20% of materiality threshold. Materiality for the statements of operations and changes in net assets and the cash flows is equal to 1% of total revenues; the balance sheet being 1% of total assets.

		<u>Materiality</u>	<u>20% Benchmark</u>
Estimated FY 07 revenues	\$1,460 million x 1%	\$14,600,000	\$2,920,000
Estimated FY 07 total assets	\$1,498 million x 1%	\$14,980,000	\$2,996,000

The assessment of materiality is subjective and goes beyond the amount of any error found. In addition, qualitative factors must also be taken into account whenever assessing materiality. The auditors will attempt to extrapolate the error found to its maximum potential impact on the financial statements; that is, they will evaluate how large an error could have been as opposed to just the actual error.

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Continuum of Internal Controls:

Internal controls typically fall into one of the following areas.

- Unreliable – Control activities are not designed or in place. The environment is unpredictable.
- Informal – Control activities are designed and in place but they are not adequately documented.
- Standardized – Control activities are designed, in place and adequately documented.
- Monitored – Control activities are standardized. There is periodic testing for effective design and operation with reporting to management.
- Optimized – Controls are integrated. There is real-time monitoring by management and continuous improvement.

Assessment of Critical Controls:

In order for an auditor to rely on an internal control, it must be documented. Informal controls are not as reliable as formal controls, and therefore other compensating controls or procedures will be required to offset a negative outcome from an informal control. Identification of significant accounts, key controls and disclosures over financial reporting is the basis for an assessment.

Significant accounts:

The following is a listing of JHH’s significant accounts, frequency of account reconciliation, and review frequency:


<u>Account</u>	<u>Frequency of Reconciliation</u>	<u>Review Frequency</u>
Cash	Monthly	Monthly
Accounts receivable	Monthly	Monthly
A/R reserves	Monthly	Monthly
Temporarily restricted assets	Monthly	Monthly
Investments	Monthly	Monthly
Inventories	Monthly	Monthly
Property, plant & equipment	Monthly	Monthly
A/P & accruals	Monthly	Monthly
Advances from third party payors	Monthly	Monthly
Inter-company accts	Monthly	Monthly
Long-term debt	Monthly	Monthly
All Others	Min Quarterly	Min Quarterly

All reviews are performed by the Director of Accounting, and documented via initialing on a summary trial balance for all reviews.

Key Controls:

Aside from the review of significant accounts mentioned above, the following are other key controls relied upon in the preparation of financial statements.

- Two levels of formal financial statement review exist. These formal review sessions are documented via sign in sheets. Detailed statistical and other fluctuation analyses, including significant financial statement fluctuations, are included in these financial statement reviews.
 - 1) 9th Day review – consisting of the JHHS CFO and Controller, and all the Finance heads of each

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Affiliate and the Directors of Accounting – JHHS.

2) 10th Day review – consisting of the JHHS President, CFO, Controller and all the Finance heads of each Affiliate and the Directors of Accounting – JHHS.

- An informal control process exists through an 8th Day review process which – consists of review of the financial statements and operating results each month by the Director of Budget and Revenue – JHH, Director of Accounting - JHHS, Senior Accountant – JHH and numerous JHH Financial Analysts.
- The monthly closing process for JHH includes a daily thorough review of the financial statements and operating results by the Director of Accounting – JHH and review of the financial statements with the JHHS accounting staff responsible for JHH. Due to the in-process nature of this process and the numerous reiterations of the financial statements no formal process of approval exists.
- Financial statements are prepared by the Senior Accountant, and reviewed by the Director of Accounting – JHHS, and then reviewed by the Controller – JHHS. This review is performed after the three formal review sessions mentioned above, and is focused on ensuring completeness of the financial statement packages as opposed to explaining critical account balances or fluctuations; therefore, no formal process of approval exists.
- A closing check list detailing all the many different types of journal entries required to close the books is maintained by the Senior and Staff Accountant. Each step is signed off as they are completed and the list is reviewed and signed by the Director of Accounting - JHH.
- All manual journal entries greater than \$2,000,000 are reviewed and signed off monthly by the Director of Accounting – JHHS. The Women’s Board sign off level is \$50,000.
- On a quarterly basis, a consolidated financial statement report is prepared for external distribution that includes a combining statements of operations and changes in net assets, balance sheets, and statements of cash flows, as well as statistical data and management’s discussion and analysis of the quarter and year-to-date financial results. JHH is one of the three hospitals specifically listed in the combining statements. This quarterly report is reviewed by all levels of the JHHS organization.

Disclosures:


On an annual basis, detailed footnote disclosures are prepared for complete audited financial statements. These disclosures are prepared by the Senior Accountant and Director of Accounting – JHHS. Detailed documentation supporting the amounts included in the footnotes is provided to the auditors for their review and verification. Additionally, the Director of Accounting prepares the Financial Statement Disclosure Checklist (FSDCL), provided by PWC, on an annual basis to ensure completeness of disclosures.

Other Areas of Risk:

Reserves – At June 30, 2006, JHH included approximately \$33.8 million in reserves on its balance sheet for issues which might be identified in the future that relate to June 30, and prior. A signed letter documenting the nature of the balances is on file. The reserve balances were allocated between allowance for doubtful accounts and other accrued expense accounts. These accounts are monitored monthly during the 9th and 10th Day review process.

Implementation of Enterprise Resource Planning System – Effective January 1, 2007 JHHS Affiliates have implemented SAP’s enterprise resource planning (“ERP”) financial systems in the area of supply chain, H.R./Payroll, grants and government contracts and general ledger/financial reporting. The effective date follows years of preparation, testing and training for the new system. Several committees from leadership including a committee of the Johns Hopkins Medicine Board of Trustees had oversight responsibilities for the implementation and the Office of Hopkins internal audit had participation in the implementation plan.

Fraud prevention – JHHS has a no tolerance policy when it involves fraud. This tone is portrayed from top levels of management. Employees found to have perpetrated fraudulent activities are terminated immediately.


 JOHNS HOPKINS MEDICINE <hr/> JOHNS HOPKINS HEALTH SYSTEM	The Johns Hopkins Health System Policy & Procedure	<i>Policy Number</i>	FIN126
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Each employee signs the JHHS employee hand book that includes the code of conduct. A whistle blower hotline exists for employees to report anonymously any potential activities that involve fraud.

Prior year management letter comments – All prior year management letter comments are resolved as quickly as possible. Unresolved prior year management letter comments could potentially be significant deficiencies. JHHS has an Audit Coordinating Committee that meets monthly to discuss, among other things, management letter comments and their resolution.

Prior year adjustments – All prior year adjustments are evaluated to ensure that they are not areas of adjustment in the current year. There were no adjustments made in FY 06.

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EXHIBIT 4

Johns Hopkins Bayview Medical Center Assessment of Controls over Financial Reporting SAS 112 -

“Communicating Internal Control Matters Identified in an Audit”

The following is an analysis and assessment of internal controls over financial reporting in response to the issuance of Statement on Auditing Standard No. 112 - Communicating Internal Control Matters Identified in an Audit (“SAS 112”).

Background:

SAS 112 was issued in May 2006 and is effective for fiscal year’s ending after 12/15/06. SAS 112 is effective for the entire fiscal year, not just as of June 30, 2007; thus, all controls must be documented for the entire fiscal year, as appropriate. It makes the definitions of control exceptions consistent with the PCAOB’s Auditing Standard No. 2, defining significant deficiency and material weakness. The classification of a control deficiency now depends upon the likelihood of a misstatement and the potential magnitude or materiality.

<u>Type of deficiency</u>	<u>Likelihood of Misstatement</u>	<u>Potential Magnitude</u>	<u>Type of Communication</u>
Internal control deficiency		Remote likelihood (<5-10%)	Inconsequential
Significant deficiency	Management letter	More than inconsequential	Formal Audit Committee
Material Weakness	More than remote	Material	Formal Audit Committee

More than remote likelihood means reasonably possible (chance of event is more than remote but less than likely) or probable (the future event is likely to occur) as defined in SFAS 5, Accounting for Contingencies.


The auditors are not required to perform additional procedures to identify deficiencies in internal controls. However, during the course of an audit, the auditor may become aware of control deficiencies. The auditor must then evaluate the identified deficiency and determine whether it is an internal control deficiency, a significant deficiency or a material weakness. A qualitative assessment will ensue which will include the nature of the account that had an error, its balance, its effect on other accounts, etc. Compensating controls can reduce or eliminate the exposure.

Materiality:

It is critical to assess materiality for the balance sheet, statements of operations and changes in net assets and cash flows. The benchmark for inconsequential threshold is 20% of materiality threshold. Materiality for the statements of operations and changes in net assets and the cash flows is equal to 1% of total revenues; the balance sheet being 1% of total assets.

		<u>Materiality</u>	<u>20% Benchmark</u>
Estimated FY 07 revenues	\$ 468 million x 1%	\$ 4,680,000	\$ 936,000
Estimated FY 07 total assets	\$ 328 million x 1%	\$ 3,280,000	\$ 656,000

The assessment of materiality is subjective and goes beyond the amount of any error found. In addition, qualitative factors must also be taken into account whenever assessing materiality. The auditors will attempt to extrapolate the error found to its maximum potential impact on the financial statements; that is, they will evaluate how large an error could have been as opposed to just the actual error.

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Continuum of Internal Controls:

Internal controls typically fall into one of the following areas.

- Unreliable – Control activities are not designed or in place. The environment is unpredictable.
- Informal – Control activities are designed and in place but they are not adequately documented.
- Standardized – Control activities are designed, in place and adequately documented.
- Monitored – Control activities are standardized. There is periodic testing for effective design and operation with reporting to management.
- Optimized – Controls are integrated. There is real-time monitoring by management and continuous improvement.

Assessment of Critical Controls:

In order for an auditor to rely on an internal control, it must be documented. Informal controls are not as reliable as formal controls, and therefore other compensating controls or procedures will be required to offset a negative outcome from an informal control. Identification of significant accounts, key controls and disclosures over financial reporting is the basis for an assessment.

Significant accounts:

The following is a listing of JHBMC’s significant accounts, frequency of account reconciliation, and review frequency:


<u>Account</u>	<u>Frequency of Reconciliation</u>	<u>Review Frequency</u>
Cash	Monthly	Monthly
Accounts receivable	Monthly	Monthly
A/R reserves	Monthly	Monthly
Temporarily restricted assets	Monthly	Monthly
Investments	Monthly	Monthly
Inventories	Monthly	Monthly
Property, plant & equipment	Monthly	Monthly
A/P & accruals	Monthly	Monthly
Advances from third parties	Monthly	Monthly
Inter-company accts	Monthly	Monthly
Long-term debt	Monthly	Monthly
All Others	Min. Quarterly	Min. Quarterly

All individual account reconciliation reviews are performed by the supervisor of the personnel performing the reconciliation. The review is documented via initials on the account reconciliation. In addition, the Director of Accounting performs a review for reasonableness of all trial balance accounts and submits review inquiries to the appropriate staff for review and follow-up.

Key Controls:

Aside from the review of significant accounts mentioned above, the following are other key controls relied upon in the preparation of financial statements.

- Three levels of formal financial statement review exist. These formal review sessions are documented via sign in sheets. Detailed statistical and other fluctuation analyses, including

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significant financial statement fluctuations, are included in these financial statement reviews.

- 1) 8th Day review – consisting of the JHBMC CFO, Senior Director of Finance, Director of Revenue and Compliance, Director of Accounting and other directors from JHBMC’s finance team.
 - 2) 9th Day review – consisting of the JHHS CFO and Controller, and all the Finance heads of each Affiliate and the Directors of Accounting – JHHS.
 - 3) 10th Day review – consisting of the JHHS President, CFO, Controller and all the Finance heads of each Affiliate and the Directors of Accounting – JHHS.
- Financial statements are prepared by the Senior Accountant and reviewed by the Director of Accounting – JHHS, and then reviewed by the Controller – JHHS. This review is performed after the three formal review sessions mentioned above, and is focused on ensuring completeness of the financial statement packages as opposed to explaining critical account balances or fluctuations; therefore, no formal process of approval exists.
 - A closing check list detailing all the many different types of journal entries required to close the books is maintained by the Senior and Staff Accountants. Each step is signed off as they are completed.
 - The Director of Accounting reviews and approves all manual journal entries greater than \$500,000. This includes all subsidiaries of JHBMC
 - On a quarterly basis, a consolidated financial statement report is prepared for external distribution that includes a combining statements of operations and changes in net assets, balance sheets, and statements of cash flows, as well as statistical data and management’s discussion and analysis of the quarter and year-to-date financial results. JHBMC is one of the three hospitals specifically listed in the combining statements. This quarterly report is reviewed by all levels of the JHHS organization.

Disclosures:

On an annual basis, detailed footnote disclosures are prepared for complete audited financial statements. These disclosures are prepared by the Senior Accountant and Director of Accounting – JHHS. Detailed documentation supporting the amounts included in the footnotes is provided to the auditors for their review and verification. Additionally, the Director of Accounting prepares the Financial Statement Disclosure Checklist (FSDCL), provided by PWC, on an annual basis to ensure completeness of disclosures.


Other Areas of Risk:

Reserves – At June 30, 2006, JHBMC included approximately \$4.9 million in reserves on its balance sheet for issues which might be identified in the future that relate to June 30, and prior. The reserve balances were allocated between allowance for doubtful accounts and other accrued expense accounts. These accounts are monitored monthly during the 9th and 10th Day review process.

Implementation of Enterprise Resource Planning System – Effective January 1, 2007 JHHS Affiliates have implemented SAP’s enterprise resource planning (“ERP”) financial systems in the area of supply chain, H.R./Payroll, grants and government contracts and general ledger/financial reporting. The effective date follows years of preparation, testing and training for the new system. Several committees from leadership including a committee of the Johns Hopkins Medicine Board of Trustees had oversight responsibilities for the implementation and the Office of Hopkins internal audit had participation in the implementation plan.

Fraud prevention – JHHS has a no tolerance policy when it involves fraud. This tone is portrayed from top levels of management. Employees found to have perpetrated fraudulent activities are terminated immediately. Each employee signs the JHHS employee hand book that includes the code of conduct. A whistle blower hotline exists for employees to report anonymously any potential activities that involve fraud.


Prior year management letter comments – All prior year management letter comments are resolved as

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quickly as possible. Unresolved prior year management letter comments could potentially be significant deficiencies. JHHS has an Audit Coordinating Committee that meets monthly to discuss, among other things, management letter comments and their resolution.

Prior year adjustments – All prior year adjustments are evaluated to ensure that they are not areas of adjustment in the current year. There were no adjustments made in FY 06.

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EXHIBIT 5

Howard County General Hospital, Inc. Assessment of Controls over Financial Reporting SAS 112 -

“Communicating Internal Control Matters Identified in an Audit”

The following is an analysis and assessment of internal controls over financial reporting in response to the issuance of Statement on Auditing Standard No. 112 - Communicating Internal Control Matters Identified in an Audit (“SAS 112”).

Background:

SAS 112 was issued in May 2006 and is effective for fiscal year’s ending after 12/15/06. SAS 112 is effective for the entire fiscal year, not just as of June 30, 2007; thus, all controls must be documented for the entire fiscal year, as appropriate. It makes the definitions of control exceptions consistent with the PCAOB’s Auditing Standard No. 2, defining significant deficiency and material weakness. The classification of a control deficiency now depends upon the likelihood of a misstatement and the potential magnitude or materiality.

<u>Type of deficiency</u>	<u>Likelihood of Misstatement</u>	<u>Potential Magnitude</u>	<u>Type of Communication</u>
Internal control deficiency		Remote likelihood (<5-10%)	Inconsequential
Significant deficiency	Management letter	More than inconsequential	Formal Audit Committee
Material Weakness	More than remote	Material	Formal Audit Committee

More than remote likelihood means reasonably possible (chance of event is more than remote but less than likely) or probable (the future event is likely to occur) as defined in SFAS 5, Accounting for Contingencies.


The auditors are not required to perform additional procedures to identify deficiencies in internal controls. However, during the course of an audit, the auditor may become aware of control deficiencies. The auditor must then evaluate the identified deficiency and determine whether it is an internal control deficiency, a significant deficiency or a material weakness. A qualitative assessment will ensue which will include the nature of the account that had an error, its balance, its effect on other accounts, etc. Compensating controls can reduce or eliminate the exposure.

Materiality:

It is critical to assess materiality for the balance sheet, statements of operations and changes in net assets and cash flows. The benchmark for inconsequential threshold is 20% of materiality threshold. Materiality for the statements of operations and changes in net assets and the cash flows is equal to 1% of total revenues; the balance sheet being 1% of total assets.

		<u>Materiality</u>	<u>20% Benchmark</u>
Estimated FY 07 revenues	\$180 million x 1%	\$1,800,000	\$360,000
Estimated FY 07 total assets	\$190 million x 1%	\$1,900,000	\$380,000

The assessment of materiality is subjective and goes beyond the amount of any error found. In addition, qualitative factors must also be taken into account whenever assessing materiality. The auditors will attempt to extrapolate the error found to its maximum potential impact on the financial statements; that is, they will evaluate how large an error could have been as opposed to just the actual error.

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Continuum of Internal Controls:

Internal controls typically fall into one of the following areas.

- Unreliable – Control activities are not designed or in place. The environment is unpredictable.
- Informal – Control activities are designed and in place but they are not adequately documented.
- Standardized – Control activities are designed, in place and adequately documented.
- Monitored – Control activities are standardized. There is periodic testing for effective design and operation with reporting to management.
- Optimized – Controls are integrated. There is real-time monitoring by management and continuous improvement.

Assessment of Critical Controls:

In order for an auditor to rely on an internal control, it must be documented. Informal controls are not as reliable as formal controls, and therefore other compensating controls or procedures will be required to offset a negative outcome from an informal control. Identification of significant accounts, key controls and disclosures over financial reporting is the basis for an assessment.

Significant accounts:

The following is a listing of HCGH’s significant accounts, frequency of account reconciliation, and review frequency:


<u>Account</u>	<u>Frequency of Reconciliation</u>	<u>Review Frequency</u>
Cash	Monthly	Monthly
Accounts receivable	Monthly	Monthly
A/R reserves	Monthly	Monthly
Debt service reserves	Monthly	Monthly
Investments	Monthly	Monthly
A/P & accruals	Monthly	Monthly
Accrued payroll	Monthly	Monthly
Intercompany accts	Monthly	Monthly
LTD	Monthly	Monthly
Swap FMV	Monthly	Monthly
All Others	Min Quarterly	Min Quarterly

All reviews are performed by the Director of Accounting, and documented via initialing on a summary trial balance for all reviews, whether monthly or quarterly.

Key Controls:

Aside from the review of significant accounts mentioned above, the following are other key controls relied upon in the preparation of financial statements.

- Three levels of formal financial statement review exist. These formal review sessions are documented via sign in sheets. Detailed statistical and other fluctuation analyses, including significant financial statement fluctuations, are included in these financial statement reviews.
 - 1) 8th Day review – consisting of the CFO - HCGH, Director of Finance – HCGH, Director of Accounting - JHHS, and the Manager of Compliance Revenue – JHHS.

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2) 9th Day review – consisting of the JHHS CFO and Controller, and all the Finance heads of each Affiliate and the Directors of Accounting – JHHS.

3) 10th Day review – consisting of the JHHS President, CFO, Controller and all the Finance heads of each Affiliate and the Directors of Accounting – JHHS.

- All manual journal entries greater than \$300,000 are reviewed and signed off by the Director of Accounting – JHHS.
- Financial statements are prepared by the Senior Accountant, and reviewed by the Director of Accounting – JHHS, and then reviewed by the Controller – JHHS. This review is performed after the three formal review sessions mentioned above, and is focused on ensuring completeness of the financial statement packages as opposed to explaining critical account balances or fluctuations; therefore, no formal process of approval exists.
- A closing check lists detailing all the many different types of journal entries required to close the books is maintained by the Senior Accountant. Each step is sign off as they are completed.
- On a quarterly basis, a consolidated financial statement report is prepared for external distribution that includes a combining statements of operations and changes in net assets, balance sheets, and statements of cash flows, as well as statistical data and management’s discussion and analysis of the quarter and year-to-date financial results. HCGH is one of the three hospitals specifically listed in the combining statements. This quarterly report is reviewed by all levels of the JHHS organization.

Disclosures:

On an annual basis, detailed footnote disclosures are prepared for complete audited financial statements. These disclosures are prepared by the Senior Accountant and Director of Accounting – JHHS. Detailed documentation supporting the amounts included in the footnotes is provided to the auditors for their review and verification. Additionally, the Director of Accounting prepares the Financial Statement Disclosure Checklist (FSDCL), provided by PWC, on an annual basis to ensure completeness of disclosures.


Other Areas of Risk:

Reserves – At June 30, 2006, HCGH included approximately \$1.7 million in reserves on its balance sheet for issues which might be identified in the future that relate to June 30, and prior. A signed letter documenting the nature of the balances is on file. The reserve balances were allocated between allowance for doubtful accounts and other accrued expense accounts. These accounts are monitored monthly during the 8th Day review process.

Implementation of Enterprise Resource Planning System – Effective January 1, 2007 JHHS Affiliates have implemented SAP’s enterprise resource planning (“ERP”) financial systems in the area of supply chain, H.R./Payroll, grants and government contracts and general ledger/financial reporting. The effective date follows years of preparation, testing and training for the new system. Several committees from leadership including a committee of the Johns Hopkins Medicine Board of Trustees had oversight responsibilities for the implementation and the Office of Hopkins internal audit had participation in the implementation plan.


Fraud prevention – JHHS has a no tolerance policy when it involves fraud. This tone is portrayed from top levels of management. Employees found to have perpetrated fraudulent activities are terminated immediately. Each employee signs the JHHS employee hand book that includes the code of conduct. A whistle blower hotline exists for employees to report anonymously any potential activities that involve fraud.

Prior year management letter comments – All prior year management letter comments are resolved as quickly as possible. Unresolved prior year management letter comments could potentially be significant deficiencies. JHHS has an Audit Coordinating Committee that meets monthly to discuss, among other things, management letter comments and their resolution.

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Prior year adjustments – All prior year adjustments are evaluated to ensure that they are not areas of adjustment in the current year. There were no adjustments made in FY 06.

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EXHIBIT 6

HCGH OB/GYN Associates Series, LLC Assessment of Controls over Financial Reporting SAS 112 -

“Communicating Internal Control Matters Identified in an Audit”

The following is an analysis and assessment of internal controls over financial reporting in response to the issuance of Statement on Auditing Standard No. 112 - Communicating Internal Control Matters Identified in an Audit (“SAS 112”).

Background:

SAS 112 was issued in May 2006 and is effective for fiscal year’s ending after 12/15/06. SAS 112 is effective for the entire fiscal year, not just as of June 30, 2007; thus, all controls must be documented for the entire fiscal year, as appropriate. It makes the definitions of control exceptions consistent with the PCAOB’s Auditing Standard No. 2, defining significant deficiency and material weakness. The classification of a control deficiency now depends upon the likelihood of a misstatement and the potential magnitude or materiality.

<u>Type of deficiency</u>	<u>Likelihood of Misstatement</u>	<u>Potential Magnitude</u>	<u>Type of Communication</u>
Internal control deficiency		Remote likelihood (<5-10%)	Inconsequential
Significant deficiency	Management letter	More than inconsequential	Formal Audit Committee
Material Weakness	More than remote	Material	Formal Audit Committee

More than remote likelihood means reasonably possible (chance of event is more than remote but less than likely) or probable (the future event is likely to occur) as defined in SFAS 5, Accounting for Contingencies.


The auditors are not required to perform additional procedures to identify deficiencies in internal controls. However, during the course of an audit, the auditor may become aware of control deficiencies. The auditor must then evaluate the identified deficiency and determine whether it is an internal control deficiency, a significant deficiency or a material weakness. A qualitative assessment will ensue which will include the nature of the account that had an error, its balance, its effect on other accounts, etc. Compensating controls can reduce or eliminate the exposure.

Materiality:

It is critical to assess materiality for the balance sheet, statements of operations and changes in net assets and cash flows. The benchmark for inconsequential threshold is 20% of materiality threshold. Materiality for the statements of operations and changes in net assets and the cash flows is equal to 1% of total revenues; the balance sheet being 1% of total assets. Materiality for the OBGYN is set as the JHHS materiality since it is 100% owned by JHHS and no separate audit report is required.

		<u>Materiality</u>	<u>20% Benchmark</u>
Estimated FY 07 revenues	\$2.2 billion x 1%	\$22,000,000	\$4,400,000
Estimated FY 07 total assets	\$2.2 billion x 1%	\$22,000,000	\$4,400,000

The assessment of materiality is subjective and goes beyond the amount of any error found. In addition, qualitative factors must also be taken into account whenever assessing materiality. The auditors will attempt

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to extrapolate the error found to its maximum potential impact on the financial statements; that is, they will evaluate how large an error could have been as opposed to just the actual error.

Continuum of Internal Controls:

Internal controls typically fall into one of the following areas.

- Unreliable – Control activities are not designed or in place. The environment is unpredictable.
- Informal – Control activities are designed and in place but they are not adequately documented.
- Standardized – Control activities are designed, in place and adequately documented.
- Monitored – Control activities are standardized. There is periodic testing for effective design and operation with reporting to management.
- Optimized – Controls are integrated. There is real-time monitoring by management and continuous improvement.

Assessment of Critical Controls:

In order for an auditor to rely on an internal control, it must be documented. Informal controls are not as reliable as formal controls, and therefore other compensating controls or procedures will be required to offset a negative outcome from an informal control. Identification of significant accounts, key controls and disclosures over financial reporting is the basis for an assessment.

Significant accounts:

The following is a listing of OBGYN’s significant accounts, frequency of account reconciliation, and review frequency:


<u>Account</u>	<u>Frequency of Reconciliation</u>	<u>Review Frequency</u>
Cash	Monthly	Monthly
Accounts receivable	Monthly	Monthly
A/P & accruals	Monthly	Monthly
Accrued bonuses	Monthly	Monthly
Intercompany accts	Monthly	Monthly
All others	Min Quarterly	Min Quarterly

All reviews are performed by the Director of Accounting, and documented via initialing on a summary trial balance for all reviews, whether monthly or quarterly.

Key Controls:

Aside from the review of significant accounts mentioned above, the following are other key controls relied upon in the preparation of financial statements.

- Three levels of formal financial statement review exist. These formal review sessions are documented via sign in sheets. Detailed statistical and other fluctuation analyses, including significant financial statement fluctuations, are included in these financial statement reviews.
 - 1) 8th Day review – consisting of the Senior Vice President – HCGH, CFO - HCGH, Executive Director – OBGYN, and the Director of Accounting - JHHS.
 - 2) 9th Day review – consisting of the JHHS CFO and Controller, and all the Finance heads of each Affiliate and the Directors of Accounting – JHHS.

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3) 10th Day review – consisting of the JHHS President, CFO, Controller and all the Finance heads of each Affiliate and the Directors of Accounting – JHHS.

- All manual journal entries greater than \$50,000 are reviewed and signed off by the Director of Accounting – JHHS.
- Financial statements are prepared by the Staff Accountant, and reviewed by the Director of Accounting – JHHS, and then reviewed by the Controller – JHHS. This review is performed after the three formal review sessions mentioned above, and is focused on ensuring completeness of the financial statement packages as opposed to explaining critical account balances or fluctuations; therefore, no formal process of approval exists.
- A closing check list detailing all the many different types of journal entries required to close the books is maintained by the Staff Accountant. Each step is signed off as they are completed.
- On a quarterly basis, a consolidated financial statement report is prepared for external distribution that includes a combining statements of operations and changes in net assets, balance sheets, and statements of cash flows, as well as statistical data and management’s discussion and analysis of the quarter and year-to-date financial results. HCGH is rolled up as part of the other affiliates listed in the combining statements. This quarterly report is reviewed by all levels of the JHHS organization.

Disclosures:

On an annual basis, detailed footnote disclosures are prepared for complete audited financial statements. Due to materiality, specific footnote disclosure are not warranted.

Other Areas of Risk:


Reserves – No excess reserves exist on the books of the OBGYN.

Implementation of Enterprise Resource Planning System – Effective January 1, 2007 JHHS Affiliates have implemented SAP’s enterprise resource planning (“ERP”) financial systems in the area of supply chain, H.R./Payroll, grants and government contracts and general ledger/financial reporting. The effective date follows years of preparation, testing and training for the new system. Several committees from leadership including a committee of the Johns Hopkins Medicine Board of Trustees had oversight responsibilities for the implementation and the Office of Hopkins internal audit had participation in the implementation plan.

Fraud prevention – JHHS has a no tolerance policy when it involves fraud. This tone is portrayed from top levels of management. Employees found to have perpetrated fraudulent activities are terminated immediately. Each employee signs the JHHS employee hand book that includes the code of conduct. A whistle blower hotline exists for employees to report anonymously any potential activities that involve fraud.

Prior year management letter comments – All prior year management letter comments are resolved as quickly as possible. Unresolved prior year management letter comments could potentially be significant deficiencies. JHHS has an Audit Coordinating Committee that meets monthly to discuss, among other things, management letter comments and their resolution.

Prior year adjustments – All prior year adjustments are evaluated to ensure that they are not areas of adjustment in the current year. This entity did not exist in 2006, therefore no adjustments made in FY 06.

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EXHIBIT 7

Johns Hopkins Community Physicians Assessment of Controls over Financial Reporting SAS 112 -

“Communicating Internal Control Matters Identified in an Audit”

The following is an analysis and assessment of internal controls over financial reporting in response to the issuance of Statement on Auditing Standard No. 112 - Communicating Internal Control Matters Identified in an Audit (“SAS 112”).

Background:

SAS 112 was issued in May 2006 and is effective for fiscal year’s ending after 12/15/06. SAS 112 is effective for the entire fiscal year, not just as of June 30, 2007; thus, all controls must be documented for the entire fiscal year, as appropriate. It makes the definitions of control exceptions consistent with the PCAOB’s Auditing Standard No. 2, defining significant deficiency and material weakness. The classification of a control deficiency now depends upon the likelihood of a misstatement and the potential magnitude or materiality.

<u>Type of deficiency</u>	<u>Likelihood of Misstatement</u>	<u>Potential Magnitude</u>	<u>Type of Communication</u>
Internal control deficiency		Remote likelihood (<5-10%)	Inconsequential
Significant deficiency	Management letter	More than inconsequential	Formal Audit Committee
Material Weakness	More than remote	Material	Formal Audit Committee

More than remote likelihood means reasonably possible (chance of event is more than remote but less than likely) or probable (the future event is likely to occur) as defined in SFAS 5, Accounting for Contingencies.


The auditors are not required to perform additional procedures to identify deficiencies in internal controls. However, during the course of an audit, the auditor may become aware of control deficiencies. The auditor must then evaluate the identified deficiency and determine whether it is an internal control deficiency, a significant deficiency or a material weakness. A qualitative assessment will ensue which will include the nature of the account that had an error, its balance, its effect on other accounts, etc. Compensating controls can reduce or eliminate the exposure.

Materiality:

It is critical to assess materiality for the balance sheet, statements of operations and changes in net assets and cash flows. The benchmark for inconsequential threshold is 20% of materiality threshold. Materiality for the statements of operations and changes in net assets and the cash flows is equal to 1% of total revenues; the balance sheet being 1% of total assets. Materiality for JHCP is set as the JHHS materiality since it is 100% owned by JHHS and no separate audit report is required.

		<u>Materiality</u>	<u>20% Benchmark</u>
Estimated FY 07 revenues	\$2.2 billion x 1%	\$22,000,000	\$4,400,000
Estimated FY 07 total assets	\$2.2 billion x 1%	\$22,000,000	\$4,400,000

The assessment of materiality is subjective and goes beyond the amount of any error found. In addition, qualitative factors must also be taken into account whenever assessing materiality. The auditors will attempt to extrapolate the error found to its maximum potential impact on the financial statements; that is, they will

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evaluate how large an error could have been as opposed to just the actual error.

Continuum of Internal Controls:

Internal controls typically fall into one of the following areas.

- Unreliable – Control activities are not designed or in place. The environment is unpredictable.
- Informal – Control activities are designed and in place but they are not adequately documented.
- Standardized – Control activities are designed, in place and adequately documented.
- Monitored – Control activities are standardized. There is periodic testing for effective design and operation with reporting to management.
- Optimized – Controls are integrated. There is real-time monitoring by management and continuous improvement.

Assessment of Critical Controls:

In order for an auditor to rely on an internal control, it must be documented. Informal controls are not as reliable as formal controls, and therefore other compensating controls or procedures will be required to offset a negative outcome from an informal control. Identification of significant accounts, key controls and disclosures over financial reporting is the basis for an assessment.

Significant accounts:

The following is a listing of JHCP’s significant accounts, frequency of account reconciliation, and review frequency:


<u>Account</u>	<u>Frequency of Reconciliation</u>	<u>Review Frequency</u>
Cash	Monthly	Monthly
Accounts receivable	Monthly	Monthly
A/R reserves	Monthly	Monthly
A/P & accruals	Monthly	Monthly
Accrued payroll	Monthly	Monthly
Intercompany accts	Monthly	Monthly
LTD	Monthly	Monthly
All others	Min Quarterly	Min Quarterly

All reviews are performed by the Director of Accounting, and documented via initialing on a summary trial balance for all reviews, whether monthly or quarterly.

Key Controls:

Aside from the review of significant accounts mentioned above, the following are other key controls relied upon in the preparation of financial statements.

- Three levels of formal financial statement review exist. These formal review sessions are documented via sign in sheets. Detailed statistical and other fluctuation analyses, including significant financial statement fluctuations, are included in these financial statement reviews.
 - 1) 8th Day review – consisting of the President - JHCP, Vice President of Operations & Finance – JHCP, Senior Director of Business Operations – JHCP, Senior Manager of Financial Analysis – JHCP, Director of Accounting - JHHS, and Senior Accountant - JHHS.

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2) 9th Day review – consisting of the JHHS CFO and Controller, and all the Finance heads of each Affiliate and the Directors of Accounting – JHHS.

3) 10th Day review – consisting of the JHHS President, CFO, Controller and all the Finance heads of each Affiliate and the Directors of Accounting – JHHS.

- All manual journal entries greater than \$200,000 are reviewed and signed off by the Director of Accounting – JHHS.
- Financial statements are prepared by the Senior Accountant, and reviewed by the Director of Accounting – JHHS, and then reviewed by the Controller – JHHS. This review is performed after the three formal review sessions mentioned above, and is focused on ensuring completeness of the financial statement packages as opposed to explaining critical account balances or fluctuations; therefore, no formal process of approval exists.
- A closing check lists detailing all the many different types of journal entries required to close the books is maintained by the Senior Accountant. Each step is sign off as they are completed.
- On a quarterly basis, a consolidated financial statement report is prepared for external distribution that includes a combining statements of operations and changes in net assets, balance sheets, and statements of cash flows, as well as statistical data and management’s discussion and analysis of the quarter and year-to-date financial results. JHCP is part of the all other affiliates listed in the combining statements. This quarterly report is reviewed by all levels of the JHHS organization.

Disclosures:

On an annual basis, detailed footnote disclosures are prepared for complete audited financial statements. Due to materiality, specific footnote disclosure are not warranted.

Other Areas of Risk:


Reserves – At June 30, 2006, JHCP included approximately \$1.1 million in reserves on its balance sheet for issues which might be identified in the future that relate to June 30, and prior. A signed letter documenting the nature of the balances is on file. The reserve balances were allocated between allowance for doubtful accounts and other accrued expense accounts. These accounts are monitored monthly during the 8th, 9th, and 10th Day review process.

Implementation of Enterprise Resource Planning System – Effective January 1, 2007 JHHS Affiliates have implemented SAP’s enterprise resource planning (“ERP”) financial systems in the area of supply chain, H.R./Payroll, grants and government contracts and general ledger/financial reporting. The effective date follows years of preparation, testing and training for the new system. Several committees from leadership including a committee of the Johns Hopkins Medicine Board of Trustees had oversight responsibilities for the implementation and the Office of Hopkins internal audit had participation in the implementation plan.

Fraud prevention – JHHS has a no tolerance policy when it involves fraud. This tone is portrayed from top levels of management. Employees found to have perpetrated fraudulent activities are terminated immediately. Each employee signs the JHHS employee hand book that includes the code of conduct. A whistle blower hotline exists for employees to report anonymously any potential activities that involve fraud.

Prior year management letter comments – All prior year management letter comments are resolved as quickly as possible. Unresolved prior year management letter comments could potentially be significant deficiencies. JHHS has an Audit Coordinating Committee that meets monthly to discuss, among other things, management letter comments and their resolution.

Prior year adjustments – All prior year adjustments are evaluated to ensure that they are not areas of adjustment in the current year. There were no adjustments made in FY 06.

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EXHIBIT 8

Employer Health Programs Assessment of Controls over Financial Reporting SAS 112 -

“Communicating Internal Control Matters Identified in an Audit”

The following is an analysis and assessment of internal controls over financial reporting in response to the issuance of Statement on Auditing Standard No. 112 - Communicating Internal Control Matters Identified in an Audit (“SAS 112”).

Background:

SAS 112 was issued in May 2006 and is effective for fiscal year’s ending after 12/15/06. SAS 112 is effective for the entire fiscal year, not just as of June 30, 2007; thus, all controls must be documented for the entire fiscal year, as appropriate. It makes the definitions of control exceptions consistent with the PCAOB’s Auditing Standard No. 2, defining significant deficiency and material weakness. The classification of a control deficiency now depends upon the likelihood of a misstatement and the potential magnitude or materiality.

<u>Type of deficiency</u>	<u>Likelihood of Misstatement</u>	<u>Potential Magnitude</u>	<u>Type of Communication</u>
Internal control deficiency		Remote likelihood (<5-10%)	Inconsequential
Significant deficiency	Management letter More than remote	More than inconsequential	Formal Audit Committee
Material Weakness	More than remote	Material	Formal Audit Committee

More than remote likelihood means reasonably possible (chance of event is more than remote but less than likely) or probable (the future event is likely to occur) as defined in SFAS 5, Accounting for Contingencies.


The auditors are not required to perform additional procedures to identify deficiencies in internal controls. However, during the course of an audit, the auditor may become aware of control deficiencies. The auditor must then evaluate the identified deficiency and determine whether it is an internal control deficiency, a significant deficiency or a material weakness. A qualitative assessment will ensue which will include the nature of the account that had an error, its balance, its effect on other accounts, etc. Compensating controls can reduce or eliminate the exposure.

Materiality:

It is critical to assess materiality for the balance sheet, statements of operations and changes in net assets and cash flows. The benchmark for inconsequential threshold is 20% of materiality threshold. Materiality for the statements of operations and changes in net assets and the cash flows is equal to 1% of total revenues; the balance sheet being 1% of total assets. Materiality for EHP is set as the JHHS materiality since it is 100% owned by JHHS and no separate audit report is required.

		<u>Materiality</u>	<u>20% Benchmark</u>
Estimated FY 07 revenues	\$2.2 billion x 1%	\$22,000,000	\$4,400,000
Estimated FY 07 total assets	\$2.2 billion x 1%	\$22,000,000	\$4,400,000

The assessment of materiality is subjective and goes beyond the amount of any error found. In addition, qualitative factors must also be taken into account whenever assessing materiality. The auditors will attempt

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to extrapolate the error found to its maximum potential impact on the financial statements; that is, they will evaluate how large an error could have been as opposed to just the actual error.

Continuum of Internal Controls:

Internal controls typically fall into one of the following areas.

- Unreliable – Control activities are not designed or in place. The environment is unpredictable.
- Informal – Control activities are designed and in place but they are not adequately documented.
- Standardized – Control activities are designed, in place and adequately documented.
- Monitored – Control activities are standardized. There is periodic testing for effective design and operation with reporting to management.
- Optimized – Controls are integrated. There is real-time monitoring by management and continuous improvement.

Assessment of Critical Controls:

In order for an auditor to rely on an internal control, it must be documented. Informal controls are not as reliable as formal controls, and therefore other compensating controls or procedures will be required to offset a negative outcome from an informal control. Identification of significant accounts, key controls and disclosures over financial reporting is the basis for an assessment.

Significant accounts:

The following is a listing of EHP’s significant accounts, frequency of account reconciliation, and review frequency:


<u>Account</u>	<u>Frequency of Reconciliation</u>	<u>Review Frequency</u>
Cash	Monthly	Monthly
Accounts receivable	Monthly	Monthly
A/P & accruals	Monthly	Monthly
Intercompany accts	Monthly	Monthly
All others	Min Quarterly	Min Quarterly

All reviews are performed by the Director of Accounting, and documented via initialing on a summary trial balance for all reviews, whether monthly or quarterly.

Key Controls:

Aside from the review of significant accounts mentioned above, the following are other key controls relied upon in the preparation of financial statements.

- Two levels of formal financial statement review exist. These formal review sessions are documented via sign in sheets. Detailed statistical and other fluctuation analyses, including significant financial statement fluctuations, are included in these financial statement reviews.
 - 1) 9th Day review – consisting of the JHHS CFO and Controller, and all the Finance heads of each Affiliate and the Directors of Accounting – JHHS.
 - 2) 10th Day review – consisting of the JHHS President, CFO, Controller and all the Finance heads of each Affiliate and the Directors of Accounting – JHHS.
 Due to the materiality, EHP is included at the 9th and 10th day review as a part of the JHHS.

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- All manual journal entries greater than \$50,000 are reviewed and signed off by the Director of Accounting – JHHS.
- Financial statements are prepared by the Senior Accountant, and reviewed by the Director of Accounting – JHHS, and then reviewed by the Controller – JHHS. This review is performed after the two formal review sessions mentioned above, and is focused on ensuring completeness of the financial statement packages as opposed to explaining critical account balances or fluctuations; therefore, no formal process of approval exists.
- A closing check lists detailing all the many different types of journal entries required to close the books is maintained by the Senior Accountant. Each step is sign off as they are completed.
- On a quarterly basis, a consolidated financial statement report is prepared for external distribution that includes a combining statements of operations and changes in net assets, balance sheets, and statements of cash flows, as well as statistical data and management's discussion and analysis of the quarter and year-to-date financial results. EHP is part of the all other affiliates listed in the combining statements. This quarterly report is reviewed by all levels of the JHHS organization.

Disclosures:

On an annual basis, detailed footnote disclosures are prepared for complete audited financial statements. Due to materiality, specific footnote disclosure are not warranted.

Other Areas of Risk:


Reserves – No excess reserves exist on the books of the EHP.

Implementation of Enterprise Resource Planning System – Effective January 1, 2007 JHHS Affiliates have implemented SAP's enterprise resource planning ("ERP") financial systems in the area of supply chain, H.R./Payroll, grants and government contracts and general ledger/financial reporting. The effective date follows years of preparation, testing and training for the new system. Several committees from leadership including a committee of the Johns Hopkins Medicine Board of Trustees had oversight responsibilities for the implementation and the Office of Hopkins internal audit had participation in the implementation plan.

Fraud prevention – JHHS has a no tolerance policy when it involves fraud. This tone is portrayed from top levels of management. Employees found to have perpetrated fraudulent activities are terminated immediately. Each employee signs the JHHS employee hand book that includes the code of conduct. A whistle blower hotline exists for employees to report anonymously any potential activities that involve fraud.

Prior year management letter comments – All prior year management letter comments are resolved as quickly as possible. Unresolved prior year management letter comments could potentially be significant deficiencies. JHHS has an Audit Coordinating Committee that meets monthly to discuss, among other things, management letter comments and their resolution.

Prior year adjustments – All prior year adjustments are evaluated to ensure that they are not areas of adjustment in the current year. There were no adjustments made in FY 06.

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EXHIBIT 9

Johns Hopkins Medical Services Corporation Assessment of Controls over Financial Reporting SAS 112 -

“Communicating Internal Control Matters Identified in an Audit”

The following is an analysis and assessment of internal controls over financial reporting in response to the issuance of Statement on Auditing Standard No. 112 - Communicating Internal Control Matters Identified in an Audit (“SAS 112”).

Background:

SAS 112 was issued in May 2006 and is effective for fiscal year’s ending after 12/15/06. SAS 112 is effective for the entire fiscal year, not just as of June 30, 2007; thus, all controls must be documented for the entire fiscal year, as appropriate. It makes the definitions of control exceptions consistent with the PCAOB’s Auditing Standard No. 2, defining significant deficiency and material weakness. The classification of a control deficiency now depends upon the likelihood of a misstatement and the potential magnitude or materiality.

<u>Type of deficiency</u>	<u>Likelihood of Misstatement</u>	<u>Potential Magnitude</u>	<u>Type of Communication</u>
Internal control deficiency	Management letter	Remote likelihood (<5-10%)	Inconsequential
Significant deficiency	More than remote	More than inconsequential	Formal Audit Committee
Material Weakness	More than remote	Material	Formal Audit Committee

More than remote likelihood means reasonably possible (chance of event is more than remote but less than likely) or probable (the future event is likely to occur) as defined in SFAS 5, Accounting for Contingencies.


The auditors are not required to perform additional procedures to identify deficiencies in internal controls. However, during the course of an audit, the auditor may become aware of control deficiencies. The auditor must then evaluate the identified deficiency and determine whether it is an internal control deficiency, a significant deficiency or a material weakness. A qualitative assessment will ensue which will include the nature of the account that had an error, its balance, its effect on other accounts, etc. Compensating controls can reduce or eliminate the exposure.

Materiality:

It is critical to assess materiality for the balance sheet, statements of operations and changes in net assets and cash flows. The benchmark for inconsequential threshold is 20% of materiality threshold. Materiality for the statements of operations and changes in net assets and the cash flows is equal to 1% of total revenues; the balance sheet being 1% of total assets.

		<u>Materiality</u>	<u>20% Benchmark</u>
Estimated FY 07 revenues	\$200 million x 1%	\$2,000,000	\$400,000
Estimated FY 07 total assets	\$20 million x 1%	\$200,000	\$40,000

The assessment of materiality is subjective and goes beyond the amount of any error found. In addition, qualitative factors must also be taken into account whenever assessing materiality. The auditors will attempt to extrapolate the error found to its maximum potential impact on the financial statements; that is, they will evaluate how large an error could have been as opposed to just the actual error.

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Continuum of Internal Controls:

Internal controls typically fall into one of the following areas.

- Unreliable – Control activities are not designed or in place. The environment is unpredictable.
- Informal – Control activities are designed and in place but they are not adequately documented.
- Standardized – Control activities are designed, in place and adequately documented.
- Monitored – Control activities are standardized. There is periodic testing for effective design and operation with reporting to management.
- Optimized – Controls are integrated. There is real-time monitoring by management and continuous improvement.

Assessment of Critical Controls:

In order for an auditor to rely on an internal control, it must be documented. Informal controls are not as reliable as formal controls, and therefore other compensating controls or procedures will be required to offset a negative outcome from an informal control. Identification of significant accounts, key controls and disclosures over financial reporting is the basis for an assessment.

Significant accounts:

The following is a listing of MSC’s significant accounts, frequency of account reconciliation, and review frequency:


<u>Account</u>	<u>Frequency of Reconciliation</u>	<u>Review Frequency</u>
Cash	Monthly	Monthly
Accounts receivable	Monthly	Monthly
A/P & accruals	Monthly	Monthly
Intercompany accts	Monthly	Monthly
All others	Min Quarterly	Min Quarterly

All reviews are performed by the Director of Accounting, and documented via initialing on a summary trial balance for all reviews, whether monthly or quarterly.

Key Controls:

Aside from the review of significant accounts mentioned above, the following are other key controls relied upon in the preparation of financial statements.

- Two levels of formal financial statement review exist. These formal review sessions are documented via sign in sheets. Detailed statistical and other fluctuation analyses, including significant financial statement fluctuations, are included in these financial statement reviews.
 - 1) 9th Day review – consisting of the JHHS CFO and Controller, and all the Finance heads of each Affiliate and the Directors of Accounting – JHHS.
 - 2) 10th Day review – consisting of the JHHS President, CFO, Controller and all the Finance heads of each Affiliate and the Directors of Accounting – JHHS.
 Due to the materiality, MSC is included at the 9th and 10th day review as a part of the JHHS.
- All manual journal entries grater than \$200,000 are reviewed and signed off by the Director of Accounting – JHHS.

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- Financial statements are prepared by the Senior Accountant, and reviewed by the Director of Accounting – JHHS, and then reviewed by the Controller – JHHS. This review is performed after the two formal review sessions mentioned above, and is focused on ensuring completeness of the financial statement packages as opposed to explaining critical account balances or fluctuations; therefore, no formal process of approval exists.
- A closing check lists detailing all the many different types of journal entries required to close the books is maintained by the Senior Accountant. Each step is sign off as they are completed.
- On a quarterly basis, a consolidated financial statement report is prepared for external distribution that includes a combining statements of operations and changes in net assets, balance sheets, and statements of cash flows, as well as statistical data and management’s discussion and analysis of the quarter and year-to-date financial results. MSC is part of the all other affiliates listed in the combining statements. This quarterly report is reviewed by all levels of the JHHS organization.

Disclosures:

On an annual basis, detailed footnote disclosures are prepared for complete audited financial statements. These disclosures are prepared by the Senior Accountant and Director of Accounting – JHHS. Detailed documentation supporting the amounts included in the footnotes is provided to the auditors for their review and verification. Additionally, the Director of Accounting prepares the Financial Statement Disclosure Checklist (FSDCL), provided by PWC, on an annual basis to ensure completeness of disclosures.

Other Areas of Risk:


Reserves – No excess reserves exist on the books of the MSC.

Implementation of Enterprise Resource Planning System – Effective January 1, 2007 JHHS Affiliates have implemented SAP’s enterprise resource planning (“ERP”) financial systems in the area of supply chain, H.R./Payroll, grants and government contracts and general ledger/financial reporting. The effective date follows years of preparation, testing and training for the new system. Several committees from leadership including a committee of the Johns Hopkins Medicine Board of Trustees had oversight responsibilities for the implementation and the Office of Hopkins internal audit had participation in the implementation plan.

Fraud prevention – JHHS has a no tolerance policy when it involves fraud. This tone is portrayed from top levels of management. Employees found to have perpetrated fraudulent activities are terminated immediately. Each employee signs the JHHS employee hand book that includes the code of conduct. A whistle blower hotline exists for employees to report anonymously any potential activities that involve fraud.

Prior year management letter comments – All prior year management letter comments are resolved as quickly as possible. Unresolved prior year management letter comments could potentially be significant deficiencies. JHHS has an Audit Coordinating Committee that meets monthly to discuss, among other things, management letter comments and their resolution.

Prior year adjustments – All prior year adjustments are evaluated to ensure that they are not areas of adjustment in the current year. There were no adjustments made in FY 06.

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EXHIBIT 10

Johns Hopkins Medical Management Corporation/Suburban Health Center Assessment of Controls over Financial Reporting SAS 112 - “Communicating Internal Control Matters Identified in an Audit”

The following is an analysis and assessment of internal controls over financial reporting in response to the issuance of Statement on Auditing Standard No. 112 - Communicating Internal Control Matters Identified in an Audit (“SAS 112”).

Background:

SAS 112 was issued in May 2006 and is effective for fiscal year’s ending after 12/15/06. SAS 112 is effective for the entire fiscal year, not just as of June 30, 2007; thus, all controls must be documented for the entire fiscal year, as appropriate. It makes the definitions of control exceptions consistent with the PCAOB’s Auditing Standard No. 2, defining significant deficiency and material weakness. The classification of a control deficiency now depends upon the likelihood of a misstatement and the potential magnitude or materiality.

<u>Type of deficiency</u>	<u>Likelihood of Misstatement</u>	<u>Potential Magnitude</u>	<u>Type of Communication</u>
Internal control deficiency		Remote likelihood (<5-10%)	Inconsequential
Significant deficiency	Management letter	More than inconsequential	Formal Audit Committee
Material Weakness	More than remote	Material	Formal Audit Committee

More than remote likelihood means reasonably possible (chance of event is more than remote but less than likely) or probable (the future event is likely to occur) as defined in SFAS 5, Accounting for Contingencies.


The auditors are not required to perform additional procedures to identify deficiencies in internal controls. However, during the course of an audit, the auditor may become aware of control deficiencies. The auditor must then evaluate the identified deficiency and determine whether it is an internal control deficiency, a significant deficiency or a material weakness. A qualitative assessment will ensue which will include the nature of the account that had an error, its balance, its effect on other accounts, etc. Compensating controls can reduce or eliminate the exposure.

Materiality:

It is critical to assess materiality for the balance sheet, statements of operations and changes in net assets and cash flows. The benchmark for inconsequential threshold is 20% of materiality threshold. Materiality for the statements of operations and changes in net assets and the cash flows is equal to 1% of total revenues; the balance sheet being 1% of total assets.

		<u>Materiality</u>	<u>20% Benchmark</u>
Estimated FY 07 revenues	\$22 million x 1%	\$220,000	\$44,000
Estimated FY 07 total assets	\$5 million x 1%	\$50,000	\$10,000

The assessment of materiality is subjective and goes beyond the amount of any error found. In addition, qualitative factors must also be taken into account whenever assessing materiality. The auditors will attempt to extrapolate the error found to its maximum potential impact on the financial statements; that is, they will evaluate how large an error could have been as opposed to just the actual error.

 <p>JOHNS HOPKINS MEDICINE JOHNS HOPKINS HEALTH SYSTEM</p>	<p>The Johns Hopkins Health System Policy & Procedure</p>	<p><i>Policy Number</i></p>	<p>FIN126</p>
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Continuum of Internal Controls:

Internal controls typically fall into one of the following areas.

- Unreliable – Control activities are not designed or in place. The environment is unpredictable.
- Informal – Control activities are designed and in place but they are not adequately documented.
- Standardized – Control activities are designed, in place and adequately documented.
- Monitored – Control activities are standardized. There is periodic testing for effective design and operation with reporting to management.
- Optimized – Controls are integrated. There is real-time monitoring by management and continuous improvement.

Assessment of Critical Controls:

In order for an auditor to rely on an internal control, it must be documented. Informal controls are not as reliable as formal controls, and therefore other compensating controls or procedures will be required to offset a negative outcome from an informal control. Identification of significant accounts, key controls and disclosures over financial reporting is the basis for an assessment.

Significant accounts:

The following is a listing of JHMMC/SHC’s significant accounts, frequency of account reconciliation, and review frequency:


<u>Account</u>	<u>Frequency of Reconciliation</u>	<u>Review Frequency</u>
Cash	Monthly	Monthly
Accounts receivable	Monthly	Monthly
A/R reserves	Monthly	Monthly
Debt service reserves	Monthly	Monthly
Investments	Monthly	Monthly
A/P & accruals	Monthly	Monthly
Accrued payroll	Monthly	Monthly
Intercompany accts	Monthly	Monthly
LTD	Monthly	Monthly
All Others	Min Quarterly	Min Quarterly

All reviews are performed by the Director of Accounting, and documented via initialing on the account recs and noted on summary sheet.

Key Controls:

Aside from the review of significant accounts mentioned above, the following are other key controls relied upon in the preparation of financial statements.

- Three levels of formal financial statement review exist. These formal review sessions are documented via sign in sheets. Detailed statistical and other fluctuation analyses, including significant financial statement fluctuations, are included in these financial statement reviews.
 - 1) 8th Day review – conference call, Assistant Director– JHMMC/SHC, Director of Accounting - JHHS, and the Senior Accountant – JHHS.
 - 2) 9th Day review – consisting of the JHHS CFO and Controller, and all the Finance heads of each

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Affiliate and the Directors of Accounting – JHHS.

3) 10th Day review – consisting of the JHHS President, CFO, Controller and all the Finance heads of each Affiliate and the Directors of Accounting – JHHS.

- All manual journal entries greater than \$30,000 for JHMMC and \$10,000 for SHC are reviewed and signed off by the Director of Accounting – JHHS.
- Financial statements are prepared by the Senior Accountant, and reviewed by the Director of Accounting – JHHS, and then reviewed by the Controller – JHHS. This review is performed after the three formal review sessions mentioned above, and is focused on ensuring completeness of the financial statement packages as opposed to explaining critical account balances or fluctuations; therefore, no formal process of approval exists.
- On a quarterly basis, a consolidated financial statement report is prepared for external distribution that includes a combining statements of operations and changes in net assets, balance sheets, and statements of cash flows, as well as statistical data and management’s discussion and analysis of the quarter and year-to-date financial results. This quarterly report is reviewed by all levels of the JHHS organization.

Disclosures:

On an annual basis, detailed footnote disclosures are prepared for complete audited financial statements. These disclosures are prepared by the Senior Accountant and Director of Accounting – JHHS. Detailed documentation supporting the amounts included in the footnotes is provided to the auditors for their review and verification. Additionally, the Director of Accounting prepares the Financial Statement Disclosure Checklist (FSDCL), provided by PWC, on an annual basis to ensure completeness of disclosures.


Other Areas of Risk:

Fraud prevention – JHHS has a no tolerance policy when it involves fraud. This tone is portrayed from top levels of management. Employees found to have perpetrated fraudulent activities are terminated immediately. Each employee signs the JHHS employee hand book that includes the code of conduct. A whistle blower hotline exists for employees to report anonymously any potential activities that involve fraud.

Implementation of Enterprise Resource Planning System – Effective January 1, 2007 JHHS Affiliates have implemented SAP’s enterprise resource planning (“ERP”) financial systems in the area of supply chain, H.R./Payroll, grants and government contracts and general ledger/financial reporting. The effective date follows years of preparation, testing and training for the new system. Several committees from leadership including a committee of the Johns Hopkins Medicine Board of Trustees had oversight responsibilities for the implementation and the Office of Hopkins internal audit had participation in the implementation plan.

Prior year management letter comments – All prior year management letter comments are resolved as quickly as possible. Unresolved prior year management letter comments could potentially be significant deficiencies. JHHS has an Audit Coordinating Committee that meets monthly to discuss, among other things, management letter comments and their resolution.

Prior year adjustments – All prior year adjustments are evaluated to ensure that they are not areas of adjustment in the current year. There were no adjustments made in FY 06.

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EXHIBIT 11

Johns Hopkins HealthCare Assessment of Controls over Financial Reporting SAS 112 -

“Communicating Internal Control Matters Identified in an Audit”

The following is an analysis and assessment of internal controls over financial reporting in response to the issuance of Statement on Auditing Standard No. 112 - Communicating Internal Control Matters Identified in an Audit (“SAS 112”).

Background:

SAS 112 was issued in May 2006 and is effective for fiscal year’s ending after 12/15/06. SAS 112 is effective for the entire fiscal year, not just as of June 30, 2007; thus, all controls must be documented for the entire fiscal year, as appropriate. It makes the definitions of control exceptions consistent with the PCAOB’s Auditing Standard No. 2, defining significant deficiency and material weakness. The classification of a control deficiency now depends upon the likelihood of a misstatement and the potential magnitude or materiality.

<u>Type of deficiency</u>	<u>Likelihood of Misstatement</u>	<u>Potential Magnitude</u>	<u>Type of Communication</u>
Internal control deficiency	Management letter	Remote likelihood (<5-10%)	Inconsequential
Significant deficiency	More than remote	More than inconsequential	Formal Audit Committee
Material Weakness	More than remote	Material	Formal Audit Committee

More than remote likelihood means reasonably possible (chance of event is more than remote but less than likely) or probable (the future event is likely to occur) as defined in SFAS 5, Accounting for Contingencies.


The auditors are not required to perform additional procedures to identify deficiencies in internal controls. However, during the course of an audit, the auditor may become aware of control deficiencies. The auditor must then evaluate the identified deficiency and determine whether it is an internal control deficiency, a significant deficiency or a material weakness. A qualitative assessment will ensue which will include the nature of the account that had an error, its balance, its effect on other accounts, etc. Compensating controls can reduce or eliminate the exposure.

Materiality:

It is critical to assess materiality for the balance sheet, statements of operations and changes in net assets and cash flows. The benchmark for inconsequential threshold is 20% of materiality threshold. Materiality for the statements of operations and changes in net assets and the cash flows is equal to 1% of total revenues; the balance sheet being 1% of total assets.

		<u>Materiality</u>	<u>20% Benchmark</u>
Estimated FY 07 revenues	\$700 million x 1%	\$7,000,000	\$1,400,000

The assessment of materiality is subjective and goes beyond the amount of any error found. In addition, qualitative factors must also be taken into account whenever assessing materiality. The auditors will attempt to extrapolate the error found to its maximum potential impact on the financial statements; that is, they will evaluate how large an error could have been as opposed to just the actual error.

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Continuum of Internal Controls:

Internal controls typically fall into one of the following areas.

- Unreliable – Control activities are not designed or in place. The environment is unpredictable.
- Informal – Control activities are designed and in place but they are not adequately documented.
- Standardized – Control activities are designed, in place and adequately documented.
- Monitored – Control activities are standardized. There is periodic testing for effective design and operation with reporting to management.
- Optimized – Controls are integrated. There is real-time monitoring by management and continuous improvement.

Assessment of Critical Controls:

In order for an auditor to rely on an internal control, it must be documented. Informal controls are not as reliable as formal controls, and therefore other compensating controls or procedures will be required to offset a negative outcome from an informal control. Identification of significant accounts, key controls and disclosures over financial reporting is the basis for an assessment.

Significant accounts:

The following is a listing of Priority Partner’s significant accounts, frequency of account reconciliation, and review frequency:


<u>Account</u>	<u>Frequency of Reconciliation</u>	<u>Review Frequency</u>
Cash	Monthly	Monthly
Accounts receivable	Monthly	Monthly
A/P & accruals	Monthly	Monthly
Intercompany accts	Monthly	Monthly
Medical claims reserve	Monthly	Monthly
All Others	Min Quarterly	Min Quarterly

All reviews are performed by the Director of Accounting, and documented via initialing and dating the review on each reconciliation.

Key Controls:

Aside from the review of significant accounts mentioned above, the following are other key controls relied upon in the preparation of financial statements.

- Three levels of formal financial statement review exist. These formal review sessions are documented via sign in sheets. Detailed statistical and other fluctuation analyses, including significant financial statement variances, are included in these financial statement reviews.
 - 1) 8th Day review (in combination with PP’s 8th day review) – consisting of the CEO –JHHC, CFO - JHHC, Senior Director of Finance –JHHC, Director of Accounting -JHHS, and senior accountants & analysts.
 - 2) 9th Day review – consisting of the JHHS CFO and Controller, and all the Finance heads of each Affiliate and the Directors of Accounting – JHHS.
 - 3) 10th Day review – consisting of the JHHS President, CFO, Controller and all the Finance heads of each Affiliate and the Directors of Accounting – JHHS.

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- A second 8th Day review meeting occurs monthly with all of the various VP's of JHHC/PP operations, CEO –JHHC & PP, CFO – JHHC & PP, Senior Directors of Finance – JHHC & PP, Director of Accounting - JHHS.
- All manual journal entries greater than \$600,000 are reviewed and signed off by the Director of Accounting – JHHS.
- Financial statements are prepared by the Senior Accountant, and reviewed by the Director of Accounting – JHHS, and then reviewed by the Controller – JHHS. This review is performed after the three formal review sessions mentioned above, and is focused on ensuring completeness of the financial statement packages as opposed to explaining critical account balances or fluctuations; therefore, no formal process of approval exists.
- A closing check list detailing all the many different types of journal entries required to close the books is maintained by the Senior Accountant. Each step is signed off as they are completed.

Disclosures:

On an annual basis, detailed footnote disclosures are prepared for complete audited financial statements. These disclosures are prepared by the Senior Accountant and Director of Accounting – JHHS. Detailed documentation supporting the amounts included in the footnotes is provided to the auditors for their review and verification. Additionally, the Director of Accounting prepares the Financial Statement Disclosure Checklist (FSDCL), provided by PWC, on an annual basis to ensure completeness of disclosures.

Other Areas of Risk:


Reserves – Due to the nature of business of a managed care entity and associated risk, Priority Partner's places a margin around their estimated medical claims reserve. The medical claims reserve is a large estimated liability. The medical claims reserve & associated margin levels are monitored monthly during the 8th Day review process.

Implementation of Enterprise Resource Planning System – Effective January 1, 2007 JHHS Affiliates have implemented SAP's enterprise resource planning ("ERP") financial systems in the area of supply chain, H.R./Payroll, grants and government contracts and general ledger/financial reporting. The effective date follows years of preparation, testing and training for the new system. Several committees from leadership including a committee of the Johns Hopkins Medicine Board of Trustees had oversight responsibilities for the implementation and the Office of Hopkins internal audit had participation in the implementation plan.

Fraud prevention – JHHS has a no tolerance policy when it involves fraud. This tone is portrayed from top levels of management. Employees found to have perpetrated fraudulent activities are terminated immediately. Each employee signs the JHHS employee hand book that includes the code of conduct. A whistle blower hotline exists for employees to report anonymously any potential activities that involve fraud.

Prior year management letter comments – All prior year management letter comments are resolved as quickly as possible. Unresolved prior year management letter comments could potentially be significant deficiencies. JHHS has an Audit Coordinating Committee that meets monthly to discuss, among other things, management letter comments and their resolution.

Prior year adjustments – All prior year adjustments are evaluated to ensure that they are not areas of adjustment in the current year. There were no adjustments made in FY 06.

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EXHIBIT 12

Priority Partners Managed Care Organization, Inc. Assessment of Controls over Financial Reporting SAS 112 -

“Communicating Internal Control Matters Identified in an Audit”

The following is an analysis and assessment of internal controls over financial reporting in response to the issuance of Statement on Auditing Standard No. 112 - Communicating Internal Control Matters Identified in an Audit (“SAS 112”).

Background:

SAS 112 was issued in May 2006 and is effective for fiscal year’s ending after 12/15/06. SAS 112 is effective for the entire fiscal year, not just as of June 30, 2007; thus, all controls must be documented for the entire fiscal year, as appropriate. It makes the definitions of control exceptions consistent with the PCAOB’s Auditing Standard No. 2, defining significant deficiency and material weakness. The classification of a control deficiency now depends upon the likelihood of a misstatement and the potential magnitude or materiality.

<u>Type of deficiency</u>	<u>Likelihood of Misstatement</u>	<u>Potential Magnitude</u>	<u>Type of Communication</u>
Internal control deficiency		Remote likelihood (<5-10%)	Inconsequential
Significant deficiency	Management letter	More than inconsequential	Formal Audit Committee
Material Weakness	More than remote	Material	Formal Audit Committee

More than remote likelihood means reasonably possible (chance of event is more than remote but less than likely) or probable (the future event is likely to occur) as defined in SFAS 5, Accounting for Contingencies.


The auditors are not required to perform additional procedures to identify deficiencies in internal controls. However, during the course of an audit, the auditor may become aware of control deficiencies. The auditor must then evaluate the identified deficiency and determine whether it is an internal control deficiency, a significant deficiency or a material weakness. A qualitative assessment will ensue which will include the nature of the account that had an error, its balance, its effect on other accounts, etc. Compensating controls can reduce or eliminate the exposure.

Materiality:

It is critical to assess materiality for the balance sheet, statements of operations and changes in net assets and cash flows. The benchmark for inconsequential threshold is 20% of materiality threshold. Materiality for the statements of operations and changes in net assets and the cash flows is equal to 1% of total revenues; the balance sheet being 1% of total assets.

		<u>Materiality</u>	<u>20% Benchmark</u>
Estimated FY 07 revenues	\$450 million x 1%	\$4,500,000	\$900,000

The assessment of materiality is subjective and goes beyond the amount of any error found. In addition, qualitative factors must also be taken into account whenever assessing materiality. The auditors will attempt to extrapolate the error found to its maximum potential impact on the financial statements; that is, they will evaluate how large an error could have been as opposed to just the actual error.

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Continuum of Internal Controls:

Internal controls typically fall into one of the following areas.

- Unreliable – Control activities are not designed or in place. The environment is unpredictable.
- Informal – Control activities are designed and in place but they are not adequately documented.
- Standardized – Control activities are designed, in place and adequately documented.
- Monitored – Control activities are standardized. There is periodic testing for effective design and operation with reporting to management.
- Optimized – Controls are integrated. There is real-time monitoring by management and continuous improvement.

Assessment of Critical Controls:

In order for an auditor to rely on an internal control, it must be documented. Informal controls are not as reliable as formal controls, and therefore other compensating controls or procedures will be required to offset a negative outcome from an informal control. Identification of significant accounts, key controls and disclosures over financial reporting is the basis for an assessment.

Significant accounts:

The following is a listing of Priority Partner’s significant accounts, frequency of account reconciliation, and review frequency:


<u>Account</u>	<u>Frequency of Reconciliation</u>	<u>Review Frequency</u>
Cash	Monthly	Monthly
Accounts receivable	Monthly	Monthly
A/P & accruals	Monthly	Monthly
Intercompany accts	Monthly	Monthly
Medical claims reserve	Monthly	Monthly
All Others	Min Quarterly	Min Quarterly

All reviews are performed by the Director of Accounting, and documented via initialing and dating the review on each reconciliation.

Key Controls:

Aside from the review of significant accounts mentioned above, the following are other key controls relied upon in the preparation of financial statements.

- Three levels of formal financial statement review exist. These formal review sessions are documented via sign in sheets. Detailed statistical and other fluctuation analyses, including significant financial statement variances, are included in these financial statement reviews.
 - 1) 8th Day review (in combination with JHHC’s 8th day review) – consisting of the CEO –PP, CFO -PP, Senior Director of Finance –PP, Controller –JHHS, Director of Accounting –JHHS, and senior accountants & analysts.
 - 2) 9th Day review – consisting of the JHHS CFO and Controller, and all the Finance heads of each Affiliate and the Directors of Accounting – JHHS.
 - 3) 10th Day review – consisting of the JHHS President, CFO, Controller and all the Finance heads of each Affiliate and the Directors of Accounting – JHHS.

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- A second 8th Day review meeting occurs monthly with all of the various VP's of JHHC/PP operations, CEO –JHHC & PP, CFO – JHHC & PP, Senior Directors of Finance – JHHC & PP, Director of Accounting - JHHS.
- All manual journal entries greater than \$400,000 are reviewed and signed off by the Director of Accounting – JHHS.
- Financial statements are prepared by the Senior Accountant, and reviewed by the Director of Accounting – JHHS, and then reviewed by the Controller – JHHS. This review is performed after the three formal review sessions mentioned above, and is focused on ensuring completeness of the financial statement packages as opposed to explaining critical account balances or fluctuations; therefore, no formal process of approval exists.
- A closing check list detailing all the many different types of journal entries required to close the books is maintained by the Senior Accountant. Each step is signed off as they are completed.

Disclosures:

On an annual basis, detailed footnote disclosures are prepared for complete audited financial statements. These disclosures are prepared by the Senior Accountant and Director of Accounting – JHHS. Detailed documentation supporting the amounts included in the footnotes is provided to the auditors for their review and verification. Additionally, the Director of Accounting prepares the Financial Statement Disclosure Checklist (FSDCL), provided by PWC, on an annual basis to ensure completeness of disclosures.

Other Areas of Risk:


Reserves – Due to the nature of business of a managed care entity and associated risk, Priority Partner's places a margin around their estimated medical claims reserve. The medical claims reserve is a large estimated liability. The medical claims reserve & associated margin levels are monitored monthly during the 8th Day review process.

Implementation of Enterprise Resource Planning System – Effective January 1, 2007 JHHS Affiliates have implemented SAP's enterprise resource planning ("ERP") financial systems in the area of supply chain, H.R./Payroll, grants and government contracts and general ledger/financial reporting. The effective date follows years of preparation, testing and training for the new system. Several committees from leadership including a committee of the Johns Hopkins Medicine Board of Trustees had oversight responsibilities for the implementation and the Office of Hopkins internal audit had participation in the implementation plan.

Fraud prevention – JHHS has a no tolerance policy when it involves fraud. This tone is portrayed from top levels of management. Employees found to have perpetrated fraudulent activities are terminated immediately. Each employee signs the JHHS employee hand book that includes the code of conduct. A whistle blower hotline exists for employees to report anonymously any potential activities that involve fraud.

Prior year management letter comments – All prior year management letter comments are resolved as quickly as possible. Unresolved prior year management letter comments could potentially be significant deficiencies. JHHS has an Audit Coordinating Committee that meets monthly to discuss, among other things, management letter comments and their resolution.

Prior year adjustments – All prior year adjustments are evaluated to ensure that they are not areas of adjustment in the current year. There were no adjustments made in FY 06.

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EXHIBIT 13

Johns Hopkins Home Care Group, Inc. and Affiliates Assessment of Controls over Financial Reporting SAS 112 -

“Communicating Internal Control Matters Identified in an Audit”

The following is an analysis and assessment of internal controls over financial reporting in response to the issuance of Statement on Auditing Standard No. 112 - Communicating Internal Control Matters Identified in an Audit (“SAS 112”).

Background:

SAS 112 was issued in May 2006 and is effective for fiscal year’s ending after 12/15/06. SAS 112 is effective for the entire fiscal year, not just as of June 30, 2007; thus, all controls must be documented for the entire fiscal year, as appropriate. It makes the definitions of control exceptions consistent with the PCAOB’s Auditing Standard No. 2, defining significant deficiency and material weakness. The classification of a control deficiency now depends upon the likelihood of a misstatement and the potential magnitude or materiality.

<u>Type of deficiency</u>	<u>Likelihood of Misstatement</u>	<u>Potential Magnitude</u>	<u>Type of Communication</u>
Internal control deficiency		Remote likelihood (<5-10%)	Inconsequential
Significant deficiency	Management letter More than remote	More than inconsequential	Formal Audit Committee
Material Weakness	More than remote	Material	Formal Audit Committee

More than remote likelihood means reasonably possible (chance of event is more than remote but less than likely) or probable (the future event is likely to occur) as defined in SFAS 5, Accounting for Contingencies.


The auditors are not required to perform additional procedures to identify deficiencies in internal controls. However, during the course of an audit, the auditor may become aware of control deficiencies. The auditor must then evaluate the identified deficiency and determine whether it is an internal control deficiency, a significant deficiency or a material weakness. A qualitative assessment will ensue which will include the nature of the account that had an error, its balance, its effect on other accounts, etc. Compensating controls can reduce or eliminate the exposure.

Materiality:

It is critical to assess materiality for the balance sheet, statements of operations and changes in net assets and cash flows. The benchmark for inconsequential threshold is 20% of materiality threshold. Materiality for the statements of operations and changes in net assets and the cash flows is equal to 1% of total revenues; the balance sheet being 1% of total assets.

		<u>Materiality</u>	<u>20% Benchmark</u>
Estimated FY 07 revenues	\$51.48 million x 1%	\$515,000	\$103,000
Estimated FY 07 total assets	\$24.62 million x 1%	\$246,000	\$ 49,000

The assessment of materiality is subjective and goes beyond the amount of any error found. In addition, qualitative factors must also be taken into account whenever assessing materiality. The auditors will attempt to extrapolate the error found to its maximum potential impact on the financial statements; that is, they will evaluate how large an error could have been as opposed to just the actual error.

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Continuum of Internal Controls:

Internal controls typically fall into one of the following areas.

Unreliable – Control activities are not designed or in place. The environment is unpredictable.

Informal – Control activities are designed and in place but they are not adequately documented.

Standardized – Control activities are designed, in place and adequately documented.

Monitored – Control activities are standardized. There is periodic testing for effective design and operation with reporting to management.

Optimized – Controls are integrated. There is real-time monitoring by management and continuous improvement.

Assessment of Critical Controls:

In order for an auditor to rely on an internal control, it must be documented. Informal controls are not as reliable as formal controls, and therefore other compensating controls or procedures will be required to offset a negative outcome from an informal control. Identification of significant accounts, key controls and disclosures over financial reporting is the basis for an assessment.

Significant accounts:

The following is a listing of JHHCG’s significant accounts, frequency of account reconciliation, and review frequency:


<u>Account</u>	<u>Frequency of Reconciliation</u>	<u>Review Frequency</u>
Cash	Monthly	Every other month
Accounts receivable	Monthly	Every other month
A/R reserves	Monthly	Every other month
Inventory	Monthly	Every other month
Prepays	Monthly	Every other month
PP&E incl. rental equipment	Monthly	Every other month
Pension asset	Monthly	Every other month
A/P & accruals	Monthly	Every other month
Accrued payroll	Monthly	Every other month
Intercompany accts	Monthly	Every other month
Advances	Monthly	Every other month
Workers compensation	Monthly	Every other month
Pension benefits costs	Monthly	Every other month
All others	Min Quarterly	Min Quarterly

All reviews are performed by the Director of Accounting, and documented by initialing on the individual reconciliation.

Key Controls:

Aside from the review of significant accounts mentioned above, the following are other key controls relied upon in the preparation of financial statements.

- Four levels of formal financial statement review exist. These formal review sessions are documented by sign in sheets. Detailed statistical and other fluctuation analyses, including significant financial statement fluctuations, are included in these financial statement reviews.
 - 1)7th Day review – consisting of the Director of Finance for JHHCG, Directors for each company and

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division of JHHCG, Director of Accounting for JHHS and JHHS Accountants assigned to each Home Care company.

2) 8th Day review – consisting of the President of JHHCG, Director of Finance – JHHCG, Directors for each company and division of JHHCG, Director of Accounting - JHHS, and the JHHS accountants.

3) 9th Day review – consisting of the JHHS CFO and Controller, and all the Finance heads of each Affiliate and the Directors of Accounting – JHHS.

4) 10th Day review – consisting of the JHHS President, CFO, Controller and all the Finance heads of each Affiliate and the Directors of Accounting – JHHS.

- All manual journal entries greater than \$150,000 are reviewed and signed off monthly by the Director of Accounting – JHHS. This includes all subsidiaries of JHHCG.
- Financial statements are prepared by the Senior Accountant, and reviewed by the Director of Accounting – JHHS, and then reviewed by the Controller – JHHS. This review is performed after the four formal review sessions mentioned above, and is focused on ensuring completeness of the financial statement packages as opposed to explaining critical account balances or fluctuations; therefore, no formal process of approval exists.
- A closing check list detailing all the many different types of journal entries required to close the books is maintained by the Senior and Staff Accountant. Each step is signed off as they are completed and the list is reviewed and signed by the Director of Accounting - JHHS.

Disclosures:

On an annual basis, detailed footnote disclosures are prepared for complete audited financial statements. These disclosures are prepared by the Senior Accountant and Director of Accounting – JHHS. Detailed documentation supporting the amounts included in the footnotes is provided to the auditors for their review and verification. Additionally, the Director of Accounting prepares the Financial Statement Disclosure Checklist (FSDCL), provided by PWC, on an annual basis to ensure completeness of disclosures.


Other Areas of Risk:

Reserves – At June 30, 2006, JHHCG included approximately \$718k in excess reserves on its balance sheet for issues which might be identified in the future that relate to June 30, and prior. A signed letter documenting the nature of the balances is on file. The reserve balances were allocated between allowance for doubtful accounts and other accrued expense accounts. These accounts are monitored monthly during the 8th, 9th, and 10th Day review process.

Implementation of Enterprise Resource Planning System – Effective January 1, 2007 JHHS Affiliates have implemented SAP’s enterprise resource planning (“ERP”) financial systems in the area of supply chain, H.R./Payroll, grants and government contracts and general ledger/financial reporting. The effective date follows years of preparation, testing and training for the new system. Several committees from leadership including a committee of the Johns Hopkins Medicine Board of Trustees had oversight responsibilities for the implementation and the Office of Hopkins internal audit had participation in the implementation plan.


Fraud prevention – JHHS has a no tolerance policy when it involves fraud. This tone is portrayed from top levels of management. Employees found to have perpetrated fraudulent activities are terminated immediately. Each employee signs the JHHS employee hand book that includes the code of conduct. A whistle blower hotline exists for employees to report anonymously any potential activities that involve fraud.

Prior year management letter comments – All prior year management letter comments are resolved as quickly as possible. Unresolved prior year management letter comments could potentially be significant deficiencies. JHHS has an Audit Coordinating Committee that meets monthly to discuss, among other things, management letter comments and their resolution.

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Prior year adjustments – All prior year adjustments are evaluated to ensure that they are not areas of adjustment in the current year. There were no adjustments made in FY 06.

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EXHIBIT 14

Johns Hopkins Medicine International Assessment of Controls over Financial Reporting SAS 112 -

“Communicating Internal Control Matters Identified in an Audit”

The following is an analysis and assessment of internal controls over financial reporting in response to the issuance of Statement on Auditing Standard No. 112 - Communicating Internal Control Matters Identified in an Audit (“SAS 112”).

Background:

SAS 112 was issued in May 2006 and is effective for fiscal year’s ending after 12/15/06. SAS 112 is effective for the entire fiscal year, not just as of June 30, 2007; thus, all controls must be documented for the entire fiscal year, as appropriate. It makes the definitions of control exceptions consistent with the PCAOB’s Auditing Standard No. 2, defining significant deficiency and material weakness. The classification of a control deficiency now depends upon the likelihood of a misstatement and the potential magnitude or materiality.

<u>Type of deficiency</u>	<u>Likelihood of Misstatement</u>	<u>Potential Magnitude</u>	<u>Type of Communication</u>
Internal control deficiency		Remote likelihood (<5-10%)	Inconsequential
Significant deficiency	Management letter	More than inconsequential	Formal Audit Committee
Material Weakness	More than remote	Material	Formal Audit Committee

More than remote likelihood means reasonably possible (chance of event is more than remote but less than likely) or probable (the future event is likely to occur) as defined in SFAS 5, Accounting for Contingencies.


The auditors are not required to perform additional procedures to identify deficiencies in internal controls. However, during the course of an audit, the auditor may become aware of control deficiencies. The auditor must then evaluate the identified deficiency and determine whether it is an internal control deficiency, a significant deficiency or a material weakness. A qualitative assessment will ensue which will include the nature of the account that had an error, its balance, its effect on other accounts, etc. Compensating controls can reduce or eliminate the exposure.

Materiality:

It is critical to assess materiality for the balance sheet, statements of operations and changes in net assets and cash flows. The benchmark for inconsequential threshold is 20% of materiality threshold. Materiality for the statements of operations and changes in net assets and the cash flows is equal to 1% of total revenues; the balance sheet being 1% of total assets.

		<u>Materiality</u>	<u>20% Benchmark</u>
Estimated FY 07 revenues	\$32 million x 1%	\$320,000	\$64,000
Estimated FY 07 total assets	\$18 million x 1%	\$180,000	\$36,000

The assessment of materiality is subjective and goes beyond the amount of any error found. In addition, qualitative factors must also be taken into account whenever assessing materiality. The auditors will attempt to extrapolate the error found to its maximum potential impact on the financial statements; that is, they will evaluate how large an error could have been as opposed to just the actual error.

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Continuum of Internal Controls:

Internal controls typically fall into one of the following areas.

- Unreliable – Control activities are not designed or in place. The environment is unpredictable.
- Informal – Control activities are designed and in place but they are not adequately documented.
- Standardized – Control activities are designed, in place and adequately documented.
- Monitored – Control activities are standardized. There is periodic testing for effective design and operation with reporting to management.
- Optimized – Controls are integrated. There is real-time monitoring by management and continuous improvement.

Assessment of Critical Controls:

In order for an auditor to rely on an internal control, it must be documented. Informal controls are not as reliable as formal controls, and therefore other compensating controls or procedures will be required to offset a negative outcome from an informal control. Identification of significant accounts, key controls and disclosures over financial reporting is the basis for an assessment.

Significant accounts:

The following is a listing of JHMI's significant accounts, frequency of account reconciliation, and review frequency:


<u>Account</u>	<u>Frequency of Reconciliation</u>	<u>Review Frequency</u>
Cash	Monthly	Monthly
Accounts receivable	Monthly	Monthly
A/R reserves	Monthly	Monthly
Investments	Monthly	Monthly
A/P & accruals	Monthly	Monthly
Accrued payroll	Monthly	Monthly
Intercompany accts	Monthly	Monthly
All Others	Min Quarterly	Min Quarterly

All reviews are performed by the Director of Accounting, and documented via initialing on the account recs and noted on summary sheet.

Key Controls:

Aside from the review of significant accounts mentioned above, the following are other key controls relied upon in the preparation of financial statements.

- Three levels of formal financial statement review exist. These formal review sessions are documented via sign in sheets. Detailed statistical and other fluctuation analyses, including significant financial statement fluctuations, are included in these financial statement reviews.
 - 1) 7th Day review – consisting of the Director of Finance - JHI, Director of Accounting - JHHS, Staff Accountant III - JHHS, and the Senior Financial Analyst – JHI.
 - 2) 9th Day review – consisting of the JHHS CFO and Controller, and all the Finance heads of each Affiliate and the Directors of Accounting – JHHS.
 - 3) 10th Day review – consisting of the JHHS President, CFO, Controller and all the Finance heads of

 <p>JOHNS HOPKINS MEDICINE JOHNS HOPKINS HEALTH SYSTEM</p>	<p>The Johns Hopkins Health System Policy & Procedure</p>	<p><i>Policy Number</i></p>	<p>FIN126</p>
	<p><i>Subject</i> CONTROL ENVIRONMENT OVER FINANCIAL REPORTING</p>	<p><i>Effective Date</i></p>	<p>01-01-08</p>
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Revisions noted by vertical bar in right margin

each Affiliate and the Directors of Accounting – JHHS.

- All manual journal entries greater than \$20,000 are reviewed and signed off by the Director of Accounting – JHHS.
- Financial statements are prepared by the Staff Accountant III, and reviewed by the Director of Accounting – JHHS, and then reviewed by the Controller – JHHS. This review is performed after the three formal review sessions mentioned above, and is focused on ensuring completeness of the financial statement packages as opposed to explaining critical account balances or fluctuations; therefore, no formal process of approval exists.

Disclosures:

On an annual basis, detailed footnote disclosures are prepared for complete audited financial statements. These disclosures are prepared by the Staff Accountant III and Director of Accounting – JHHS. Detailed documentation supporting the amounts included in the footnotes is provided to the auditors for their review and verification. Additionally, the Director of Accounting prepares the Financial Statement Disclosure Checklist (FSDCL), provided by PWC, on an annual basis to ensure completeness of disclosures.

Other Areas of Risk:

Fraud prevention – JHHS has a no tolerance policy when it involves fraud. This tone is portrayed from top levels of management. Employees found to have perpetrated fraudulent activities are terminated immediately. Each employee signs the JHHS employee hand book that includes the code of conduct. A whistle blower hotline exists for employees to report anonymously any potential activities that involve fraud.

Implementation of Enterprise Resource Planning System – Effective January 1, 2007 JHHS Affiliates have implemented SAP’s enterprise resource planning (“ERP”) financial systems in the area of supply chain, H.R./Payroll, grants and government contracts and general ledger/financial reporting. The effective date follows years of preparation, testing and training for the new system. Several committees from leadership including a committee of the Johns Hopkins Medicine Board of Trustees had oversight responsibilities for the implementation and the Office of Hopkins internal audit had participation in the implementation plan.

Prior year management letter comments – All prior year management letter comments are resolved as quickly as possible. Unresolved prior year management letter comments could potentially be significant deficiencies. JHHS has an Audit Coordinating Committee that meets monthly to discuss, among other things, management letter comments and their resolution.

Prior year adjustments – All prior year adjustments are evaluated to ensure that they are not areas of adjustment in the current year. There were no adjustments made in FY 06.