



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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FOR RELEASE

February 3, 2011

Contact: Andy Nielsen
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Auditor of State David A. Vaudt today released a reaudit report on Cass County Memorial Hospital in Atlantic, Iowa for the period July 1, 2008 through June 30, 2009. The reaudit also covered certain items to determine practices applicable to the years ended June 30, 2008 and June 30, 2010. The reaudit was performed at the request of citizens pursuant to Chapter 11.6(4)(a)(3) of Code of Iowa.

The reaudit report addresses concerns regarding compliance with the open meetings law, expenditures and overall financial condition of the Hospital.

The Hospital's responses to the recommendations are included in the reaudit report.

A copy of the reaudit report is available for review in the Hospital's Business Office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/specials/0916-0015-T00Z.pdf>.

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CASS COUNTY MEMORIAL HOSPITAL
AUDITOR OF STATE'S REPORT ON REAUDIT
FOR THE PERIOD
JULY 1, 2008 THROUGH JUNE 30, 2009

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Cass County Memorial Hospital

Officials

June 30, 2009

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Trustees		
Steve Sisler	Chair	Jan 2012
Phyllis Stakey	Vice Chair	Jan 2010
John Molgaard	Board Member	Jan 2010
Lois Casey	Board Member	Jan 2012
Ned Brown (Appointed March 2009)	Board Member	Jan 2014
Leanne Pellett	Board Member	Jan 2014
Dawn Ridlen	Board Member	Jan 2014

Hospital Officials

Patricia A. Markham	Administrator/ Chief Executive Officer
Stephen Lewis	Assistant Administrator/ Chief Financial Officer

Cass County Memorial Hospital Reaudit



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Auditor of State's Report on Reaudit

To the Board of Trustees
of Cass County Memorial Hospital:

We received a request to perform a reaudit of Cass County Memorial Hospital (Hospital) under Chapter 11.6(4)(a)(3) of the Code of Iowa. As a result, we performed a review of the fiscal year 2009 audit report and workpapers prepared by the Hospital's certified public accounting firm to determine whether the CPA firm may have addressed any or all of the specific issues identified in the request for reaudit during the annual audit of the Hospital. Based on this review and our review of the preliminary information available, we determined a partial reaudit was necessary to further investigate specific issues identified in the request for reaudit. Accordingly, we have applied certain tests and procedures to selected accounting records and related information of Cass County Memorial Hospital for the period July 1, 2008 through June 30, 2009. We also inquired and performed procedures for certain items applicable to the years ended June 30, 2008 and June 30, 2010.

The procedures we performed are summarized as follows:

1. We obtained and reviewed the Hospital Board minutes.
2. We reviewed the Hospital Board minutes for compliance with Chapter 21 of the Code of Iowa regarding closed sessions.
3. We reviewed the Hospital Board minutes pertaining to Board actions/authorization for physician salary agreements, benefits and bonuses.
4. We analytically reviewed calculations and support for physician payroll for fiscal year 2009, including bonuses, benefits and pension contributions.
5. We reviewed and tested selected expenditure transactions for approval and compliance with public purpose criteria.
6. We reviewed net assets and unrestricted fund balances for the three years ended June 30, 2010.
7. We reviewed financial reports pertaining to the Hospital's clinics and made inquiries regarding changes in profitability after the clinics merged with Hospital operations.
8. We reviewed the Hospital's compliance with Chapter 11.6(2)(a) pertaining to procurement of audit services utilizing a request for proposals process.
9. We reviewed the Hospital's compliance with Chapter 347.13(14) of the Code of Iowa pertaining to the quarterly publication of a schedule of bills allowed and the annual publication of a schedule of salaries by job classification.

Based on the performance of the procedures described above, we identified instances of non-compliance and have developed various recommendations for the Hospital. Our recommendations and the instances of non-compliance are described in the Detailed Findings of this report. Unless reported in the Detailed Findings, items of non-compliance were not noted during the performance of the specific procedures listed above.

The procedures described above are substantially less in scope than an audit of financial statements made in accordance with U.S. generally accepted auditing standards, the objective of which is the expression of an opinion on financial statements. Accordingly, we do not express an opinion. Had we performed additional procedures, or had we performed an audit of Cass County Memorial Hospital, additional matters might have come to our attention that would have been reported to you. A copy of this report has been filed with the Cass County Board of Supervisors for their review and information.

We would like to acknowledge the assistance extended to us by personnel of Cass County Memorial Hospital. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

November 15, 2010

Detailed Findings

Cass County Memorial Hospital

Detailed Findings

July 1, 2008 through June 30, 2009

- (A) Financial Condition – As reported in the Cass County Memorial Hospital audit report for the fiscal year ended June 30, 2008, “effective October 1, 2007 (fiscal year 2008), the operations of the CCMC-Atlantic Medical Center were designated as Rural Health Clinics. The operations of the Rural Health Clinics are recorded as departments of the Hospital. The assets and liabilities were combined with the Hospital’s assets and liabilities, and the related receivables and payable were offset. The combining of Clinic’s and Hospital’s assets and liabilities resulted in a reduction to the Hospital’s net assets of \$2,567,987.” The reduction included elimination of the accumulation of prior year operating capital advances, unpaid rent and insurance the Hospital had provided for the medical clinics.

Under Hospital management as departments, the merged Rural Health Clinics generated net income in fiscal years 2008 and 2009. In fiscal year 2010, the Hospital’s unaudited financial reports indicate the Hospital experienced a net loss of approximately \$224,000 for the Rural Health Clinics in comparison to net income of \$263,341 in fiscal year 2009.

According to Hospital personnel, the primary factor contributing to the declining financial condition and net loss in fiscal year 2010 was the loss of full-time physicians in late fiscal year 2009 and early fiscal year 2010, resulting in a direct negative effect on patient revenue.

Recommendation – The Hospital should continue to monitor the financial condition of its merged clinics and the cost of providing this benefit to the community. The Hospital should continue to investigate alternatives to return the Hospital, including the merged clinics, to a sound financial condition.

Response – Recruiting and retaining physicians in rural communities is one major key in maintaining a viable Hospital and health care services. Studies have shown when paying competitive wages, independent rural physician clinics show average losses between \$50,000 and \$80,000 per provider each year. The decision for the clinic to become a Provider Based Rural Health Clinic was to qualify for cost based reimbursement from the Medicare and Medicaid programs which is a drastic improvement compared to the reimbursement it was receiving. Since the clinic became a Provider Based Rural Health Clinic its financial condition is monitored on a monthly basis and reported to the Hospital Board. The Hospital has successfully recruited two family practice physicians, one which starts in January 2011 and the other in July 2012. An OB/GYN physician was recruited and started in March 2010. The Hospital is currently updating the clinic information system which will help with the efficiency of charting and billing. The addition of these physicians and upgrade of the information system should improve the profitability of the clinic.

Conclusion – Response acknowledged. The Hospital should continue to monitor its overall financial condition to ensure it is operating in a fiscally responsible manner.

- (B) Closed Sessions - Chapter 21.5(1) of the Code of Iowa states, in part, “A governmental body may hold a closed session only by affirmative public vote of either two-thirds of the members of the body or all of the members present at the meeting. A governmental body may hold a closed session only to the extent a closed session is necessary...” and lists 12 specific reasons a governmental body may hold a closed session.

Specifically, Chapter 21.5(1)(i) of the Code of Iowa states, “To evaluate the professional competency of an individual whose appointment, hiring, performance, or discharge is being considered when necessary to prevent needless and irreparable injury to that individual's reputation and that individual requests a closed session.”

Chapter 21.5(2) of the Code of Iowa states, “The vote of each member on the question of holding the closed session and the reason for holding the closed session by reference to a specific exemption under this section shall be announced publicly at the open session and entered in the minutes. A governmental body shall not discuss any business during a closed session which does not directly relate to the specific reason announced as justification for the closed session.”

Chapter 21.5(3) states, “Final action by any governmental body on any matter shall be taken in an open session unless some other provision of the Code expressly permits such actions to be taken in closed session.”

Chapter 21.5(4) states, “A governmental body shall keep detailed minutes of all discussion, persons present, and action occurring at a closed session, and shall also tape record all of the closed session.”

According to the July 14, 2008 minutes record, “At 10:00 a.m. all guests were excused so the Board could conduct the Administrator evaluation. Following discussion, a motion was made by Molgaard and seconded by Boucher that Patricia Markham receive a salary increase. AYES: All, NAYS: None.”

The minutes record did not document the vote of the governmental body to close the session or the reason for holding this closed session by reference to a specific Code of Iowa exemption as required by Chapter 21.5(2) of the Code of Iowa. In addition, the minutes record did not document the Administrator's request to close the session as required by Chapter 21.5(1)(i) of the Code of Iowa.

The minutes record documented the Board's approval of a salary increase for the Administrator but did not specify the amount, percentage or otherwise document the Board's action regarding the salary increase as required by Chapter 21.5(3) and Chapter 21.5(4) of the Code of Iowa.

Recommendation – The Hospital should comply with Chapter 21.5 of the Code of Iowa regarding closed sessions. The minutes record should include accurate and complete documentation to demonstrate compliance with the requirements of Chapter 21 of the Code of Iowa.

Response – The Administration and Board have reviewed Chapter 21 of the Iowa Code and in the future will make the guidelines outlined in this chapter the procedure regarding closed sessions of future board meetings.

Conclusion – Response acknowledged. Pursuant to Chapter 21.3 of the Code of Iowa, “Except as provided in section 21.5, all actions and discussions at meetings of governmental bodies, whether formal or informal, shall be conducted and executed in open session.” Chapter 21.5(3) states, “Final action by any governmental body on any matter shall be taken in an open session unless some other provision of the Code expressly permits such actions to be taken in closed session.”

- (C) Annual Audit – The Hospital’s fiscal year 2009 audit was not awarded through a request for proposals process. Chapter 11.6(2)(a) of the Code of Iowa states “A city, community college, school district, area education agency, entity organized under Chapter 28E, county, county hospital, or memorial hospital desiring to contract or employ certified public accountants shall utilize procedures which include a request for proposals.”

Recommendation – The Hospital should comply with Chapter 11.6(2)(a) of the Code of Iowa and utilize a request for proposals process when seeking to contract with a certified public accounting firm for its annual audit. We do not believe a verbal agreement would satisfy this requirement.

Response – Administration has reviewed Chapter 11.6(2)(a) of the Code of Iowa and will utilize a request for proposal process (RFP) in 2011 when selecting a certified public accounting firm for our annual audit.

Conclusion – Response accepted.

- (D) Expenditures – The Hospital’s fiscal year 2009 independent audit report included a questionable expenditure of \$750 paid to the Employee Recreation Club for an employee holiday party.

Our review of fiscal year 2009 expenditures identified additional expenditures which may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 and Article III, Section 31 of the Constitution of the State of Iowa since the public benefits to be derived have not been clearly documented. These expenditures include:

Quarterly Listing	Paid to	Purpose	Amount
March 2009	Feedlot Steakhouse	Fifty-four \$25 gift certificates for employee recognition	\$ 1,350.00
June 2009	Feedlot Steakhouse	Fourteen \$25 gift certificates for employee recognition	350.00
June 2009	Hy-Vee Food Stores	Retirement plant and a goodbye gift basket	71.80
March 2009	Redwood Steakhouse	Forty-five \$25 gift certificates for employee recognition	1,125.00
June 2009	Redwood Steakhouse	Thirteen \$25 gift certificates for employee recognition	325.00
June 2009	The Pines Steakhouse	Twelve \$25 gift certificates for employee recognition	300.00
June 2009	Wiota Steakhouse	Six \$25 gift certificates for employee recognition	150.00
March 2009	Subway	Meals provided to staff for recognition	810.00
March 2009	Terryberry	Purchase of service recognition awards for employees	6,793.55
June 2009	United States Treasury	Fee for late 941 filing payment	3,360.70

In addition, according to the December 16, 2009 Board minutes, the Hospital Administrator noted, "A gift certificate was given to Board Members as a Christmas gift, noting this is given to each employee." The amount of the gift certificate to Board Members was not disclosed and we did not determine whether gift certificates to Board Members were included in the amounts identified above.

Chapter 347.19 of the Code of Iowa states, "A trustee shall not receive any compensation for services performed under this chapter, but a trustee shall be reimbursed for actual and necessary expenses incurred in the performance of the trustee's duties."

Recommendation – Pursuant to Article III, Section 31 of the Constitution of the State of Iowa, public funds may only be spent for the public benefit. Several court cases and opinions of the Iowa Attorney General address and provide guidance regarding this public purpose criteria. The Board and minutes record did not document and we were otherwise unable to determine the public benefit regarding the invoices and related payments for the items noted above.

We did not determine whether the Hospital included and reported the value of the gift certificates to Board Members and/or to individual employees on IRS form W-2. However, gift certificates are wages (compensation) and should be reported with total wages paid on IRS form W-2.

The Board should determine and document the public purpose served by these expenditures before authorizing any further payments. The Hospital should establish written policies and procedures, in compliance with Article III, Section 31 of the Constitution of the State of Iowa and Chapter 347 of the Code of Iowa, including the requirement for proper documentation of the Constitutional public purpose criteria.

Response – \$25 gift certificates were given to employees at Christmas as a part of the Hospital's employee recognition and benefit program. These certificates were valid at several area businesses and had to be redeemed by May. Terryberry is the company used to purchase service recognition awards for years of service to the organization. The meal provided to the staff was a reward for the staff's effort after a blizzard and the late filing fee to the US Treasury was an oversight in completing the form. The Board was aware of all expenditures on the list and believes each expenditure was for an appropriate public purpose. In the future, the Board will determine if similar expenditures meet an appropriate purpose and will document its approval. Policies and procedures will be established to ensure proper documentation.

In the future, we will review the nature of any benefits provided to employees and attempt to comply with IRS guidelines.

Conclusion – Response accepted.

Cass County Memorial Hospital

Staff

This reaudit was performed by:

Susan D. Battani, CPA, Director
Ronald D. Swanson, CPA, Manager
James R. Wittenwyler, Senior Auditor II

A handwritten signature in black ink that reads "Andrew E. Nielsen". The signature is written in a cursive style with a large, looped initial "A".

Andrew E. Nielsen, CPA
Deputy Auditor of State