




Lehigh County
Pennsylvania

OFFICE OF THE CONTROLLER

Mark Pinsley, MBA Thomas Grogan, CPA
COUNTY CONTROLLER DEPUTY CONTROLLER

TO: Final Report Distribution
FROM: Mark Pinsley, County Controller 
DATE: February 18, 2020
RE: Audit of Nursing Home Fund

We have completed our financial audit of Nursing Home Fund for the year ended December 31, 2018. Our audit report number 20-01 is attached.

The result of our audit are:

- Likely write-off of over \$450,000 in unpaid private pay billings from prior years.
- Inadequate control over nursing care billings and receipts in PCC.
- Inadequate oversight over resident's bank accounts.
- Excessive discrepancies in market-to-go (Allentown location cafeteria) daily settlements.
- Inadequate control over investment advisory spending.

Attachment

AUDITS/NURSING HOME FUND



COUNTY OF LEHIGH, PENNSYLVANIA

NURSING HOME FUND

Financial Audit for the Year Ended December 31, 2018

REPORT NUMBER 20-01

COUNTY OF LEHIGH, PENNSYLVANIA
NURSING HOME FUND

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COUNTY OF LEHIGH, PENNSYLVANIA
NURSING HOME FUND

Background

The Nursing Home Fund (#3204) is separate from the Cedarbrook Fund* (#1233) and is comprised of the following financial components:

1. Resident trustee accounts – funds belonging to the residents held in a separate bank account.
2. Investment advisory account – funded by donations and interest income and used to fund resident activities and quality of life expenses.
3. Gift shop and craft sale profits – accumulated profits from gift shop and craft sales occurring at both nursing home locations.
4. Interest income – interest earned on deposited investment advisory and gift shop and craft sale profits.

*As noted in the opinion letter on the following page, we expanded the scope of the audit to include testing accounts receivable activity in the Cedarbrook Fund for the year ended December 31, 2018.



David F. Crook, Supervisory Accountant
Cedarbrook Senior Care and Rehabilitation
350 South Cedarbrook Road
Allentown, PA 18104

Report on Financial Statements

We have audited the accompanying Statement of Changes in Fund Balance of the Nursing Home Fund for the year ended December 31, 2018 (hereinafter referred to as the Schedules) and the related notes to the Schedules. We expanded the scope of our testing to include accounts receivable activity in the Cedarbrook Fund for the year ended December 31, 2018.

Management's Responsibility for the Schedules

Management is responsible for the preparation and fair presentation of these Schedules in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the Schedules that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these Schedules based on our audits. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Schedules. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the Schedules, whether due to human error or fraud. In making those risk assessments, the auditor considers internal control relevant to management's preparation and fair presentation of the Schedules in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of management's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management as well as evaluating the overall presentation of the Schedules.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion on the Schedules


In our opinion, the Schedules referred to above present fairly, in all material respects, the financial activity arising from cash transactions of the Nursing Home Fund for the year ended December 31, 2018, in accordance with the U.S. generally accepted accounting principles. However, we noted control deficiencies or other management issues that are described in the accompanying “*Schedule of Audit Findings and Recommendations*”.

As discussed in Note 1, the Schedules were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles.

Also, as discussed in Note 1, the Schedules present only the Nursing Home Fund financial activity and does not purport to, and does not, present fairly the assets, liabilities, and results of operations of the County of Lehigh for the year ended December 31, 2018 in conformity with the cash receipts and disbursements basis of accounting.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 12, 2020 on our consideration of the Nursing Home Fund’s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering management’s internal control over financial reporting and compliance.


Mark Pinsley
County Controller

February 12, 2020
Allentown, Pennsylvania

Audited by: Nanton John and Thomas Schweyer

xc: Phillips Armstrong, County Executive
Board of Commissioners
Jason Cumello, Administrator, Cedarbrook Senior Care and Rehabilitation
Edward Hozza, Director of Administration
Timothy Reeves, County Fiscal Officer
Michelle Reichard, Office Supervisor, Cedarbrook Senior Care and Rehabilitation

COUNTY OF LEHIGH, PENNSYLVANIA
NURSING HOME FUND

*Statement of Changes in Fund Balance
for the Year ended December 31, 2018
(NOTE 1)*

	<u>Trustee</u> <u>Accounts</u> (NOTE 2)	<u>Investment</u> <u>Advisory</u> (NOTE 3)	<u>Gift Shop/</u> <u>Craft Sales</u> (NOTE 4)	<u>Unallocated</u> <u>Interest</u> (NOTE 5)	<u>Total</u>
Balances – January 1	\$739,418	\$286,579	\$222,990	\$4,728	\$1,253,715
ADDITIONS					
Net increases in trustee account balances	71,266	0	0	0	71,266
Gift shop and craft sales	0	0	32,450	0	32,450
Interest income	0	4,692	5,100	0	9,792
Donations	<u>0</u>	<u>3,411</u>	<u>0</u>	<u>0</u>	<u>3,411</u>
TOTAL ADDITIONS	<u>71,266</u>	<u>8,103</u>	<u>37,550</u>	<u>0</u>	<u>116,919</u>
REDUCTIONS					
Nursing home fees from prior period	272,121	0	0	0	272,121
Resident entertainment and activities	0	119,953	0	0	119,953
Gift shop purchases	0	0	22,820	0	22,820
Interest income allocations from prior period	<u>0</u>	<u>0</u>	<u>0</u>	<u>4,728</u>	<u>4,728</u>
TOTAL REDUCTIONS	<u>272,121</u>	<u>119,953</u>	<u>22,820</u>	<u>4,728</u>	<u>419,622</u>
Balances – December 31	<u>\$538,563</u>	<u>\$174,729</u>	<u>\$237,720</u>	<u>\$0</u>	<u>\$951,012</u>

The accompanying notes are an integral part of this statement.

COUNTY OF LEHIGH, PENNSYLVANIA
NURSING HOME FUND

Notes to Financial Statement
For the year ended December 31, 2018

1. Summary of Significant Accounting Policies

A. Reporting Entity

The Nursing Home Fund financial activity is a part of the County of Lehigh's reporting entity, included in the operating fund and is subject to annual financial audit by external auditors. This report is only for internal audit purposes.

B. Basis of Accounting

The accounting records of the County of Lehigh and the Schedule of Changes in Fund Balance are maintained on the cash receipts and disbursements basis of accounting. Under this basis of accounting, revenue is recognized when cash is received and expenditures are recognized when paid. This differs from Generally Accepted Accounting Principles (GAAP) which requires the accrual basis of accounting.

2. Trustee Accounts

Residents' funds kept in separate accounts at the following banks:

	<u>Laf Trust*</u>	<u>TD Bank</u>	<u>Total</u>
Balances – January 1	\$272,121	\$467,297	\$739,418
Balances – December 31	<u>-0-</u>	<u>538,563</u>	<u>538,563</u>
Net change	\$(272,121)	\$71,266	\$(200,855)

*prior years' resident nursing home care costs; funds transferred to the county when the account was closed in February 2018

3. Investment Advisory

Donations mostly come from family members of residents. Entertainment and activity costs include live entertainment, day trips to events and restaurants, electronics, and furniture.

4. Gift Shop/Craft Sales

Includes sale of candy, crafts made by residents, and other sundries at both locations. Purchases are goods purchased for resale.

5. Unallocated Interest

Interest earned during 2017 not allocated until 2018.



Lehigh County

Pennsylvania

OFFICE OF THE CONTROLLER

Mark Pinsley, MBA
COUNTY CONTROLLER

Thomas Grogan, CPA
DEPUTY CONTROLLER

David F. Crook, Supervisory Accountant
Cedarbrook Senior Care and Rehabilitation
350 South Cedarbrook Road
Allentown, PA 18104

We have audited, in accordance with the auditing standards generally accepted in the United States of America; and the standards applicable to financial audits contained in the *Government Auditing Standards* issued by the Comptroller of the United States; the accompanying Statement of Changes in Fund Balance of the Nursing Home Fund for the year ended December 31, 2018 (hereafter referred to the Schedules) and have issued our report thereon dated February 12, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the Schedules, we considered the Nursing Home management's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the Schedules, but not for the purpose of expressing an opinion on the effectiveness of management's internal control. Accordingly, we do not express an opinion on the effectiveness of the Nursing Home management's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention to those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. Significant deficiencies or material weaknesses may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Nursing Home management’s Schedules are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. Our audit also included sufficient and appropriate tests for fraud, waste and abuse and we included in our report any material (either quantitatively or qualitatively) instances we noted however, our audit procedures would not necessarily identify all instances of fraud, waste and abuse that may be reportable.

Management’s Response to the Audit

We noted certain matters that we reported to management of the Nursing Home Fund in a separate section titled “*Schedule of Audit Findings and Recommendations*”. If provided, the Nursing Home management’s response to our audit is included in this report. We did not audit the Nursing Home management’s response and, accordingly, we do not express an opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal controls and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity’s internal control or compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose. This report is intended solely for the information and use of management, others within the entity, and Phillips Armstrong, County Executive; Board of Commissioners; Edward Hozza, Director of Administration; Timothy Reeves, Fiscal Officer; Jason Cumello, Administrator, Cedarbrook Senior Care and Rehabilitation; and Michelle Reichard, Office Supervisor, Cedarbrook Senior Care and Rehabilitation and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Mark Pinsley
County Controller

Febraury 12, 2020
Allentown, PA

COUNTY OF LEHIGH, PENNSYLVANIA
NURSING HOME FUND
Schedule of Audit Findings and Recommendations

1. Inadequate controls over nursing care billings and receipts

Condition: As reported on pages 1 and 2 we expanded the scope of the audit to include accounts receivable activity in the Cedarbrook Fund for the year ended December 31, 2018. Our testing of those transactions revealed two areas in which internal controls are inadequate: oversight of resident care financial transactions and collection of unpaid private pay billings*.

- Resident care financial transactions are not are not reconciled to the county general ledger. Transactions are processed on a standalone automated nursing care billing and payment tracking system, called Point, Click, Care (PCC). The only transactions recorded on the county general ledger are deposits made by the nursing home into the county bank account. The deposits are **not** reconciled to the payments recorded in PCC.

As a result, unauthorized transactions or errors could occur and not be detected, exposing the county to potential financial loss.

- Unpaid private pay billings from prior years, amounting to over \$450,000 (as of December 31, 2018), will most likely have to be written off as uncollectable. The balance is comprised of unpaid services to seven residents, one of which amassed an unpaid balance of \$164,000 during her stay from December 2012 to June 2017. Bad debt write-offs during 2018 included \$42,000 for one resident.

Lack of a formal procedures assigning specific responsibilities and procedures contributed to the current situation.

*Private pay billings are nursing care charges billed directly to the resident.

Recommendation: To address the internal control issues we recommend the following:

- Nursing home management should compile monthly summaries of PCC transactions including beginning of month unpaid balance, current billings, billing adjustments or write offs, funds collected, and end of month unpaid balance. The report should be approved by fiscal officer. Any write offs should be approved separately by the fiscal officer and funds collected should be reconciled to the county general ledger. A separate aging of unpaid accounts should be provided as well. This procedure will ensure adequate management oversight of the nursing care transactions.
- With regards to collection efforts, nursing home management has committed to developing written procedures ensuring adequate monitoring of unpaid accounts. Management has also suggested that obtaining outside council, specializing in nursing home care, would be advantageous in collection efforts. We support management's suggestion on obtaining outside council and recommend we use their services to attempt to collect the above referenced unpaid accounts.

2. Lack of adequate oversight over residents' bank accounts

Condition: Outstanding (uncashed) checks amounting to \$5,130.67 issued between July 2017 and May of 2018 from the residents' bank accounts have not been cashed as of December 16, 2019. Checks not cashed in a reasonable amount of time (three months) should be addressed by management. There is also an unlocated difference of \$436.64 included on the monthly bank reconciliation since November 2015.

Recommendation: We recommend the following corrective actions:

- issue stop payment requests on checks not cashed after three months;
- replacement checks should only be issued after verifying the recipient's address;
- if replacement checks are not cashed the corresponding funds should be escheated to the state;
- the unlocated difference of \$436.64 should be escheated to the state.

3. Excessive over and shorts in daily "market to go" sales

Condition: Ninety three percent (93%) of funds collected at the "market to go" program do not match amounts entered on cash register tapes. This program is run by the food service vendor and allows employees and visitors to purchase meals at the Allentown location. Funds collected should match cash register tapes with differences occurring on rare occasions. Although the amounts of the differences are small in dollar the frequency of differences raises concern over the cash handling controls employed by the vendor.

We attempted to determine the actual cost of this program to the county but the vendor invoices did not separate the cost of the program.

Recommendation: Management should review the frequency of errors with vendor management to determine the cause of the errors. We also recommend that the vendor be asked to provide separate invoicing for the cost of the program. This will allow management to determine the true cost of the program.

COUNTY OF LEHIGH, PENNSYLVANIA
NURSING HOME FUND
Schedule of Previously Reported Audit Findings and Recommendations
(#19-11 Compliance Audit of Vendor Payments for 2018 Issued June 5, 2019)

1. Inadequate Controls over Cedarbrook Investment Advisory Spending

Condition: Controls are not adequate to monitor Cedarbrook Investment Advisory accounts spending compliance.

Background: Over the years cash donations have been made to the county for the benefit of Cedarbrook residents. In addition, profits from canteen and craft sales have been earmarked for the benefit of the residents as well. Available funds from these sources amounted to \$412,413 as of December 31, 2018 (per the county trial balance for fund 3204, not audited by the Controller's Office).

In 1993 a policy was issued by Cedarbrook Administration providing guidelines for the use of these funds. This policy has been updated several times with the latest version revised in September 2013. Per the policy, funds shall be utilized to enhance the quality of life and activities for the residents of Cedarbrook - Allentown and Cedarbrook – Fountain Hill. Specific activities include out of facility trips, entertainment, decorations, flowers for memorial services, etc. Dollar limits for entertainment have been set for each location and performance. Per the policy, requests for expenditures are reviewed and approved by Cedarbrook Administration and the Therapeutic Recreation Director. Expenditures in excess of \$2,000 shall be approved by the County Executive. Purchases and payments are to be made in accordance with established purchasing procedures.

This activity occurs outside the county budget approval and tracking process resulting in avoidance of automated controls ensuring compliance with spending guidelines. In addition, most of the approvals come from Cedarbrook Management which creates a possible conflict of interest in determining if an expenditure is a resident quality of life expense or a nursing home operation cost.

Recommendation: The Cedarbrook Investment Advisory Funds should be placed in a separate fund subject to annual budgeting oversight and approval. A new investment advisory committee should be formed including County Administration, Cedarbrook Administration, and Cedarbrook resident representation. Without proper oversight these funds could be used to subsidize nursing home operations instead of resident quality of life enhancements.

COUNTY OF LEHIGH
Cedarbrook Senior Care and Rehabilitation

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Cedarbrook - Fountain Hill
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February 12, 2020

Mr. Mark Pinsley
County Controller
County of Lehigh
Lehigh County Government Center
17 South Seventh Street
Allentown, PA 18101-2400

Re: December 31, 2018 Audit Schedule of Audit Findings and Recommendations
Comments:

Dear Sir:

1. **Inadequate controls over nursing care billings and receipts:**

- a. A reconciliation of cash received posted to KEA and subsequently booked to Point Click Care (PCC) is being completed as part of the monthly close process. A check off on the monthly close package and the reconciliation is part of the monthly documentation for the monthly close procedures for 2020.
- b. A new Financial Admission policy has been implemented for 2020 which will lessen the propensity for documents and signatures on the admissions agreement not to be completed timely. This will allow for timely billing and cash collection procedures to be more effective.

A new collections policy is ready for approval going forward into 2020 which will reduce the time that accounts will be worked by Cedarbrook and subsequently moved into collections. This will dramatically lessen the propensity for accounts to become Bad Debt.

- c. Monthly Accounts Receivable reconciliation report is printed and review by the CFO as part of the Monthly Close procedure. The Accounts Receivable Aged report is also reviewed at this time. (note) The aging report is being audited by the CFO to clean up old accounts to facilitate the ability to have a useful Aging Report.
- d. We will be working to present an outsourced specialty collections firm contract to the Board of Commissioners in the future. The reason to outsource this support is because long-term care legal collections support is essentially a niche (high Medicaid County nursing home population) inside of a niche (long-term care collections,) and as such we are recommending outsourcing some of these matters to a long-term care collections firm that specializes in high Medicaid populations. We are extremely fortunate to enjoy excellent legal support from our Law department. The practice of outsourcing complex
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collections cases to specialty firms is a typical practice in the nursing home industry, particularly since collections have become more difficult in time across the industry. Management agrees that the accounts receivable/collections historical issue is partially due to the lack of a more formalized collections/accounts receivable reporting system and the nature of cash-based accounting that can make it difficult to easily see these issues.

2. Lack of adequate oversight over residents' bank accounts:

- a. The checks for the residents' trust bank account have a stale date of 180 days. All checks that exceed the 180 days age date, will have a "Stop Payment" initiated and added back to the residents account. The escheatment criteria for the State of PA is Three years. For those residents that are deceased the escheatment process will begin at the 180-day date, however, for those residents that are still living we will notate the accounts on a report (list) for forthcoming escheatment and escheat the accounts as they reach the three-year-old mark.

3. Excessive over and shorts in daily "market to go" sales:

- a. Agree that this is a valid concern. A yearly profit breakdown is already performed in conjunction with the vendor to determine profitability and to report the activity in the Medicare and Medicaid cost reports. The average shortage/overage for each month is rarely in excess plus or minus \$5.00. The program is hugely appreciated by Cedarbrook employees, who, by policy and the nature of a nursing home, cannot leave the building for their meals. Management will work closely with the vendor to reduce the errors at the cash register.

4. Inadequate Controls over Cedarbrook Investment Advisory Spending:

- a. Current Cedarbrook Administration has exercised controls over the spending in these accounts. The Assistant Administrator will lead a "Process Improvement Project" in collaboration with different departments of the County to update the policy.



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