

AH-GWAH-CHING NURSING HOME

FINANCIAL AUDIT

FOR THE THREE YEARS ENDED JUNE 30, 1990

JULY 1991

**Financial Audit Division
Office of the Legislative Auditor
State of Minnesota**

91-43

AH-GWAH-CHING NURSING HOME
FINANCIAL AUDIT
FOR THE THREE YEARS ENDED JUNE 30, 1990

Public Release Date: August 1, 1991

No. 91-43

OBJECTIVES:

- EVALUATE INTERNAL CONTROL STRUCTURE: Payroll, cost of residents' care; and social welfare accounts.
- TEST COMPLIANCE WITH CERTAIN FINANCE-RELATED LEGAL PROVISIONS.

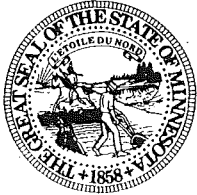
CONCLUSIONS:

We found four areas where the internal control structure needed improvement:

- Ah-Gwah-Ching does not have adequate financial information for the Lakeside Treatment Center.
- Procedures for collecting outstanding accounts for cost of care billings need improvement.
- Internal controls over Ah-Gwah-Ching's computer system are inadequate.
- Ah-Gwah-Ching does not perform physical counts of fixed assets.

We found that the home had complied with finance-related legal provisions.

Contact the Financial Audit Division for additional information.
(612) 296-1730



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

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JAMES R. NOBLES, LEGISLATIVE AUDITOR

Representative Ann Rest, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Ms. Natalie Steffan, Commissioner
Department of Human Services

Jeff Smith, Chief Executive Officer
Ah-Gwah-Ching Nursing Home

Audit Scope

We have conducted a financial related audit of Ah-Gwah-Ching Nursing Home for the three fiscal years ending June 30, 1990. Our audit was limited to only that portion of the State of Minnesota financial activities attributable to the transactions of Ah-Gwah-Ching Nursing Home, as discussed in the Introduction. We have also made a study and evaluation of the internal control structure of Ah-Gwah-Ching Nursing Home in effect as of March 1991.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial activities attributable to the transaction of Ah-Gwah-Ching Nursing Home are free of material misstatements.

As part of our study and evaluation of the internal control structure, we performed tests of Ah-Gwah-Ching Nursing Home's compliance with certain provisions of laws, regulations, contracts, and grants. However, our objective was not to provide an opinion on overall compliance with such provisions.

Management Responsibilities

The management of Ah-Gwah-Ching Nursing Home is responsible for establishing and maintaining an internal control structure. This responsibility includes compliance with applicable laws, regulations, contracts, and grants. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that:

- assets are safeguarded against loss from unauthorized use or disposition;
- transactions are executed in accordance with applicable legal and regulatory provisions, as well as management's authorization; and

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- transactions are recorded properly on the statewide accounting system in accordance with Department of Finance policies and procedures.

Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

Internal Control Structure

For purposes of this report, we have classified the significant internal control structure policies and procedures in the following categories:

- Cost of residents' care;
- Payroll; and
- Social welfare receipts and disbursements.

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

Conclusions

Our study and evaluation disclosed the conditions discussed in findings 1 to 4 involving the internal control structure of Ah-Gwah-Ching Nursing Home. We consider these conditions to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data.

A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial activities being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We believe none of the reportable conditions described above is a material weakness.

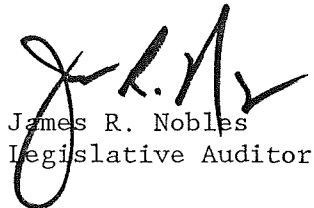
We also noted other matters involving the internal control structure and its operation that we reported to the management of Ah-Gwah-Ching Nursing Home at the exit conference held on May 3, 1991.

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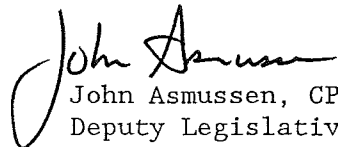
The results of our tests indicate that with respect to the items tested, Ah-Gwah-Ching Nursing Home complied, in all material respects, with the provisions referred to in the audit scope paragraphs. With respect to items not tested, nothing came to our attention that caused us to believe that Ah-Gwah-Ching Nursing Home had not complied, in all material respects, with those provisions.

This report is intended for the information of the Legislative Audit Commission and management of Ah-Gwah-Ching Nursing Home. This restriction is not intended to limit the distribution of this report, which was released as a public document on August 1, 1991.

We would like to thank the Ah-Gwah-Ching Nursing Home staff for their cooperation during this audit.



James R. Nobles
Legislative Auditor



John Asmussen, CPA
Deputy Legislative Auditor

END OF FIELDWORK: May 3, 1991

REPORT SIGNED ON: July 26, 1991

DEPARTMENT OF HUMAN SERVICES
AH-GWAH-CHING NURSING HOME

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AUDIT PARTICIPATION

The following members of the Office of the Legislative Auditor participated in this audit:

John Asmussen, CPA	Deputy Legislative Auditor
Renee Redmer, LPA	Audit Manager
Alan Finlayson, CPA	Auditor-in-Charge
John Wicklund, CPA	Senior Auditor
Eric Jacobson	Senior Auditor

EXIT CONFERENCE

The findings and recommendations in this report were discussed with the following staff of the Ah-Gwah-Ching Nursing Home on May 3, 1991.

Jeff Smith	Chief Executive Officer
Joyce Gilbertson	Director, Lakeside Center
Margaret Dewey	Account Clerk Senior
Keith Allen	Account Clerk
Denise Rittgers	Clerk Typist II

DEPARTMENT OF HUMAN SERVICES
AH-GWAH-CHING NURSING HOME

INTRODUCTION

The Ah-Gwah-Ching Nursing Home provides care for individuals whose behavioral problems cannot be treated adequately in community nursing homes. Its goals are to (1) serve as a resource for those individuals who need nursing home care, but cannot obtain it within the community, (2) establish state-of-the-art treatment programs to eliminate or modify behavior problems, (3) return the elderly residents to a community setting when possible, and (4) work with the community resources to retain or readmit residents into community facilities. Ah-Gwah-Ching also operates the Lakeside Center. It provides treatment for individuals with chronic chemical dependency. The goal of the center is to help clients who have been unsuccessful in previous treatment programs. According to the facility's records, the average daily population for fiscal years 1988 to 1990 was 239, 248, and 257, respectively for Ah-Gwah-Ching Nursing Home and 23, 28, and 24, respectively, for the Lakeside Center.

Jeff Smith is the Chief Executive Officer of the facility. Ah-Gwah-Ching activities are financed mainly from General Fund appropriations made directly to the Department of Human Services. Human Services is responsible for controlling, maintaining, and transferring the necessary funds to Ah-Gwah-Ching. Collections for the cost of residents' care are deposited into an account administered by the Department of Human Services, Central Office. The center is responsible for determining the billing amounts that each resident or co-payor must make for their cost of care. The Lakeside Center is financed from its collections for residents' care. The table below summarizes the financial activity for Ah-Gwah-Ching:

	<u>1988</u>	<u>1989</u>	<u>1990</u>
Revenue:			
Cost of care	\$ 8,412,336	\$ 10,483,170	\$ 7,189,110
Social welfare	188,259	200,965	239,500
Other revenue	<u>134,951</u>	<u>124,644</u>	<u>118,378</u>
Total Revenue	<u>\$ 8,735,546</u>	<u>\$10,808,779</u>	<u>\$ 7,546,988</u>
Expenditures:			
Personnel services	\$ 8,668,036	\$ 9,173,057	\$ 10,080,474
Social welfare	231,307	191,783	202,702
Other expenditures	<u>1,593,290</u>	<u>1,711,915</u>	<u>1,891,847</u>
Total Expenditures	<u>\$ 10,492,633</u>	<u>\$ 11,076,755</u>	<u>\$ 12,175,023</u>

Source: Revenue - Statewide Accounting System, Estimated/Actual Receipts Reports as of September 1988, 1989, and 1990 for social welfare and other revenues. Cost of care revenue is from information provided by the Reimbursement Division, Department of Human Services.

Expenditures - Statewide Accounting System, Manager's Financial Reports as of September 1988, 1989, and 1990.

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AH-GWAH-CHING NURSING HOME

II. CURRENT FINDINGS AND RECOMMENDATIONS

1. Ah-Gwah-Ching does not have adequate financial information for the Lakeside Treatment Center.

Ah-Gwah-Ching does not have complete, accurate financial information on the Lakeside Treatment Center. As a result, financial decisions regarding the center are adversely affected. The center's financial reports are not reliable. Also, Ah-Gwah-Ching does not have complete information when negotiating cost of care rates for the center.

Ah-Gwah-Ching records the actual costs of operating the center in the consolidated chemical dependency treatment fund in the statewide accounting system. However, Ah-Gwah-Ching does not properly allocate costs to the Lakeside Center. Minn. Stat. Section 246.64 describes the costs that the facility should charge to the fund. These expenses include basic services, direct services, salaries, general administration, and depreciation. Certain costs of operating the center are initially paid from the General Fund. The business office then reimburses the General Fund by transferring a portion of these costs to the center's account in the consolidated chemical dependency treatment fund. However, the costs are not properly allocated to the fund as shown in the following examples.

- Administrative salaries charged to the center for fiscal year 1990 are questionable. The amount actually charged to the center's account in fiscal year 1990 was \$29,000. This amount represents a portion of Ah-Gwah-Ching's administrative salaries, such as executive administration, business office, and personnel. Several years ago, these staff estimated their time spent on the center's activities. However, staff did not keep records to support the amounts charged. In addition, the allocation system was not updated to reflect the current salary expenses. Therefore, we could not determine whether the amount charged to the center for 1990 represented a reasonable estimate.
- Utility expenses charged to the center are based on budgeted amounts rather than actual. Since the actual costs of utilities of Ah-Gwah-Ching were not properly allocated to the center, we were unable to determine the appropriateness of the amount charged. The amount budgeted and charged to the center's account for utilities in 1990 was approximately \$15,000.
- The amount charged to the center for depreciation costs was incorrect. For 1990, \$13,500 in depreciation costs were charged to the center's account. However, this amount includes the depreciation expenses of all of Ah-Gwah-Ching's assets. The amount charged to the center's account should only represent the assets used by the center.

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We concluded that the information recorded in the center's account on the statewide accounting system does not fairly present the center's financial position or operating results. Although a profit was shown for the first time in 1990, this is not accurate since operating costs are incomplete. For 1990 Ah-Gwah-Ching reported revenue of \$674,574 and expenditures of \$644,916. An operating deficit could be shown if all operating costs of the center were properly recorded. Complete and accurate financial information is important for the Department of Human Services and the Legislature in the analysis of the chemical dependency program operations.

Ah-Gwah-Ching does not have complete information when negotiating cost of care rates for the center. Budgeted costs are used by the management of Ah-Gwah-Ching to negotiate the residents' cost of care charges with the administering county. However, the budget process used by Ah-Gwah-Ching to develop a cost of care rate does not provide an accurate estimate of the center's operating costs. In 1990, Ah-Gwah-Ching proposed a daily rate of \$89 for the residents' cost of care at the center. The final daily rate negotiated with the county was \$87. Potentially this amount could have been increased if current costs were considered in the negotiation process.

RECOMMENDATION

- Ah-Gwah-Ching should properly allocate operating costs to the Lakeside Treatment Center.

2. Procedures for collecting outstanding accounts for cost of care billings need improvement.

Ah-Gwah-Ching does not sufficiently pursue collection of past due accounts from residents. As of September 1, 1989, the facility listed accounts totalling \$96,723 as uncollectible. Ah-Gwah-Ching has not established an adequate process to collect outstanding accounts. Current follow-up procedures consist only of account billings and telephone contacts. However, these procedures have not been effective in collecting outstanding accounts.

Ah-Gwah-Ching mistakenly presumed that the Department of Human Services Reimbursement Division would pursue collection of these outstanding billings. The Reimbursement Division handles problem accounts for the regional treatment centers. Historically, the division has not administered collection of state nursing home accounts. Therefore, it is critical that Ah-Gwah-Ching establish a process to ensure the collection of outstanding accounts. We believe that it is Ah-Gwah-Ching's primary responsibility to properly administer the cost of care program for its residents.

The Reimbursement Division has written procedures for the establishment, maintenance, and collection of resident cost of care accounts at the regional treatment centers. The manual lists the steps to take to promote collection: beginning with billings, continuing with personal visits and

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ultimately leading to legal proceedings. The division refers certain outstanding accounts to the Office of the Attorney General for collection. Ah-Gwah-Ching needs similar procedures to ensure that the state maximizes recovery of state-paid cost of care.

RECOMMENDATION

- Ah-Gwah-Ching should establish an effective collection process for delinquent cost of care accounts.

3. Internal controls over Ah-Gwah-Ching's computer system are inadequate.

Internal controls over Ah-Gwah-Ching's computer system (TI 990) need improvement. Many employees have unnecessary access to applications. As a result, Ah-Gwah-Ching is vulnerable to intentional or unintentional errors in data processing. The Department of Human Services developed this system to maintain medical and accounting records for the residents.

Employees do not know how to use a utility program, called data file manager. However, most employees using the system can access the program. Staff from other regional treatment centers that were involved in the systems' development told us that the program can be used to delete any file. Improper use of the application could result in loss of important information. At least one person needs training on this application. Other users should not have access to it.

Also, employees do not know how to use the security function for the resident banking system. This feature allows Ah-Gwah-Ching to limit the type of transactions a person can process. Currently, business office staff can enter transactions which are not compatible with their job duties. For example, the clerk who deposits receipts has authority to post transactions. Important checks and balances can be circumvented when employees handling cash also have access to resident accounts. Someone needs to learn how to operate the security feature. This person should limit transaction authority according to management's authorization.

RECOMMENDATIONS

- Ah-Gwah-Ching should provide training to employees using the computer system.
- Ah-Gwah-Ching should review employees duties and limit access to the computer system accordingly.

4. Ah-Gwah-Ching does not perform physical counts of fixed assets.

Ah-Gwah-Ching does not verify the existence of fixed assets. The last physical inventory was performed in October 1988. Periodic counts would provide assurance that items are still used for their intended purpose. As of March 1991, Ah-Gwah-Ching's records show assets costing \$559,535.

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The extent of the physical count could depend on the sensitivity of the inventory. Items such as computer equipment and tools are more subject to theft or misuse. Ah-Gwah-Ching needs to identify such items, and count them periodically. The remaining assets could be counted less frequently.

RECOMMENDATION


- Ah-Gwah-Ching should perform periodic counts of fixed assets.

STATE OF MINNESOTA
OFFICE MEMORANDUM

DEPARTMENT: AH-GWAH-CHING NURSING HOME

DATE: July 19, 1991

TO: James G. Nobles, Legislative Auditor

FROM: Jeff Smith, CEO 

PHONE: 547-8303

SUBJECT: Response to Audit Report

This is in response to the initial audit report for Ah-Gwah-Ching Nursing Home for the three years which ended June 30, 1991.

We would like to make a comment about the "cost of care" items under revenue in the introduction on page 1. Up through 1989, the daily rate was based on the actual cost of care of providing services to our residents. Beginning July 1, 1990, there was a significant drop in our daily rate since it exceeded Federal guidelines for nursing home rates. For example, the daily rate for FY9 was \$116.00 for skilled. In FY0, the daily rate dropped to \$66.80 for skilled. Therefore, the \$3,000,000 reduction from 1989 to 1990 does not necessarily reflect a reduction in the cost of care but it does reflect a significant reduction in the revenues that were collected for our services.

We will now respond to the current findings and recommendations.

1. Ah-Gwah-Ching does not have adequate financial information for the Lakeside Treatment Center.

Recommendation: "Ah-Gwah-Ching should properly allocate operating costs to the Lakeside Treatment Center."

Ah-Gwah-Ching's Response: During the fall of 1991, Ah-Gwah-Ching recognized the need to improve the way in which the Lakeside budget was prepared and the way in which operating costs were allocated. Initial steps were taken at that time to ensure accurate allocations of costs to Lakeside and to better track expenses on a monthly basis. The FY 2 Lakeside budget was prepared in light of actual operating costs. We will continue to take whatever steps are necessary to ensure that operating costs and other expenses are properly allocated and/or recorded.

Person Responsible: Joyce Gilbertson, the Director of Lakeside will be responsible for continued implementation of these changes. Implementation has begun.

2. Procedures for collecting outstanding accounts for cost of care billings need improvement.

Recommendation: Ah-Gwah-Ching should establish an effective collection process for delinquent cost of care accounts.

Ah-Gwah-Ching's Response: Ah-Gwah-Ching is the only facility in Residential Program Management Division that does not have a Reimbursement Officer from the Reimbursement Division assigned to them. We do not have sufficient resources in terms of finances, training or personnel to do our own collections to the degree spelled out in the Reimbursement Division manual. Therefore, to come into compliance with this finding, we will again work with the Reimbursement Division to get a Reimbursement Officer.

Person Responsible: Jeff Smith, the CEO will work with Reimbursement to resolve this issue. It should be resolved by July 1, 1992.

3. Internal controls over Ah-Gwah-Ching computer system are inadequate.

Recommendation #1: Ah-Gwah-Ching should provide training to employees using the computer system.

Recommendation #2: Ah-Gwah-Ching should review employees duties and limit access to the computer system accordingly.

Ah-Gwah-Ching's Response: The number of people who use our TI990 computer system is small but we will be developing a policy to address the issues listed above. Access to the different security levels of the TI will be limited according to need. One person will be assigned and trained to monitor the use of the TI computer system. That person will then ensure that other users are trained as needed.

Person Responsible: Judy Mechura, The Business Office Supervisor will be the person responsible for development and implementation of this policy. It should be in place by January 1, 1992.

4. Ah-Gwah-Ching does not perform physical counts of fixed assets.

Recommendations: Ah-Gwah-Ching should perform periodic counts of fixed assets.

Ah-Gwah-Ching's Response: Ah-Gwah-Ching will develop a procedure and will perform periodic counts of fixed assets, with sensitive items being counted more often than other items.

Person Responsible: Dennis Wicks, Building Services Supervisor working with Margaret Dewey, our Fixed Assets Coordinator will be responsible for periodic counts of fixed assets. All fixed assets will be counted during FY 2 and per established schedule thereafter.