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Audit Report

**GRACEDALE AGENCY
FUND**

As of October 31, 2016

**Office of the Controller
County of Northampton
Pennsylvania**



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April 3, 2017

Members of the Northampton County Council
John A. Brown, County Executive
County of Northampton, Pennsylvania

We have completed an audit of the Gracedale Agency Fund as of October 31, 2016.

The Executive Summary on page 1 summarizes the audit results, while the Audit Results section provides a detailed explanation.

We acknowledge the cooperation and assistance we received from the staff of Gracedale's Business and Volunteer Offices. Their help was essential to the performance of this audit.

We discussed our report with management at our exit conference on March 9, 2017. Management's response is included in the Audit Results section of the report.

Very truly yours,

Stephen J. Barron, Jr., CFE
County Controller

Paul L. Albert, CIA
Lead Auditor

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EXECUTIVE SUMMARY

The Gracedale Agency Fund bank accounts have over a million dollars flowing through them each month. Our audit of those accounts included an assessment of the controls over those transactions, a determination of compliance, and an evaluation of the economy and efficiency of the functions.

The fiscal and clerical staff in the business office are well trained and knowledgeable of their responsibilities. Having documented policies and procedures for their functions would only enhance their proficiency and improve training for new employees. Other areas of improvement in the business office include:

- Providing better segregation of duties over the weekly reconciliation of the petty cash accounts.
- Sending the yellow copy of the deposit slip along to the bank so the teller could validate the cash/check breakout of the deposit.
- Working to reduce the amount of time necessary to distribute funds from deceased residents' accounts.

The volunteer office is busy with the many volunteers coming in and out of the office daily to learn where they are needed next. The volunteer director knows them all by name and makes them feel welcome and appreciated. However, there are areas where improvements would strengthen controls especially involving disbursements from the activity checking account. Updating their policies and procedures manual will also benefit the staff by giving them a reliable source for handling cash receipt and disbursement activity.

Disbursement areas needing improvement are:

- Paying closer attention to the due dates of statements to avoid paying late fees.
- Closing the store credit card and begin using the County's procurement card.
- Obtaining approval from a supervisor when checks are payable to cash or the Director of Volunteers.
- Being more careful when filing vendor invoices.
- Obtaining approval on invoices before checks are prepared.

Details for these findings and the recommended corrective action are on pages 4 – 9.

INTRODUCTION

Gracedale is a County-owned and operated nursing home that is part of the Department of Human Services. It is also one of the largest County-owned facilities in Pennsylvania. Gracedale is licensed to provide long term nursing care to residents appropriate to their individual needs, and also short-term rehabilitation services. A contracted third-party nursing home administrator, Premier Healthcare Resources, has administered Gracedale since 2011.

The Gracedale Agency Fund is responsible for the accounting and safeguarding of resident funds, activity funds including the gift shop, and a burial account for one resident. Residents of Gracedale have the option of having Gracedale manage their personal funds. These funds are subject to federal and state regulations. Generally, Gracedale maintains two checking accounts for the management of resident funds. The first is a resident checking account, which segregates funds that are owned by residents and can be accessed for their personal use. The second is an income checking account that is also owned by the residents, but is accessed by Gracedale to pay for facility charges such as room and board. Typically, pension and Social Security checks on behalf of residents are deposited into this account. Gracedale's computer system provides the accounting for these funds and separate accounts are established for the residents' personal funds. These accounts are reconciled daily and earn interest. Funds for the gift shop and volunteer activities are managed through a checking and money market account. Finally, one burial account is managed for a resident and is earmarked for their burial expenses. Gracedale stopped the practice of establishing burial accounts for residents a number of years ago. Residents are encouraged to establish accounts directly with a funeral home.

The staff in the business office manages the funds in the resident, income and burial accounts, and employees in the volunteer office manage the activity checking and money market accounts. Because the funds noted above are not owned by the County but rather by the residents, they are accounted for in an agency fund. An agency fund is a separate accounting entity used to account for assets held solely in a custodial capacity for individuals, other governments, or other entities. The activity and balances in these accounts are reflected in the County's financial system and appear on the County's financial statements.

PURPOSE AND SCOPE

This audit is one in a series of periodic audits of all agency funds performed for the purpose of supplementing the year-end work prescribed by the County's external auditor. The focus of the audit was on the receipt and disbursement functions, and on compliance with laws and regulations.

The purpose of the audit was:

- To test the adequacy of internal controls.
- To test compliance with laws, regulations, and policies and procedures.
- To review the economy and efficiency of processes.

Our tests were conducted on transactions occurring during the period January through October 2016.

METHODOLOGY

Our methodology included:

- Interviewing Gracedale personnel to document functions associated with the receipt and disbursement processes.
- Identifying applicable policies, procedures, laws and regulations.
- Identifying internal controls and assessing their effectiveness.
- Testing whether receipts were properly handled, deposited intact on a timely basis and properly accounted for.
- Testing disbursements to determine if they were properly authorized and appropriate.
- Testing processes to determine compliance with laws and regulations.
- Testing balances to ensure that they are reconciled periodically and properly reported.

Our review included an assessment of internal controls in the audited areas. Any significant findings related to internal controls are included in the Audit Results section of the report.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

AUDIT RESULTS

Section A – Internal Controls

1. Disbursement Process in Volunteer Office Should Be Improved

OBSERVATION

The Volunteer Office manages the receipts and disbursements of the activity checking account. A selection of checks written from the activity checking account were tested and a number of weaknesses were found. They include:

- The volunteer director approved 18 checks that were made payable to himself or cash. All of the disbursements included documentation of what was purchased or why cash was obtained.
- One check made payable to cash was for wine purchased at the Fine Wine and Good Spirits store. The wine was used at the Volunteers luncheon and the Mother's Day luncheon. This practice has been going on for a number of years.
- The credit card statement from Wal-Mart for the May 16, 2016 payment of \$329.32 could not be located; therefore, the auditor could not validate the items purchased.
- The volunteer director did not sign two invoices indicating that he reviewed and approved them for payment. Both invoices were for snacks/merchandise sold in the gift shop.

Taken individually the weaknesses noted above are not significant. However, collectively, they indicate that controls need to be strengthened over the disbursement process.

RECOMMENDATION

Management should work with the staff in the Volunteer Office to tighten controls and they should monitor progress made in that regard. Specifically some areas that should be reviewed are:

- The volunteer director should obtain supervisory approval each time it's necessary for checks to be made payable to cash or the bearer of the check. This protects both the residents' funds and the volunteer director.
- Gracedale management should evaluate the purchase of wine for Gracedale functions because the individuals drinking the wine may be driving home after the event creating a potential liability to Gracedale and the County. It may be better to serve a non-alcoholic beverage.
- Greater care should be taken when filing paid invoices.

- Checks should not be prepared by the secretary until a supervisor approves an invoice for payment.

MANAGEMENT RESPONSE

Peter Koorie, DHS Fiscal Administrator

We have obtained a procurement card for the volunteer office that will give Gracedale a better approval process of reviewing the activities and receipts that occur in the volunteer office and eliminate the need to write checks out for cash or to the volunteer director. We also discontinued any wine purchases for any events going forward and we have notified all interested parties.

Going forward, all invoices will be put together by secretary and then reviewed by volunteer director before writing any checks. After checks are sent out, secretary will take greater care in filing invoice support and will be reviewed monthly by the nursing home fiscal administrator.

2. Improving Controls in the Business Office

OBSERVATION

Overall, processes and controls in the business office are very good but there are two areas where improvements are warranted. Those areas are:

- *Improving segregation of duties over petty cash.* The business office maintains two petty cash accounts of \$1,400 and \$600 respectively. The accounts are replenished daily and reconciled weekly. Currently, however, the same two individuals who have custody of the petty cash also enter the transactions into the computer system, replenish the petty cash and then perform a weekly reconciliation. Using a different fiscal person to do the weekly reconciliations would enhance controls over the accounts.
- *Using the bank to help verify the cash/check breakdown of bank deposits.* Resident fund clerks now enter the types of receipts, whether they are cash or checks, into the computer system. The same breakdown is written onto bank deposit slips allowing the individual reconciling receipts to bank deposits to agree the two. The process could be strengthened by sending the yellow copy of the deposit slip along to the bank with the deposit. The bank will then stamp and validate the yellow copy, signifying that the cash/check breakout was correct. Reviewing that yellow copy when it's returned from the bank provides an independent verification of the deposit breakdown.

RECOMMENDATION

Management should consider having one of the accountants reconcile the petty cash accounts weekly. Also, the yellow copy of the deposit slip should be sent along to the bank for validation by the teller. The accountant reviewing the deposits should then examine the yellow validated slip ensuring that the amounts agree and that the teller didn't make any corrections to the deposit slip.

MANAGEMENT RESPONSE

Peter Koorie, DHS Fiscal Administrator

The trust fund team will continue to reconcile petty cash on a daily basis but the accountant I position will do the weekly reconciliation. The team has also begun sending the dual copies of the deposit slips to the bank for validation by the teller and then they are sent back to the trust fund team and confirming the amounts deposited.

Section B – Economy and Efficiency

1. Use of a Store Credit Card in the Volunteer Office and Incurring Late Fees

OBSERVATION

The Volunteer Office has custody of a Wal-Mart credit card that is used to make purchases for the gift shop and resident activities. During the 10-month audit period, the credit card statement was paid late seven times resulting in \$38.60 in late fees.

When the problems with the credit card were brought to the attention of fiscal personnel at Gracedale and an employee in the Procurement Office, there was surprise that a store credit card was being used. It was the belief that all store credit cards were closed when the County began their Procurement Card Program. However, this credit card was opened before the current volunteer director was hired, and he continued the practice that was already being followed. Nonetheless, the credit card should have been paid before the due date to avoid any late charges.

RECOMMENDATION

Management should consider closing the Wal-Mart credit card account, and Gracedale fiscal staff should work with the volunteer director and Procurement Office to switch to a procurement card. A procurement card could be used at other vendors in addition to Wal-Mart, reducing the number of checks that need to be written. A process to reimburse the Gracedale operating account for procurement card purchases is necessary because the activity accounts are part of the agency fund, not the Gracedale special revenue fund.

MANAGEMENT RESPONSE

Peter Koorie, DHS Fiscal Administrator

The use of a Wal-Mart card will cease immediately. We have obtained a separate procurement card for the volunteer office that will give Gracedale a better approval process of reviewing the activities and receipts that occur in the volunteer office. It will also give the volunteer office the possibility of getting better pricing when visiting stores directly.

Section C – Compliance

1. Timely Distribution of Deceased Residents' Funds

OBSERVATION

Funds were not distributed within 30 days from the deceased resident's account for 11 of the 19 residents tested who had money in their account at the time of their death. This is in violation of Federal regulations that require "upon the death of a resident with a personal fund deposited with the facility, the facility must convey within 30 days the resident funds, and a final accounting of those funds, to the individual or probate jurisdiction administering the resident's estate".

Gracedale personnel have a process in place to distribute these funds upon a resident's death. However, it does take time because the billing clerks must first determine if any of those funds are needed to pay for the resident's care and it could take over a month until all the bills are paid. Additionally, the computer system at Gracedale does not generate a report of resident funds being held for deceased residents, something the prior computer system did. This report would serve as a reminder in case any accounts were overlooked.

RECOMMENDATION

Gracedale staff should continue to work on improvements that could possibly lessen the time needed to distribute deceased residents' funds. This includes an enhancement to the current computer system so that a report showing deceased residents with available funds is once again available.

MANAGEMENT RESPONSE

Peter Koorie, DHS Fiscal Administrator

Better communication needs to happen between billing and trust fund team.

We are working with NTT AR software to come up with a fix for Guest Account checks in NTT so balance is real time.

We are setting up procedures with billing team to explain the funds should be distributed once resident has expired (i.e. funeral home first, GD second, family third).

Section D – Policies and Procedures

1. Need for Documented Policies and Procedures

OBSERVATION

During our preliminary gathering of documentation for this audit, we requested the written policies and procedures dealing with the processes involved with the resident, income and burial accounts. We were told that currently those processes were not documented. Written policies and procedures were provided for the two activity accounts however they need to be updated to reflect current practices.

Documented policies and procedures are important for both employees and management. They provide direction to employees on what management expects of them and details how they are expected to carry out those functions. They supplement the training that employees receive when they're hired. For management they set out clear expectations of what is to be done and how. It's important that these policies and procedures be reviewed and updated periodically by employees and management. Following the policies and procedures decreases the possibility of errors or abuse, and increases the likelihood that management's goals will be achieved.

RECOMMENDATION

Policies and procedures for the business office should be documented, and those in the volunteer office should be updated. These policies and procedures should then be made available to the affected staff, and they should be reviewed and updated when processes or regulations change, or at least annually.

MANAGEMENT RESPONSE

Peter Koorie, DHS Fiscal Administrator

Each team member has started policies and procedures for their individual jobs. We will work to put this all into one procedure file. Then review and update annually.