



COUNTY OF LEHIGH  
OFFICE OF THE CONTROLLER

LEHIGH COUNTY GOVERNMENT CENTER  
17 SOUTH SEVENTH STREET  
ALLENTOWN, PA 18101-2400  
(610) 782-3082 FAX: (610) 871-2897

GLENN ECKHART  
COUNTY CONTROLLER

JOHN A. FALK  
DEPUTY CONTROLLER

**TO:** Final Report Distribution  
**FROM:** Glenn Eckhart, County Controller G.E.  
**DATE:** August 24, 2016  
**RE:** Audit of Cedarbrook Nursing Home Fund

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We have completed our financial audit of the Nursing Home Fund for the period January 1 through August 31, 2015. Our audit report number 16-22 is attached.

The results of our audit are:

- Significant deficiency in controls over resident trust funds;
- Nursing care revenues of \$586,505 not yet transferred to the county;
- Improvements needed in cash handling controls;
- Inadequate control over investment advisory spending.

Attachment

AUDITS/CEDARBROOK NURSING HOME FUND

COUNTY OF LEHIGH, PENNSYLVANIA

NURSING HOME FUND

*Financial Audit for the Period  
January 1 through August 31, 2015*

AUDIT REPORT NO. 16-22

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 three components:

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

Nursing home operations are recorded in the Cedarbrook Fund and are not included in the scope of this audit.



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Steven B. Breidigan, Chief Financial Officer  
Cedarbrook Nursing Home  
350 South Cedarbrook Road  
Allentown, PA 18104

Timothy A. Reeves, Fiscal Officer  
County of Lehigh  
17 South Seventh Street  
Allentown, PA 18101-2400

We have audited the accompanying "Statement of Receipts, Disbursements and Changes in Fund Balance for the period January through August 31, 2015" for the Nursing Home Fund as listed in the Table of Contents. The financial statements are the responsibility of the county nursing home's management. Our responsibility is to express an opinion on the "Statement of Receipts, Disbursements and Changes in Fund Balance for the period January through August 31, 2015" based on our audit. During our audit, we expanded our audit testing to include select resident trustee account activity for all of 2015 and investment advisory account activity for calendar years 2013 through 2015.

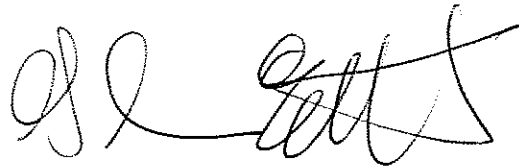
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the generally accepted government auditing standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements 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 financial statements 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 period January 1, 2015 through August 31, 2015 in conformity with the cash receipts and disbursements basis of accounting.

In our opinion, the "Statement of Receipts, Disbursements and Changes in Fund Balance for the period January through August 31, 2015" referred to above presents fairly, in all material respects, the financial activity arising from cash transactions of the Nursing Home Fund for the period January 1, 2015 to August 31, 2015, on the basis of accounting described in Note 1. However, we noted control deficiencies or other management issues that are described in the accompanying "*Schedule of Audit Findings and Recommendations*".

In accordance with *Government Auditing Standards*, we have also issued our report dated August 18, 2016 on our consideration of Nursing Home management'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* and should be considered in assessing the results of our audit.



GLENN ECKHART  
COUNTY CONTROLLER

August 18, 2016  
Allentown, Pennsylvania

Audited by: Thomas Schweyer and Zachary Efftig

xc: Board of Commissioners  
Mary Hazzard, Assistant Administrator, Cedarbrook Nursing Homes  
Thomas Muller, County Executive  
Michelle Reichard, Office Supervisor, Cedarbrook Nursing Homes  
Joseph Shadid, Director/Administrator, Cedarbrook Nursing Homes

COUNTY OF LEHIGH, PENNSYLVANIA  
NURSING HOME FUND

*Statement of Receipts, Disbursements, and  
Changes in Fund Balance for the  
Period January 1 through August 31, 2015  
(NOTE 1)*

	<u>Trustee Accounts</u>	<u>Investment Advisory</u>	<u>Gift Shop/ Craft Sales</u>	<u>Total</u>
<b>RECEIPTS (NOTE 2)</b>				
Trustee account deposits	\$ 5,273,144	\$ 0	\$ 0	\$ 5,273,144
Donations	0	7,050	0	7,050
Interest Income	0	888	0	888
Gift shop sales & craft sales	<u>0</u>	<u>0</u>	<u>18,511</u>	<u>18,511</u>
<b>TOTAL RECEIPTS</b>	<b>5,273,144</b>	<b>7,938</b>	<b>18,511</b>	<b>5,299,593</b>
 <b>DISBURSEMENTS (NOTE 3)</b>				
Nursing home fees	4,591,011	0	0	4,591,011
Resident account expenditures	748,407	0	0	748,407
Resident entertainment/activities	0	24,958	0	24,958
Gift shop purchases	<u>0</u>	<u>0</u>	<u>13,655</u>	<u>13,655</u>
<b>TOTAL DISBURSMENTS</b>	<b>5,339,418</b>	<b>24,958</b>	<b>13,655</b>	<b>5,378,031</b>
 Excess of Receipts Over/(Under) Disbursements	 (66,274)	 (17,020)	 4,856	 (78,438)
 Fund Balance - January 1, 2015	 <u>1,043,992</u>	 <u>395,450</u>	 <u>195,778</u>	 <u>1,635,220</u>
 Fund Balance - August 31, 2015	 <u>\$ 977,718</u>	 <u>\$ 378,430</u>	 <u>\$ 200,634</u>	 <u>\$1,556,782</u>

The accompanying notes are an integral part of this statement.

COUNTY OF LEHIGH, PENNSYLVANIA  
NURSING HOME FUND

*Notes to Financial Statement*  
*For the Period January 1 through August 31, 2015*

1. **Basis of Accounting**

The accounting records of the Nursing Home Fund and the Statement of Receipts, Disbursements, and Changes in Fund Balance for the period January 1 through August 31, 2015 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. **Receipts**

- A. Trustee account deposits are comprised of resident pensions, payments for non-covered services (beauty shop), family member donations, and bank account interest.
- B. Donations are cash payments received from friends and family of former residents.
- C. Interest income is based on funds held in County of Lehigh bank accounts.
- D. Gift shop and craft sales revenues are from both locations.

3. **Disbursements**

- A. Nursing home fees are charges by the nursing homes for resident lodging and care.
- B. Resident account expenditures include payments for non-covered services, medical insurance premiums, clothes and gift shop purchases, and other payments made in behalf of the resident.
- C. Resident entertainment and activities are payments for nursing home entertainment, meals for residents at restaurants, decorations, etc.
- D. Gift shop purchases are payments made for items purchased for resale. There is no adjustment for beginning and ending inventories.





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Cedarbrook Nursing Home  
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Allentown, PA 18104

Timothy A. Reeves, Fiscal Officer  
County of Lehigh  
17 South Seventh Street  
Allentown, PA 18101-2400

We have audited the accompanying "Statement of Receipts, Disbursements and Changes in Fund Balance of the Nursing Home Fund for the period January 1 through August 31, 2015", and have issued our report thereon dated August 18, 2016. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the generally accepted government auditing standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. During our audit, we expanded our audit testing to include select resident trustee account activity for all of 2015 and investment advisory account activity for calendar years 2013 through 2015.

In planning and performing our audit, we considered the Nursing Home management's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Nursing Home management's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Nursing Home management's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements 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 by those charged with governance. We consider the deficiencies described in the accompanying "*Schedule of Audit Findings and Recommendations*" to be significant deficiencies in internal control over financial reporting.

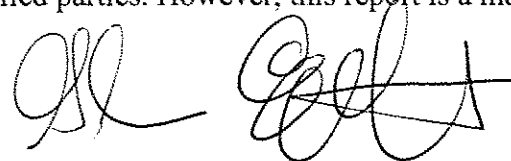
A material weakness is a deficiency, or combination of significant deficiencies, in internal control, such that there is reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. Our consideration of the 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 the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

As part of obtaining reasonable assurance about whether the Nursing Home Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying "*Schedule of Audit Findings and Recommendations*".

We noted certain matters that we reported to the management of the Nursing Home Fund noted in the accompanying "*Schedule of Audit Findings and Recommendations*".

The Fiscal Officer's and Nursing Home management's response to the findings identified in our audit are included in this report. We did not audit the Nursing Home management's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, Thomas Muller, County Executive; Board of Commissioners; Timothy Reeves, Fiscal Officer; Joseph Shadid, Director/Administrator, Cedarbrook Nursing Homes; Mary Hazzard, Assistant Administrator, Cedarbrook Nursing Homes; Steven Breidigan, Chief Financial Officer, Cedarbrook Nursing Homes; and Michelle Reichard, Office Supervisor, Cedarbrook Nursing Homes, 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.



GLENN ECKHART  
COUNTY CONTROLLER

August 18, 2016  
Allentown, Pennsylvania

COUNTY OF LEHIGH, PENNSYLVANIA  
NURSING HOME FUND

*Schedule of Audit Findings and Recommendations*

1. Significant deficiency in controls over resident trust funds

**CONDITION:** The transfer of resident trust fund payment processing from the Office of Fiscal Affairs (Fiscal) to the Cedarbrook business office has resulted in the following deficiencies and risks:

a) Inadequate control over expenditures

Payments are issued directly from Cedarbrook to third parties without independent review of supporting documents. Current volume of checks issued (based on the first quarter of 2016) is \$65,123 per month or \$781,480 annually.

Some funds were used to reimburse management for AARP membership fees. Such membership enables residents to obtain supplemental medical insurance coverage. We were unable to determine the specific amount of memberships personally financed by management.

Without adequate oversight, the likelihood of undetected error or fraud increases.

b) Non-compliance of the County of Lehigh rules and regulations

The Controller's Office is not reviewing payments as required by Section 503 of the County of Lehigh Home Rule Charter and Section 502 of the Administrative Code.

c) Checks issued in excess of available residents' funds

Checks issued in excess of funds on-hand resulted in negative resident account balances. System controls should prohibit checks issued for amounts in excess of funds residing in the resident's account.

**RECOMMENDATION:** We recommend management take the following steps to address the deficiencies and risks:

- a) To address inadequate control

Return the responsibility for reviewing payment documentation/authorization, check processing and issuing resident trust fund checks back to Fiscal. In addition, funding for residents' supplemental insurance coverage should be covered by nursing home operating funds.

- b) Non-compliance

Returning check processing to Fiscal will enable the Controller to resume review of expenditures.

- c) Checks in excess of available funds

Do not issue checks from resident accounts in excess of available funds. As stated in a) above, authorized and approved financial needs of the residents should be funded using County dollars.

2. Nursing care revenues of \$586,505 not yet transferred to county

**CONDITION:** The monthly care cost assessment for September 2015 was not transferred from the resident trust accounts at Lafayette Bank to the County. Prior to the implementation of the new automated accounting system in October 2015, nursing home revenues were electronically transferred by Fiscal from the resident trust bank accounts to the County bank account. By not transferring the funds the county has not had access to the funds.

**RECOMMENDATION:** Fiscal should immediately transfer the funds.

3. Improvements needed in cash handling controls

**CONDITION:** Cash handling weaknesses were found during recent unannounced cash counts.

Allentown location

- a) \$30 shortage in the resident trustee cash fund

Since multiple employees have access to the fund management was unable to identify the source of the shortage

- b) Frequent cash over and shorts in daily “market to go” deposits

A review of recent activity (January 2016) differences occur on an almost daily basis; however, the net difference averaged less than a dollar for the entire month;

- c) Funds not belonging to Cedarbrook kept in business office safe

Funds raised by the Cedarbrook auxiliary to benefit the “Second Wind Program” were kept in the safe;

Fountain Hill location

- d) Funds are being deposited on a weekly basis;

**RECOMMENDATION:** To improve the adequacy of cash handling controls we recommend:

- a) Issue separate cash drawers to all personnel responsible for handling cash and require daily cash settlements approved by management;
- b) Determine the cause of the frequent differences and implement processes to lessen the frequency;
- c) Do not allow storage of non Cedarbrook funds in the business office safe; otherwise, the County of Lehigh could responsible for any shortages;
- d) Instruct personnel to deposit all funds daily;

4. Inadequate control over investment advisory spending

**CONDITION:** We found several examples of inadequate control over investment advisory spending:

- a) Items purchased with investment advisory funds should have been charged to the nursing home operating fund

December 2012*	\$ 3,669 for 8 UPS backup units for the nursing home servers
April 2013	\$ 2,876 for firewall protection for nursing home servers
July 2013	\$ 1,376 for firewall protection for nursing home servers
May 2015*	\$ 3,130 for 2 hardwood doors
October 2015*	\$ <u>4,949</u> for 55 privacy curtains

Total \$16,000

\*purchases in excess of \$2,000 not approved by the County Executive as required by the investment advisory policy

b) Entertainment cost not being tracked

Entertainment costs are co-mingled with other investment advisory transactions. Since the investment advisory policy limits annual entertainment cost to \$20,000 (\$10,000 per facility) manual calculations must be performed to determine compliance.

c) Spending decisions are not documented

The investment advisory policy requires purchases and expenditures to be reviewed and approved by the Director/Administrator, Assistant Administrator, and the Therapeutic Recreation Director.

**RECOMMENDATION:** To enable required oversight, investment advisory financial transactions should be reflected in a separate fund and spending by type and location separated into separate object costs. In addition, line items should be included in the annual budget.

We also recommend that residents be included in spending decisions.

TO: Glenn Eckhart, County Controller  
FROM: Timothy A. Reeves, Fiscal Officer  
DATE: August 18, 2016  
RE: Response to Audit Findings and Recommendations – Nursing Home Fund Audit

1. Significant deficiency in controls over resident trust funds

Response: We acknowledge that the transfer of resident trust fund payment processing from the Fiscal Office to Cedarbrook business office was not completely in compliance with the County of Lehigh Home Rule Charter and Administrative Code. We believed the system offered by RFMS, along with the segregation of duties implemented with the Cedarbrook staff was adequate for the protection of resident funds and allowed for a more streamline processing of checks. Currently, we have returned the reviewing/authorization/and check processing back to the Fiscal Office with final review by the Controller's Office.

**Please see the additional response provided directly from Cedarbrook (Steve Breidigan – CFO).**

2. Nursing care revenues of \$586,505 not yet transferred to county

Response: Fiscal will work directly with Cedarbrook staff to ensure all funds from Lafayette Bank are transferred to the County before year end.

**Please see the additional response provided directly from Cedarbrook (Steve Breidigan – CFO).**

3. Improvements needed in cash handling controls

Response: In order to improve the cash handling controls the Fiscal Office and Cedarbrook have agreed that daily cash settlements and daily deposits should occur going forward. In addition, non Cedarbrook funds will no longer be stored in the business office safe.

**Please see the additional response provided directly from Cedarbrook (Steve Breidigan – CFO).**

4. Inadequate control over investment advisory spending

Response: All future purchases and expenditures will be reviewed and approved by the Administrator/Director, Assistant Administrator, and Therapeutic Recreation Director for compliance with policy. If appropriate a separate fund may be created and included in the annual budget.



Timothy A. Reeves, Fiscal Officer County of Lehigh

Responses to Lehigh County Controller's audit of the Nursing Home Fund.

Prepared by Steve Breidigan, CFO, MBA (Chief Financial Officer of Cedarbrook Nursing Homes)

August 18, 2016

1. Significant deficiency in controls over resident trust funds
  - a. Inadequate control over expenditures
    - i. Beginning Sept 1, 2015 Cedarbrook/Lehigh County began the transition from the KEA/Admins system of maintaining resident trust records to the Resident Funds Management System (RFMS) offered by National Datacare Corp. This system is best in class and highly regarded by the outside regulators for its accuracy of record keeping and protection of resident funds. Resident Trust funds are the property of the residents and are not assets of Lehigh County. These funds cannot be commingled with county assets.
      1. The Nursing Home Administrator and the CFO are responsible for compliance with CMS, PA Dept of Health, PA Dept of Human Services and PA Dept of Aging regulations related to these funds and are bonded accordingly.
      2. These funds are audited annually by the PA DHS and the PA DOH.
      3. Residents and/or their personal representative receive quarterly statements produced by RFMS/TD Bank detailing all transactions on their personal accounts. This ensures that any discrepancies in the accounts can be questioned by the resident and/or their representative.
      4. Resident account detail reports can be generated real-time at the request of a resident.
      5. RFMS ensures that Resident trust funds are not accessible without proper documentation and authorization from the resident or their representative.
      6. RFMS transfers all County-earned Cost of Care payments from the residents to the County's bank account daily rather than monthly (as was the case with the legacy KEA/Admins system). This improves the County's cash flow and expedites access to these funds.
      7. There are significant controls over the receipt and expenditure of resident funds. PA reviews 100% of the transactions at least annually and residents receive a complete accounting quarterly.
    - ii. Many residents lack supplemental health insurance which they are entitled to have by being dually eligible for both Medicare and Medicaid. Enrolling in a health plan increases the resident's access to healthcare from many providers that participate in Medicare but not Medicaid. Residents desiring to enroll in a plan are now paying their membership fees themselves. Prior to this change, 70 residents were enrolled and paid their membership fees indirectly.
    - iii. There is significant oversight of the Resident Trust Funds by both the PA Dept of Human Services and the PA Dept of Health.
  - b. Non-Compliance of the County of Lehigh rules and regulations
    - i. The Controller's office has oversight over County Funds. Resident trust funds are the personal assets of residents and are not County Funds. All County of Lehigh rules and regulations related to payments made with County Funds were complied with.



- c. Checks issued in excess of resident's available funds.
  - i. Under the KEA/Admins system, resident health insurance was routinely paid through the system without regard to the resident's fund balance because the County was reimbursed by the state for the full cost of the health insurance.
  - ii. This process inadvertently occurred for 3 residents in the new RFMS system during transition. When identified by management, procedures were implemented to ensure that payments are issued by the Fiscal office for these special cases and are no longer paid through the RFMS system. In the cases identified by the Controller's office, the County was reimbursed by the state for the health insurance along with the regular payment for services for those residents, as a routine transaction.
  - iii. In compliance with PA DOH and PA DHS regulations, no resident trust accounts had negative balances due to expenditures for health insurance.
- 2. Nursing Care Revenues
  - a. All County funds are available and accessible to the County Fiscal Dept for use as needed.
- 3. Improvements needed in cash handling
  - a. Shortage: In order to minimize the possibility of mistakes in cash handling, one employee at each location is primarily responsible for the handling of Resident fund petty cash. At the end of each day, the drawer is reconciled.
  - b. Market to Go: Employees, residents and guests have the option to purchase meals on a cash basis in the Market to Go. The Market is staffed by dietary personnel who have been re-oriented to proper cash handling.
  - c. Funds not belonging to Cedarbrook have been returned to the auxiliary and will not be kept in Cedarbrook's safe in the future.
  - d. Fountain Hill and Allentown staff have been instructed to deposit funds on a daily basis.