

MARION HEALTH CARE HOSPITAL
FOR THE PERIOD
FEBRUARY 1, 1978 - JUNE 30, 1985

West Virginia



LEGISLATIVE AUDITOR

CHARLESTON

The Honorable Encil Bailey
Legislative Auditor
State Capitol - West Wing
Charleston, West Virginia

Sir:

In compliance with your instructions and the provisions of the West Virginia Code, Chapter 4, Article 2, as amended we have examined the accounts of Marion Health Care Hospital.

Our examination covers the period February 1, 1978 through June 30, 1985. The results of this examination are set forth on the following pages of this report. However, only the financial statements for the years ended June 30, 1985 and June 30, 1984 are included in this report. The financial statements covering the period February 1, 1978 through June 30, 1983 are included in our audit workpapers.

Respectfully submitted,

Theodore L. Shanklin

Theodore L. Shanklin, CPA, Director
Legislative Postaudit Division

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MARION HEALTH CARE HOSPITAL

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MARION HEALTH CARE HOSPITAL

EXIT CONFERENCE

We held an exit conference on February 18, 1986 with the Administrator of Marion Health Care Hospital and the Assistant Director, Office of Administrative Services for the Department of Health and all findings and recommendations were reviewed and discussed. The Hospital's responses are included after our recommendations in the Summary of Findings, Recommendations and Responses and in the General Remarks.

MARION HEALTH CARE HOSPITAL

INTRODUCTION

Marion Health Care Hospital is located in Marion County in the City of Fairmont. This Hospital was established in 1899, as Miner's Hospital Number Three and the name was later changed to Fairmont Emergency Hospital. In March 1985, the name was changed to Marion Health Care Hospital. Its primary purpose was the surgical rehabilitation of injured industrial workers. The original facility was built on one acre of ground donated by the citizens of Fairmont and was officially opened October 1, 1901. Services were free. In 1917, the Hospital began accepting patient's fees, but continued its free services to coal miners and other industrial workers. Also in the same year, a detention ward was created where young women from West Virginia Industrial Home for Girls were treated for venereal diseases. In 1940, youngsters from West Virginia Industrial School for Boys at Pruntytown were admitted for similar treatment. By 1943, services had expanded to include treatment of all surgical cases except incurables, and much effort was devoted to the treatment of infantile paralysis.

Services continued to expand, new equipment replaced old, and sections of the building have been renovated over the years. In 1976, construction of a completely new building was begun. On January 14, 1980, the new building housed its first occupants. A business office and outpatient clinic were soon followed by an intermediate long-term care unit.

In 1982, the old Fairmont Emergency Hospital building was torn down to give an unobstructed view of the new two-story facility. As in the past, Fairmont Emergency Hospital continued to offer free services to low-income persons.

Services presently include a 41-bed medicare long-term care unit and an outpatient clinic. Services include pediatrics, family planning, venereal disease, early periodic screening, diagnosis and treatment, diabetics, hypertension and general medicine. The outpatient program is serving approximately 1,700 patient contacts per month. In addition, a substance abuse program operated cooperatively with Valley Community Mental Health Center includes a 28 day, 12-bed residential program, outpatient day treatment, the public inebriate program and a family education program. Detoxification services are offered through a contract with United Hospital Center in Clarksburg.

Two full time physicians provide medical services to the Hospital. Other services include dietary, full service laundry, housekeeping, maintenance, x-ray and laboratory which is leased by Roche Bio-Meds.

MARION HEALTH CARE HOSPITAL
IMPLEMENTATION OF PRIOR AUDIT RECOMMENDATIONS

In the prior audit covering the period from April 1, 1975 through January 31, 1978, there were six recommendations. During the current audit period, we noted that one of the recommendations had not been fully implemented. The recommendation is listed below:

1. The superintendent install a new accounting system capable of providing accurate records and appropriate internal controls for accounts receivable.

Accurate records and appropriate internal controls have not been established for patient accounts receivable. (See pages 24-25.)

MARION HEALTH CARE HOSPITAL
ADMINISTRATIVE OFFICERS AND STAFF

The administrative officers and staff during the period were as follows:

Administrators During the Period

Ruth Ann Panepinto April 15, 1983 to Present
Marsha Duke December 18, 1982 - April 14, 1983
Anna Rae Ruckman November 19, 1979 - December 17, 1982
Calvin Smith April 10, 1979 - November 18, 1979
Keith Swarney February 7, 1979 - April 9, 1979
Blake Bogess February 1, 1978 - February 6, 1979

Other Administrative Officers and Staff at End of Period

Carol Merrill Assistant Administrator/Personnel Director
Betty King, R.N. Director of Nursing
Joan Arco, R.N. Director Outpatient Services
Sara Jane Gainor Director Alpha Chemical Treatment
Evelyn Martin, R.D. Director Dietary Services
William Wilson Director Support Services
Viola Holt (to July 19, 1985). Business Office Supervisor
Donna Mezzanotte (July 20, 1985
to Present) Business Office Supervisor

MARION HEALTH CARE HOSPITAL
SUMMARY OF FINDINGS, RECOMMENDATIONS AND RESPONSES

AREAS OF NONCOMPLIANCE

Lack of Compliance with Laws, Rules and Regulations

1. The Administrator and employees were often not familiar with or had not complied with applicable West Virginia Code sections and Department of Health Instructions.

We recommend the Administrator and Hospital employees comply with applicable West Virginia Code sections and Department of Health Instructions.

West Virginia Department of Health and all Hospitals will jointly review and establish updated procedures. (See pages 13-14.)

Management Reporting System Not Available to Determine Lack of Compliance

2. A management reporting system was not available to determine lack of compliance.

We recommend the Hospital establish a management reporting system to provide the Administrator with sufficient financial information to monitor financial activity and determine extent of compliance.

Management reporting system is presently in compliance with all areas except the reporting of cash and accounts receivable. (See pages 14-15.)

Insufficient Compliance - Documentation and Deposit
of Cash Receipts

3. The Hospital did not exercise required controls over cash receipts.

We recommend the Hospital exercise controls over cash receipts as required by West Virginia Code, Chapter 12, Article 2, Section 2, as amended.

Deposits are made daily. (See pages 15-17.)

Deficiency in Compliance for Equipment
and Other Inventories

4. An annual physical inventory of all real and personal property and of all equipment supplies and commodities had not been taken and related equipment records had not been prepared as required.

We recommend the Hospital comply with the West Virginia Code, Chapter 5A, Article 3, Section 42 and the Handbook of Purchasing Procedures.

Complete inventory will be done July 1, 1986 with required records on and control over equipment. (See pages 17-18.)

Costs of Meals Furnished to Employees and Others
in Excess of Revenues

5. The cost of meals sold to employees, visitors and meals on wheels program were in excess of related revenues; employees are being paid emoluments in violation of the West Virginia Code, Chapter 27, Article 2, Section 2 since employees eating at the Hospital are not paying the reasonable cost of meals made available to them.

We recommend the Hospital comply with the West Virginia Code, Chapter 27, Article 2, Section 2 and recover the reasonable cost of meals sold.

Meal rates have been changed and approved by the Department of Health.

(See pages 18-19.)

Noncompliance With Certain Requirements of Patient
Trustee Accounts Management Instruction No. 6046

6. The Hospital had not complied with portions of the Department of Health Instruction for the proper management and handling of patient funds.

We recommend the Hospital comply with Department of Health Instruction No. 6046.

A system has been developed to ensure proper recording of all receipts and/or disbursements with regard to patient trustee accounts with monthly summaries prepared and appropriate tie-in to detail records in accordance with Department of Health Management Procedure No. 6046. (See pages 20-21.)

INTERNAL CONTROLS AND ACCOUNTING SYSTEM

Deficiency in Internal Control Over Local
Accounts Through Separation of Duties

7. The Hospital had insufficient separation of duties and lack of internal control over local accounts.

We recommend there be a sufficient separation of duties and improvement in control to assure an appropriate level of internal control.

Subsequent to audit date, cash duties have been separated to include four people, thereby strengthening the internal accounting controls with regard to cash receipting/cash disbursement functions. (See page 22.)

Deficiency in Internal Control Over Cash Receipts Into Local Accounts

8. The Hospital did not exercise sufficient internal control over cash receipts into local accounts.

We recommend improved internal controls be established over cash receipts.

All procedures for the recording and internal control of cash receipts with subsequent depositing thereof have been reviewed and changed subsequent to the audit report date. (See page 23.)

Deficiency in Internal Control Over Cash Disbursements from Local Accounts

9. The Hospital did not exercise sufficient internal control over cash disbursements from local accounts.

We recommend improved internal controls be established over disbursements.

Pre-numbered checks have been ordered. Invoices supporting disbursements are being marked "paid" to prevent duplicate payments. Checks now require two signatures. (See pages 23-24.)

Deficiency in Internal Control Over Patient Accounts Receivable

10. The Hospital exercised insufficient internal control over patient accounts receivable.

We recommend improved internal controls be established over patient accounts receivable.

A system is being established whereby the control account for patient accounts receivable is in agreement with details posted to individual patient ledger cards. (See pages 24-25.)

Patient Accounts Receivable Records for Inpatient
Medicare Part B Billings and Outpatient Medicare
Billings Not Available for Review at the Hospital

- 11) The Hospital had not received patient accounts receivable records from the Department of Health for inpatient Medicare Part B billings and outpatient Medicare billings and was thus unable to make any other collection efforts, to reflect any exonerations or to include such accounts as part of the Hospital records.

We recommend the Hospital request the Department of Health to furnish to the Hospital all necessary information on such patient accounts receivable on a timely basis.

A request has been made to receive information from Touche Ross and Co. Procedures have been developed for the proper channeling of information regarding billings from the Department of Health with the associated recording of cash receipts therefrom. (See pages 25-26.)

Lack of Internal Control Over Patient Trustee Accounts

12. The Hospital did not exercise sufficient internal control over individual patient trust accounts.

We recommend improved internal controls be established over individual patient trust accounts.

Subsequent to audit date, individual patient ledger accounts have been established and reflect patient trust activity. Also, associated control cards are prepared and used monthly to prove the accuracy of the individual ledger cards. (See pages 26-27.)

Lack of Internal Control Over Telephone Usage

13. There was no control over telephone usage by employees to prevent abuse.

We recommend internal controls be established over telephone usage by employees to prevent abuse.

A new telephone system is being explored which will provide necessary internal controls. (See page 27.)

MARION HEALTH CARE HOSPITAL

GENERAL REMARKS

INTRODUCTION

We have completed a financial and compliance audit of Marion Health Care Hospital. A financial and compliance audit determines whether the financial statements of an audited entity present fairly the financial position and the results of operations in accordance with generally accepted accounting principles and whether the entity has complied with laws and regulations that may have a material effect upon the financial statements. The audit covered the period February 1, 1978 through June 30, 1985.

APPROPRIATED ACCOUNTS

All expenditures required for the general operation of Marion Health Care Hospital were made from the following accounts:

<u>Number</u>	<u>Description</u>
4180-00 (1985), 4170-00 (1984). . .	Personal Services
4180-01 (1985), 4170-01 (1984). . .	Current Expenses
4180-02 (1985), 4170-02 (1984). . .	Repairs and Alterations
4180-03 (1985), 4170-03 (1984). . .	Equipment

SPECIAL REVENUE ACCOUNTS

During the audit period, Marion Health Care Hospital maintained the following special revenue accounts:

<u>Number</u>	<u>Description</u>
8500-05	Receipts from Hospital Services Revenues; for substance abuse unit.
8500-26	Receipts from Hospital Services Revenues; for repairs, alterations and equipment.
8500-31	Receipts from Hospital Services Revenues; for kitchen renovation and roofing repair.
8500-42	Receipts from Hospital Services Revenues; for kitchen renovation.

LOCAL ACCOUNTS

During the audit period, Marion Health Care Hospital maintained several local accounts which are described as follows:

Patient Trustee Account

Received funds from or for patients for maintenance, personal care and donations; disbursed for maintenance and for patient benefits. This account was opened March 1982.

Receipts Account

Received funds from Trustee Account, rents and refunds to appropriations; for transfer to the State Treasury. This account was opened June 1982.

Substance Abuse Account

Received funds from donations; disbursed for benefit of patients. This account was opened February 1985.

Collection Account

Received funds for patient maintenance, rents and refunds to appropriations; for transfer to the State Treasury. This account was closed October 1982.

Vending Machine Account

Received funds from vending machine and telephone commissions; disbursed for patient benefits. This account was closed March 1978.

AREAS OF NONCOMPLIANCE

Chapter 27, Articles 1A, 2 and 8; Chapter 26, Article 11 and the West Virginia Department of Health Instructions generally govern Marion Health Care Hospital. We tested applicable sections of the above plus general State regulations and other applicable chapters, articles and sections of the West Virginia Code as they pertain to fiscal matters. Our findings are listed below.

Lack of Compliance With Laws, Rules and Regulations

Department of Health Instructions and chapters, articles and sections of the West Virginia Code have been promulgated on a wide variety of subjects

for which the Administrator is responsible for compliance.

The West Virginia Code, Chapter 26, Article 11, Section 2, states, "Each facility provided for in this article shall have a chief executive officer denominated an 'administrator'. The administrator shall be the person having the fiscal responsibility of the facility and the authority to manage and administer the financial, business and personnel affairs of the facility under the director of health." The West Virginia Code sections, Department of Health Instructions and other laws, rules and regulations often were not complied with by employees responsible for such compliance either because the employee had not received copies of Code sections, Department of Health Instructions, etc. or had not been instructed how to comply. This is evidenced by lack of compliance as shown in the following findings and recommendations.

We understand the Department of Health is in the process of bringing Department of Health Instructions up-to-date by revision, cancellation or publishing of new instructions.

We recommend the Administrator provide copies of West Virginia Code chapters and sections, Department of Health Instructions and other laws, rules and regulations which are needed for determining compliance in their work; and the Administrator and the Department of Health require the Hospital and its employees to comply with all applicable West Virginia Code chapters and sections, Department of Health Instructions and any other laws, rules and regulations.

West Virginia Department of Health and all hospitals will jointly review and establish updated procedures.

Management Reporting System Not Available to
Determine Lack of Compliance

The Hospital does not have a system of monthly financial management reports that would provide to the Administrator or the Department of Health a summary review of activity in all local accounts, special revenue accounts

and appropriated accounts. The reports that could be provided to management could include summary activity for cash, patient accounts receivable, billable patient days, patient gross billing rates, exonerations, investments, trust accounts due to patients, budgeted appropriations, appropriation expenditures, unspent appropriations, etc. With these management reports, management at the Hospital and the Department of Health could then monitor all accounts for compliance and other problems which need to be addressed.

We recommend the Hospital establish a management reporting system to provide the Administrator and the Director of Health with sufficient financial information to monitor financial activity.

Management reporting system is presently in compliance with all areas except the reporting of cash and accounts receivable. Steps are being taken to implement procedures for these areas by March 1, 1986. Personal computer has been purchased and procedures have begun to computerize some management information data.

Insufficient Compliance - Documentation and Deposit
of Cash Receipts

Chapter 12, Article 2, Section 2 of the West Virginia Code states, "All officials and employees of the state authorized by statute to accept moneys due the state of West Virginia shall keep a daily itemized record of such moneys so received for deposit in the state treasury and shall deposit promptly with the state treasurer all moneys received or collected by them for or on behalf of the state for any purpose whatsoever.... When so paid, such moneys shall be credited to the state fund and treated by the auditor and treasurer as part of the general revenue of the state, and shall not be used for any purpose whatsoever unless and until authorized and directed by the legislature, except the following funds:

(a) All moneys received out of appropriations made by the Congress of the United States;

(b) All funds derived from the sale of farm and dairy products from farms operated by any agency of state government other than the farm management commission;

(c) All endowment funds, bequests, donations, executive emergency funds and death and disability funds;

(d) All fees and funds collected at state educational institutions for student activities;

(e) All funds derived from collections from dormitories, boardinghouses, cafeterias and road camps;

(f) All moneys received from counties by institutions for the deaf and blind on account of clothing for indigent pupils;

(g) All insurance collected on account of losses by fire and refunds;

(h) All funds derived from bookstores and sales of blank paper and stationery; and collections by the chief inspector of public offices;

(i) All moneys collected and belonging to the capitol building fund, state road fund, state road sinking funds, general school fund, school fund, state fund (moneys belonging to counties, districts and municipalities), state interest and sinking funds, state compensation funds, the fund maintained by the public service commission for the investigation and supervision of applications and licenses under article nine, chapter thirty-one of this Code, and all funds and moneys payable to or received by the natural resources commission of West Virginia;

(j) All moneys collected or received under any act of the legislature providing that funds collected or received thereunder shall be used for specific purposes....."

The Hospital had not complied with the above in the following manner:

(a) Cash received for each day into each local account was not always deposited intact.

(b) Daily itemized record of moneys received had not been prepared in all cases.

We recommend the Hospital comply with the provisions of Chapter 12, Article 2, Section 2 of the West Virginia Code, as amended.

All procedures for the recording of cash receipts with subsequent depositing thereof have been reviewed and changed subsequent to the audit report date. Deposits are made daily.

Deficiency in Compliance for Equipment
and Other Inventories

West Virginia Code, Chapter 5A, Article 3, Section 42 and Department of Health Instruction No. 3031 states, "The head of every department of the state government shall on or before July fifteenth of each year file with the director (Purchasing Division, Department of Finance and Administration) an inventory of all real and personal property, and of all equipment, supplies and commodities in its possession as of the close of the last fiscal year."

The Handbook of Purchasing Procedures states, "When a department acquires a piece of equipment, whether by purchase, donation, or salvage, it must be registered with the Office of Surplus Property by submitting an "Added Property Form" (WV-62) with the Transmittal for payment attached...."

Effective June 1, 1982, the Department of Health instituted an Inventory Activity Form to replace the Added Property Form (WV-62).

The Handbook of Purchasing Procedures also states, "If an agency wishes items to be permanently removed from its offices, it must notify Surplus Property on a Retirement and/or Surplus Form (WV-64)...."

The Hospital had not taken an annual inventory of equipment.

The Hospital also did not have available the majority of the added property (or inventory activity) forms for the period March 9, 1982 to June 30, 1985, or retirement and/or surplus property forms for our review.

Because of the lack of compliance, the Hospital has not established the required records on and control over equipment.

We recommend the Hospital comply with the Handbook of Purchasing Procedures, Department of Health Instruction No. 3031 and the West Virginia Code, Chapter 5A, Article 3, Section 42.

Complete inventory will be done by July 1, 1986 with required records on and control over equipment.

Costs of Meals Furnished to Employees and Others
in Excess of Revenues

The Hospital is not recovering all costs incurred in providing meals for sale to employees and visitors in the Hospital and meals on wheels recipients outside the Hospital.

	<u>Year Ended</u> <u>June 30, 1985</u>
Total Dietary Labor Costs	\$ 97,935.54
Total Food Purchases	<u>33,165.54</u>
	<u>\$131,101.08</u>
Total Meals Sold or Prepared for Patients in the Fiscal Year Ended June 30, 1985	 <u>63,787</u>
Total Cost Per Meal	 <u>\$2.06</u>

	<u>Employees and Meals on Wheels</u>	<u>Visitors</u>
Total Costs per Meal	\$2.06	\$2.45
Selling Price per Meals for Employees, Visitors and Meals on Wheels Recipients	<u>1.00</u>	<u>1.00</u>
Estimated Loss on Each Meal Sold	<u>\$1.06</u>	<u>\$1.45</u>

The total estimated loss incurred by the Hospital in providing meals for sale is shown as follows:

	<u>Meals Sold in Fiscal Year 84/85</u>	<u>Estimated Loss Per Meal</u>	<u>Estimated Loss For Meals Sold</u>
Employees	8,798	\$1.06	\$ 9,293.95
Meals on Wheels Program	4,778	\$1.06	5,054.58
Visitors	107	\$1.45	<u>155.20</u>
Total Estimated Loss Incurred in Fiscal Year 84/85			<u>\$14,503.73</u>

Since the costs of meals provided for employees by the Hospital are not fully recovered through revenues, employees are being paid emoluments through noncompliance with West Virginia Code, Chapter 27, Article 2, Section 2.

The Hospital is also not recovering the full costs incurred in providing meals for sale to visitors and meals on wheels recipients.

We recommend the Hospital comply with the West Virginia Code, Chapter 27, Article 2, Section 2.

Meal rates have been changed and approved by the Department of Health.

Noncompliance With Certain Requirements of Patient
Trustee Accounts Management Instruction No. 6046

On October 21, 1983, the Department of Health issued Instruction No. 6046, a comprehensive instruction dealing with the proper management and handling of patient funds.

The Hospital did not comply with the following requirements of Instruction No. 6046:

(1) The Trustee Clerk did not post receipts to patients' individual ledger card and to the cash receipts journal. A cash receipts journal was prepared when requested by the audit team;

(2) An employee other than the Trustee Clerk did not receive all bank statements on an unopened basis and prepare the bank reconciliations. The bank reconciliation for the patient trustee account had not been prepared since August 1983;

(3) Some disbursements from the patient accounts were not adequately supported by a voucher;

(4) Cash disbursements journals had not been made but were prepared by the Hospital when requested by the audit team;

(5) Deposits were taken to the bank by the cashier function rather than being delivered by an employee with no other cash duties;

(6) There were no safeguards against misappropriation of funds through the recording of fictitious exonerations or other adjustments to accounts receivable; and,

(7) Disbursements from local accounts have been made by the cashier function responsible for all local accounts rather than by an accounts payable function.

We recommend the Hospital comply with all sections of Department of Health Instruction No. 6046.

A system has been developed to ensure proper recording of all receipts and/or disbursements with regard to patient trustee accounts with monthly summaries prepared and appropriate tie-in to detail records in accordance with Department of Health Management Procedure No. 6046.

INTERNAL CONTROLS AND ACCOUNTING SYSTEM

As a part of our examination, we reviewed and tested the system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards. Under these standards the purpose of such evaluation is to establish a basis for reliance thereon in determining the nature, timing and extent of other auditing procedures that are necessary for expressing an opinion on the financial statements.

The objective of internal accounting control is to provide reasonable, but not absolute, assurance as to the safeguarding of assets against loss from unauthorized use or disposition, and the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a system of internal accounting control should not exceed the benefits derived and also recognizes that the evaluation of these factors necessarily requires estimates and judgments by management.

There are inherent limitations that should be recognized in considering the potential effectiveness of any system of internal accounting control. In the performance of most control procedures, errors can result from misunderstanding of instructions, mistakes of judgment, carelessness, or other personal factors. Control procedures whose effectiveness depends upon segregation of duties can be circumvented by collusion. Similarly, control procedures can be circumvented intentionally by management with respect either to the execution and recording of transactions or with respect to the estimates and judgments required in the preparation of financial statements. Further projection of

any evaluation of internal accounting control to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions and that the degree of compliance with the procedures may deteriorate.

Our study and evaluation of the system of internal accounting control for the period February 1, 1978 through June 30, 1985, which was made for the purpose set forth in the first paragraph above, would not necessarily disclose all weaknesses in the system. However, such study and evaluation disclosed conditions that we believe to be weaknesses.

Deficiency in Internal Control Over Local
Accounts Through Separation of Duties

Accounting duties for all local accounts were performed by one person. There was insufficient separation of duties in the business office since one employee in that section performed some or all of the following functions for each local account and internal controls need to be strengthened for those functions: (1) Cash Receipts Function; (2) Cash Disbursements Function; (3) Accounts Receivable Function; and, (4) Bank Reconciliation Function. The Trustee Clerk controlled the Patient Trustee Account, Receipts Account and Substance Abuse Account and performed some or all of the functions noted above for each local account. Due to insufficient separation of duties, the persons who controlled these functions could divert cash to personal use and conceal such diversion by unauthorized changes in records or documents under their control.

We recommend there be a sufficient separation of accounting functions for local accounts to ensure an appropriate level of internal control.

Subsequent to audit date, cash duties have been separated to include four people, thereby strengthening the internal accounting controls with regard to cash receipting/cash disbursement functions.

Deficiency in Internal Control Over Cash
Receipts Into Local Accounts

Amounts received for outpatient services in the outpatient department are not receipted, independent of the cashier, to verify proper recording of receipts. The cashier made all bank deposits rather than deposits being made by an employee with no other cash duties. There were no receipt forms completed for amounts received into the Substance Abuse Account. Receipt books were not ordered or used consecutively in all cases for amounts received into the Receipts Account and Patient Trustee Account. There was no independent review of the transactions in the local accounts by a responsible official or another employee independent of the cashier.

We could not trace all receipts on hand at June 30, 1985, into the bank deposit for the Patient Trustee Account. There were \$2,744.92 in receipts on hand at June 30, 1985. We could only trace \$1,895.20 of those receipts into a deposit in July 1985. We could not trace the remaining \$849.72 of those receipts into a deposit in July 1985 or later.

We recommend improved internal controls be established over cash receipts.

All procedures for the recording and internal control of cash receipts with subsequent depositing thereof have been reviewed and changed subsequent to the audit report date.

Deficiency in Internal Control Over Cash Disbursements
from Local Accounts

Some of the expenditures made from the Substance Abuse Account were not documented. The cashier is allowed to countersign disbursement checks written from Patient Trustee Account funds rather than checks being signed by a person independent of the cashier. Invoices supporting disbursements were not defaced so as to prevent duplicate payments. Disbursement checks for the Patient Trustee

Account are not pre-numbered.

We recommend improved internal control be established over disbursements.

Pre-numbered checks have been ordered. Invoices supporting disbursements are being marked "paid" to prevent duplicate payments. Checks now require two signatures.

Deficiency in Internal Control Over Patient
Accounts Receivable

The control account for patients' accounts receivable was not properly supported by individual patient accounts receivable ledger cards. We were informed by Hospital personnel that beginning balances used to establish such accounts were not reliable. It was recommended in the prior audit that a new accounting system be installed that was capable of providing accurate records and appropriate internal controls for accounts receivable. This Hospital had not complied with this recommendation.

Individual patient accounts receivable cards were maintained by the cashier function rather than having a separate account receivable function keeping such records. All adjusting entries affecting patient maintenance such as exonerations or adjustments to accounts receivable charges were recorded by the cashier function rather than by a separate patient accounts receivable function. Statements of balances due on patient accounts receivable were not sent out by an employee who had no access to cash records. The June 30, 1985 balances in the patients' accounts receivable were as follows:

	<u>Accounts Receivable Balance</u>
June 30, 1985 Balance per the Control Account Maintained by the Hospital	\$1,473,905.11
June 30, 1985 Balance per the Analysis of Individual Patient Ledger Cards Prepared for the Audit Team by Hospital Personnel	<u>1,628,929.28</u>
Unexplained Difference	<u>\$ 155,024.17</u>

The individual accounts receivable records were in such condition that no attempt was made by the audit team to locate the difference. Since the accounts receivable records were not under good control, it is highly probable that the Hospital did not properly record all maintenance charges to which it was entitled or make adequate collection efforts.

We recommend improved internal controls and better records be established over patients accounts receivable.

A system is being established whereby the control account for patient accounts receivable is in agreement with details posted to individual patient ledger cards.

Patient Accounts Receivable Records for Inpatient Medicare
Part B Billings and Outpatient Medicare Billings Not
Available for Review at the Hospital

Touche Ross and Company has been billing inpatient Medicare Part B charges on behalf of the Hospital. Retroactive billings for such charges were first made in June 1983, for several prior years for which such claims could be made. The billings and the related collections are prepared quarterly by the above Company. This information, when completed, was delivered to the Department of Health but was not delivered to the Hospital.

Outpatient Medicare charges also were to be billed by the Company for the Hospital. Such charges have not been billed for any year because of problems with certification and billing rates as yet unresolved. Since the Hospital had not received information on billings, collections and balances for any Medicare Part B charges, the Hospital was unable to make any further collection efforts. For these reasons, the Hospital had incomplete patient accounts receivable records for inpatient Medicare Part B billings and outpatient Medicare billings.

We recommend the Hospital request the Department of Health to obtain all necessary information on inpatient Medicare Part B billings and outpatient Medicare billings, and to furnish to the Hospital all necessary information so patient

accounts receivable from such billings can be completed on a timely basis by the Hospital.

A request has been made to receive information from Touche Ross and Co. Procedures have been developed for the proper channeling of information regarding billings from the Department of Health with the associated recording of cash receipts therefrom.

Lack of Internal Control Over
Patients' Trustee Account

Individual ledger cards were not kept for each individual patient account but instead quarterly reports of trust account activity were prepared for each patient. No control card was prepared and used monthly to prove the accuracy of postings to individual ledger cards with the cash receipts and disbursements for the Patient Trustee Account. We were unable to balance with the June 30, 1985 balance in the Trustee Account of \$9,982.19 with the quarterly reports for individual patients which totaled \$9,680.04. We could not reconcile the \$302.15 difference. There were also funds maintained in the Patient Trustee Account that were not applicable to individual patients which applied to Marion Health Care Hospital Advisory Council and Substance Abuse functions.

We recommend improved internal controls be established over individual patient trust accounts.

Subsequent to audit date, individual patient ledger accounts have been established and reflect patient trust activity. Also, associated control cards are prepared and used monthly to prove the accuracy of the individual ledger cards.

Lack of Internal Control Over
Telephone Usage

There was no control over telephone usage so as to prevent abuse. Employees had direct access to outside lines on which long distance calls could be made and charged to the Hospital.

We recommend internal controls be established over telephone usage to prevent abuse.

A new telephone system is being explored which will provide necessary internal controls.

AUDITORS' OPINION

The Honorable Encil Bailey
Legislative Auditor
State Capitol - West Wing
Charleston, West Virginia

Sir:

We have examined the financial statements of Marion Health Care Hospital for the years ended June 30, 1985 and June 30, 1984, as listed in the foregoing table of contents. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

During the audit, records on patient accounts receivable were not sufficient to establish verifiable balances. Accordingly, we were unable to confirm accounts receivable balances or to perform other tests. For these reasons, we did not present patient accounts receivable as part of the financial statements.

As more fully described in Note A, the Hospital's policy is to prepare its financial statements on the modified cash and cash basis. Accordingly, the accompanying financial statements are not intended to present financial position and results of operation in conformity with generally accepted accounting principles.

In our opinion, subject to the omission of patient accounts receivable as referred to in the second paragraph above, the financial statements of Marion Health Care Hospital as listed in the aforementioned table of contents present fairly appropriations and expenditures, cash and trust accounts for the years ended June 30, 1985 and June 30, 1984 on a basis consistent with the preceding year.

Our examination was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the examination of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Respectfully submitted,



Thedford L. Shanklin, CPA, Director
Legislative Postaudit Division

December 20, 1985

Auditors: George T. Hill, CPA, Auditor-in-Charge
Larry W. Bell
Rodney Bennett

MARION HEALTH CARE HOSPITAL

STATEMENT OF APPROPRIATIONS/CASH RECEIPTS, EXPENDITURES/
DISBURSEMENTS AND CHANGES IN FUND BALANCE

	Year Ended June 30, 1985			
	General Revenue	Special Revenue	Trust Funds	Combined Totals
Appropriations/Cash Receipts:				
Appropriations	\$1,223,407.00	\$ -0-	\$ -0-	\$1,223,407.00
Hospital Services Revenue	-0-	420,092.86	-0-	420,092.86
Trust Funds	-0-	-0-	10,191.37	10,191.37
Refunds	12,024.42	-0-	-0-	12,024.42
	<u>1,235,431.42</u>	<u>420,092.86</u>	<u>10,191.37</u>	<u>1,665,715.65</u>
Expenditures/Disbursements:				
Personal Services	682,004.00	-0-	-0-	682,004.00
Current Expenses	333,638.35	-0-	7,755.79	341,394.14
Repairs & Alterations	6,135.63	19,985.00	-0-	26,120.63
Equipment	2,671.91	9,944.79	-0-	12,616.70
State General Revenue Fund	11,547.69	-0-	-0-	11,547.69
Hospital Services Revenue Fund	-0-	373,782.27	-0-	373,782.27
	<u>1,035,997.58</u>	<u>403,712.06</u>	<u>7,755.79</u>	<u>1,447,465.43</u>
Appropriations/Cash Receipts Over Expenditures/Disburse- ments	199,433.84	16,380.80	2,435.58	218,250.22
Expenditures After June 30 and Expirations	(198,957.11)	-0-	-0-	(198,957.11)
	<u>476.73</u>	<u>16,380.80</u>	<u>2,435.58</u>	<u>19,293.11</u>
Beginning Balance	-0-	54,000.00	10,451.32	64,451.32
Ending Balance	<u>\$ 476.73</u>	<u>\$ 70,380.80</u>	<u>\$ 12,886.90</u>	<u>\$ 83,744.43</u>

See Notes to Financial Statement

<u>General Revenue</u>	<u>Year Ended June 30, 1984</u>			<u>Combined Totals</u>
	<u>Special Revenue</u>	<u>Trust Funds</u>		
\$1,099,848.00	\$ -0-	\$ -0-	\$1,099,848.00	
-0-	319,439.02	-0-	319,439.02	
-0-	-0-	3,946.85	3,946.85	
6,986.23	-0-	-0-	6,986.23	
<u>1,106,834.23</u>	<u>319,439.02</u>	<u>3,946.85</u>	<u>1,430,220.10</u>	
632,413.93	-0-	-0-	632,413.93	
307,968.60	3,492.10	3,894.60	315,355.30	
4,961.80	877.55	-0-	5,839.35	
11,987.79	20,164.22	-0-	32,152.01	
7,353.94	-0-	-0-	7,353.94	
-0-	261,920.24	-0-	261,920.24	
<u>964,686.06</u>	<u>286,454.11</u>	<u>3,894.60</u>	<u>1,255,034.77</u>	
142,148.17	32,984.91	52.25	175,185.33	
(142,515.88)	-0-	-0-	(142,515.88)	
<u>(367.71)</u>	<u>32,984.91</u>	<u>52.25</u>	<u>32,669.45</u>	
367.71	21,015.09	10,399.07	31,781.87	
<u>\$ -0-</u>	<u>\$ 54,000.00</u>	<u>\$ 10,451.32</u>	<u>\$ 64,451.32</u>	

MARION HEALTH CARE HOSPITAL
NOTES TO FINANCIAL STATEMENT

Note A - Accounting Policies

Accounting Method: The modified cash basis of accounting is followed for the General Revenue Fund. The major modification from the cash basis is that a 30-day carry-over period is provided at the end of the fiscal year ended June 30, 1985 and a 90-day carry-over period is provided at the end of the fiscal year ended June 30, 1984 for the payment of obligations incurred in those years. All balances of the General Revenue Fund appropriations for each fiscal year expire on the last day of such fiscal year and revert to the unappropriated surplus of the fund from which the appropriations were made, except that expenditures encumbered prior to the end of the fiscal year may be paid up to 30 days after the fiscal year ended June 30, 1985 and 92 days after the fiscal year ended June 30, 1984; however, appropriations for buildings and land remain in effect until three years after the passage of the act by which such appropriations were made. The cash basis of accounting is followed by all other funds. Therefore, certain revenue and the related assets are recognized when received rather than when earned, and certain expenses are recognized when paid rather than when the obligation is incurred. Accordingly, the financial statement is not intended to present financial position and results of operations in conformity with generally accepted accounting principles.

Expenditures paid after June 30 during the carry-over period and expirations were as follows:

	<u>Expenditures</u>		<u>Expirations</u>	
	<u>Paid After June 30,</u> <u>1985</u>	<u>1984</u>	<u>July 31,</u> <u>1985</u>	<u>September 30,</u> <u>1984</u>
Personal Services	\$ 30,291.87	\$26,556.50	\$95,279.13	\$45,825.57
Current Expenses	51,713.11	46,543.79	60.54	15,539.61
Repairs and Alterations	8,254.35	422.68	610.02	4,615.52
Equipment	<u>10,651.10</u>	<u>104.88</u>	<u>2,096.99</u>	<u>2,907.33</u>
Total	<u>\$100,910.43</u>	<u>\$73,627.85</u>	<u>\$98,046.68</u>	<u>\$68,888.03</u>

Combined Totals: The combined totals contain the totals of similar accounts of the various funds. Since the appropriations and cash receipts of certain funds are restricted by various laws, rules and regulations, the totaling of the accounts is for memorandum purposes only and does not indicate that the combined totals are available in any manner other than provided by such laws, rules and regulations.

Note B - Pension Plan

All eligible employees are members of the West Virginia Public Employees' Retirement System. Employees' contributions are 4½% of their annual compensation and contributions by the West Virginia Public Employees' Retirement Board are 9½% of the employees' annual compensation.

Note C - Hospital Services Revenue Account

On and after January 1, 1982 there was established in the State Treasury a separate account designated the Hospital Services Revenue Account. The Director of Health shall deposit promptly into the account any fees received by a facility owned and operated by the State Health Department from whatever source including the Federal and State governments or other third-party payer or personal payment.

The Director of Health is authorized to expend the moneys deposited in the account in accordance with Federal laws and regulations and with the laws of this State as is necessary for the development of a five-year health facilities long-range plan and subsequent revisions.

SUPPLEMENTAL INFORMATION