

DOUGLAS COUNTY INTERNAL AUDIT (DCIAD)

**The Douglas County Internal Audit Division
DCIAD**

**Audit of Douglas County Health Center
Internal Controls Relating to Accounting Processes**

2006 / 2007 Audit # 02

DOUGLAS COUNTY INTERNAL AUDIT (DCIAD)

Mr. James Tourville
4102 Woolworth Avenue
Omaha, Nebraska 68105

June 12, 2007

Dear Mr. Tourville,

We have audited Douglas County Health Center design and effectiveness of internal controls relating to accounting procedures. The period of the audit was March 15, 2007, through May 23, 2007. The audit was conducted in accordance with Standards for the Professional Practice of Internal Auditing (IIA); *except Standards 1310-1 through 1312.*

The audit included examining, on a test basis, evidence supporting the design and operating effectiveness of internal controls for accounting processes, for Long Term Care and Assisted Living programs. DCIAD also performed procedures we considered necessary to support findings and recommendations.

The purpose of this report is to describe the results of our testing, including internal controls and compliance, and not to provide an opinion on the internal controls or compliance. This report is intended solely for the information and use of the Department, however, this report is a matter of public record and its distribution is not limited.

We would like to thank you, and your staff, for your cooperation and assistance during this audit.

Ms. Carmen Harmon
Internal Audit Division, Supervisor

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Audit Objectives

Objective # 1: Gain an understanding of the overall operation of the Douglas County Health Center.

Objective # 2: Gain an understanding of accounting operations for Long-term care (LTC) and Assisted Living (ASL) programs at the Douglas County Health Center.

Objective # 3: Test internal controls over the LTC and ASL program accounting process; both manual and computer.

Audit Scope and Methodology

Douglas County Internal Audit will review the design, and test operating effectiveness, of internal controls relating to accounting processes of the Douglas County Health Center Assisted Living and Long Term Care Divisions.

Internal Control is a process designed to provide reasonable assurance regarding the achievement of objectives in the following categories: (a) reliability of financial reporting, (b) effectiveness and efficiency of operations and, (c) compliance with applicable laws and regulations. The audit will include a review of both manual and computerized finance systems.¹

Controls for interrelated audit concerns will be considered in forming overall conclusions for this procedure, with several notable exceptions. Although DCIAD is aware of numerous additional state and federal statutes, and regulations, governing assisted living and long term care facilities, and care; the scope of this audit is necessarily restricted by limited staff and time.

¹ Committee of Sponsoring Organizations (COSO) <http://www.coso.org/key.htm>

Agency History

Douglas County Health Center (previously Douglas County Hospital) started as a “pest house” in 1886.² Since that time, great strides have been made and a number of special units/services were established to meet the many changing needs of the community. Over the years the facility’s commitment included:

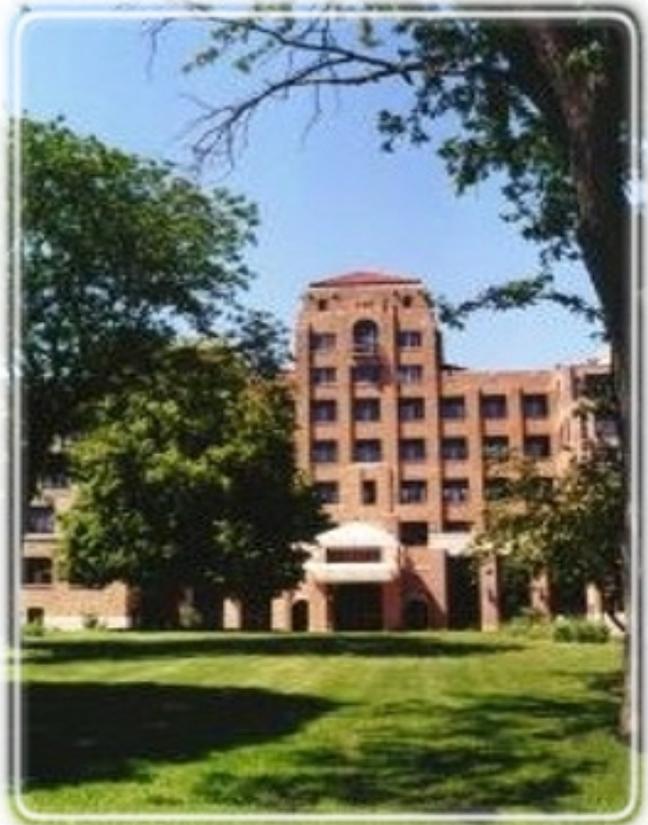
- Caring for individuals with tuberculosis
- Caring for the mentally ill
- Providing one of the first Polio treatment centers in the area
- Providing the first Emergency Room that handled all trauma cases
- Becoming the “hub” of emergency care in the city
- Providing general medical-surgical services
- Providing rehabilitation services, the first such services in the area
- Providing the first contagious disease unit in the City
- Caring for children with disabilities through Eastern Nebraska Community Office of Retardation (ENCOR)
- Providing alcohol treatment
- Caring for the aged and disabled

Today, the Douglas County Health Center no longer houses hospital functions. Ever changing to meet the needs of the community, Douglas County Health Center’s primary focus is the provision of Assisted Living, Long-Term Care, and Skilled Nursing Services.

The move away from acute medical services brought about a change in name of the facility to more accurately reflect the services provided. Douglas County Hospital’s name changed to **Douglas County Health Center** in June, 2001.

The Health Center is a 308 bed institution, and provides long-term, non-acute medical inpatient care, acute non-surgical inpatient care and psychiatric counseling for both inpatients and outpatients.

The Board of County Commissioners of Douglas County serves as the Board of Trustees of the Health Center.³



² Douglas County Health Center website <http://www.co.douglas.ne.us/dept/hospital/>

³ See Appendix for Organizational Charts, page 14 -15

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Agency Background

Douglas County Health Center's (DCHC) mission statement declares the mission for the DCHC is, "To provide healthcare services in an environment that promotes quality of life, while meeting the unique needs of the special populations we serve."

Douglas County Health Center's vision statement asserts DCHC would like, "To continually enhance quality of life by supporting a well-maintained, efficient, modern, home-like healthcare environment which provides services that are valued by the community we serve."

The Health Center is divided into four service divisions; (1) Long Term Care, (2) Assisted Living, (3) Community Mental Health and (4) Support Services. In 2006 the four divisions have a combined total budget of approximately \$40 million dollars a year.⁴ Long-term Care and Assisted Living had a total combined budget of \$14,500,000 dollars in 2006.⁵ The Health Center's cash, and investments, are held by the County and commingled at the County level.

Douglas County Health Center is licensed for 254 long term care beds. Long term care provides a variety of services that help people with health, or personal needs and activities of daily living, over a period of time. Most long term care is custodial care provided to individuals who have a wide variety of needs including Alzheimer's long term medical and long term psychiatric care. Care is provided to individuals who reside in Douglas County, with a focus on the indigent and, those individuals whose needs are not met elsewhere in the community. 81,914 days of long term care were provided in 2005.⁶

Douglas County Health Center has 21 Assisted Living apartments, with three units dedicated for dual occupancy. Assisted Living (AL) provides apartment-type living with the added benefit of minimal assistance with care, prepared meals, and staff supervision.

Assisted living promotes resident participation in decisions, with an emphasis on independence, and residential surroundings. DCHC Assisted Living staff provides an array of services including assistance with personal care, activities for daily living, and health maintenance activities.

There is an 86.04% occupancy rate for long term care beds in the Douglas County Health Center. The average Nebraska, and national, occupancy rate for long term care facilities is 82.7 % and 82.8%, respectively.⁷

7,712 days of assisted living care were provided in 2005. At this time there is a 100% occupancy rate in the Douglas County Health Center Assisted Living apartments, and a waiting list for the facility.

In 2006, staff at the Douglas County Health Center served 428,376 meals, and processed 2,018,478 pounds of laundry.⁸

⁴ See Appendix Chart #1, page 16

⁵ Douglas County Adopted Budget 2006 / 2007 ; see appendix Chart # 2, page 16

⁶ Douglas County Comprehensive Annual Financial Report; FY June 30, 2006

⁷ Nebraska Health Information Project (2005) / Kaiser State Health Facts (2005)

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An entrance meeting was held April 27, 2007, with Douglas County Health Center Director James Tourville, Director of Finance Dee Maine and Technology Manager Phil Alley.

An explanation of the audit scope was discussed, and requests for specific documentation, including written policies and procedures for accounting processes, were made.

DCIAD received exceptionally thorough written policies and procedures for all accounting functions, with an exception for payroll.

Observation of, and interviews with, payroll staff confirm they practice sound payroll procedures for all functions, and are attempting to document all procedures; however, at this time policies and procedures for payroll processes are not in a comprehensive written format.

Finding # 1

There are no comprehensive written policies and procedures for payroll processes.

Recommendation

DCIAD recommends that Douglas County Health Center Payroll staff continue to compile written policies and procedures for all payroll functions. Written policies and procedures are important to help ensure adherence to office practices, especially for future personnel. Without formal written policies and procedures for payroll, DCIAD is unable to adequately assess internal controls over payroll office practices.

Response to Finding #1 and Recommendation

Douglas County Health Center Payroll Department is presently preparing policies and procedures for all payroll functions. P&Ps are being developed to ensure adherence to payroll office practices for present personnel, especially for future personnel.

Action:

Continue to prepare and prepare policies and procedures for all payroll functions.

Timeframe:

Policies and procedures to be completed by December 31, 2007

⁸ Douglas County Adopted Budget 2006 / 2007

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DCIAD interviewed the DOT.Comm Client Manager assigned to the Douglas County Health Center and conducted a walk through of the physical environment surrounding DCHC system hardware.

DCHC finance, purchasing, billing and payroll personnel use computer applications for all, or a portion of, related processes.

Information Systems Audit and Control Association (ISACA) standards and federal Office of Management and Budget (OMB) Circular A-130, III recommend a regular external review (audit) of security controls in each information system. ISACA recommends an annual review, and OMB recommends a review, “when significant modifications are made to systems, but at least once every three years.” The scope and frequency of the review should be commensurate with the acceptable level of risk for the system.

In addition to recommending a regular external review of security controls for information systems, ISACA recommends frequent risk assessments of information systems to manage control and detection risks.

Risk is the possibility of something adverse happening. Control and/or detection risks are risks that an error, which could occur in an audit area, and which could be material, individually or in combination with other errors, will not be prevented, or detected and corrected, on a timely basis by the internal control system.

For example, the control risk associated with manual reviews of computer logs can be high because activities requiring investigation are often easily missed owing to the volume of logged information.

Finding # 2

During our review, DCIAD determined information systems security controls were not regularly externally reviewed, system logs were not regularly examined, data tapes were not removed from the server room daily and systems servers were exposed in a potentially hazardous environment with an active fire sprinkler above system servers.

Recommendation

DCIAD recommends that DOT.Comm IS personnel assigned to DCHC conduct random examination of system logs and organize a schedule for a regular external review of system security. DCIAD also recommends finding a less destructive alternative to current fire suppression equipment in the server room and suggests moving daily data storage tapes to a different location.

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Response to Finding #2

DOT.Comm concurs. DOT.Comm is currently in the process of completing an audit of all servers to include the physical location and the tape backup process. The audit is 90% complete and the expected completion schedule for the next 30 days.

Action:

Complete the server audit and provide a written recommendation as to the findings.

Timeframe:

July-August 2007

Action:

DOT.Comm will research the market for software tools designed to scan, analyze, and provide alerts based on industry standard thresholds and indicators of suspicious activity. The need for a log file analysis tool will be included in the needs assessment of DOT.Comm's next technology planning process.

Timeframe

October-November of 2007

Action:

DCHC is presently seeking quotes for an alternative to the present wet sprinkler system in the server room. The alternative system will not be destructive to server equipment. When quotes are received, we will look at our 2007-2008 approved budget to see if this expense can be covered from our budget.

Timeframe:

On or before October 1, 2007

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DCIAD reviewed the Douglas County Health Center's (DCHC) payroll process for terminated employees. DCHC has a comprehensive written policy for employee termination procedures, including a terminated employee checklist.

The policy requires, "the Payroll Department head, or designated staff, initiate the 'Terminated Employee Checklist' and forward the form to the appropriate Department head for their signature. The form is returned to DCHC Payroll and the completed form is forwarded to the County Clerk's Payroll Department.

The 'Douglas County Checklist for Terminated Employees' is very comprehensive and includes a category for "Termination of access to computers and warrant pickup."

The current process for terminating employee access to agency computers may take several days, or longer, to accomplish access termination.

ISACA Standard 8.4.3, under *Access Control*, recommends a "written procedure to **immediately** update/delete user ID's when an employee leaves, or is assigned to another department/function should exist and be verified."

Finding # 3

There is no agency written policy to assign specific time limitations to completing actions on the Terminated Employees Checklist.

Recommendation

DCIAD recommends that DCHC enact a written policy requiring all Department Heads, or designated staff, to **immediately** notify DCHC payroll and DOT.Comm Information System personnel assigned to DCHC when an employee leaves.

Response to Finding and Recommendation #3

Douglas County Health Center will develop a written policy for notification of DOT.Comm to have a terminated employee's computer network access cancelled when an employee leaves DCHC employment.

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Douglas County Health Center, in cooperation with DOT.Comm, will create an on-line form and specific format to notify DOT.Comm and DCHC Payroll of the employee's termination. This will be in compliance with the existing DCHC HIPAA Security Policy on "Workforce Access Security Policy". All phone calls to Payroll and/or DOT.Comm notifying these departments of an employee's termination will need to be followed up in writing (completion of the on-line form).

We will establish an audit trail for this notification that can be accomplished with the on-line form.

Action:

Prepare Policy and Procedure and on-line form, as stated above, for notification of Dot.Comm of terminated employees.

Timeframe:

October 1, 2007

FUNVALE

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Douglas County Health Center's actual operating revenue in 2006 was \$29,639,681 dollars and expenses were \$37,356,080 dollars, generating a total operating loss of \$7,516,399 dollars.⁹

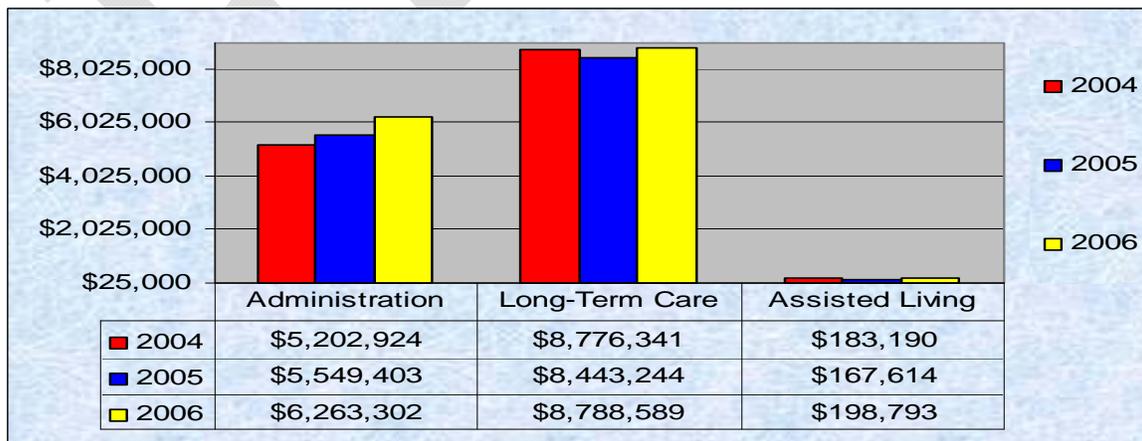


From 2005 to 2006, operating revenues of the Health Center increased \$5,837,172 dollars, an increase of 24.3%. The largest revenue increases were in drug revenue, due to changes in Medicare Prescription Drug Reimbursement rates.

During that same period, operating expenses increased by \$2,339,856 dollars, or an increase of 6.7%. The primary cause for the increase was a \$2,017,608 dollar increase in personnel expenses, including health insurance, pension costs, and union contract increases.¹⁰

REVENUE & EXPENSES

Long-Term Care is the largest portion of Operating Expenses, followed by administrative costs.¹¹



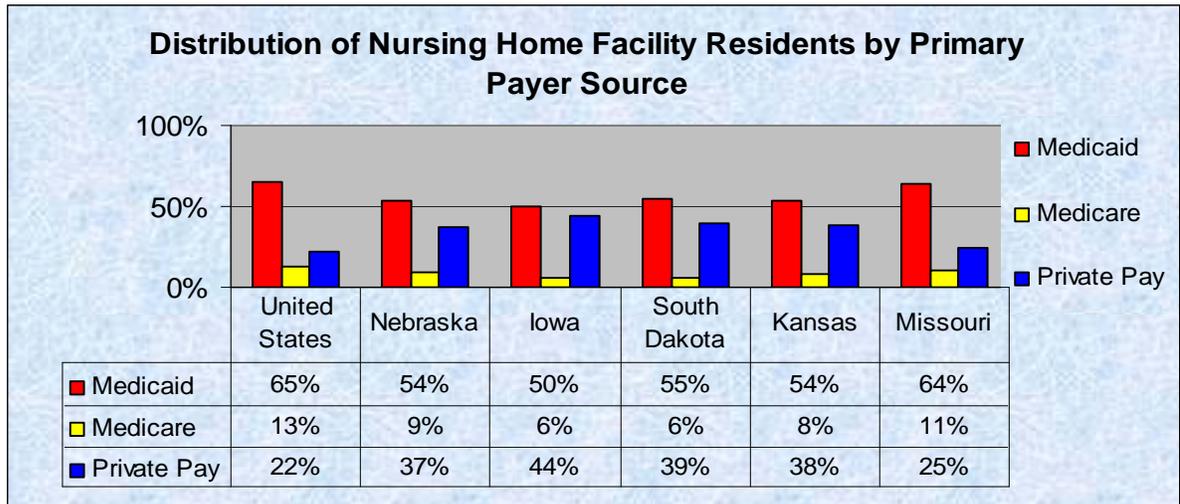
⁹ DCHC Financial Statements and Independent Auditor's Report 2004, 2005, and 2006

¹⁰ DCHC Financial Statement and Independent Auditor's Report for FY 2006; Hayes & Associates, LLC

¹¹ DCHC Financial Statements and Independent Auditor's Report 2004, 2005, and 2006

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Medicaid is the primary payer for long term care residents in Nebraska and nationwide.¹² To qualify for Medicaid help, in paying for long term care, the assets of a person must be \$4000 dollars or less.¹³

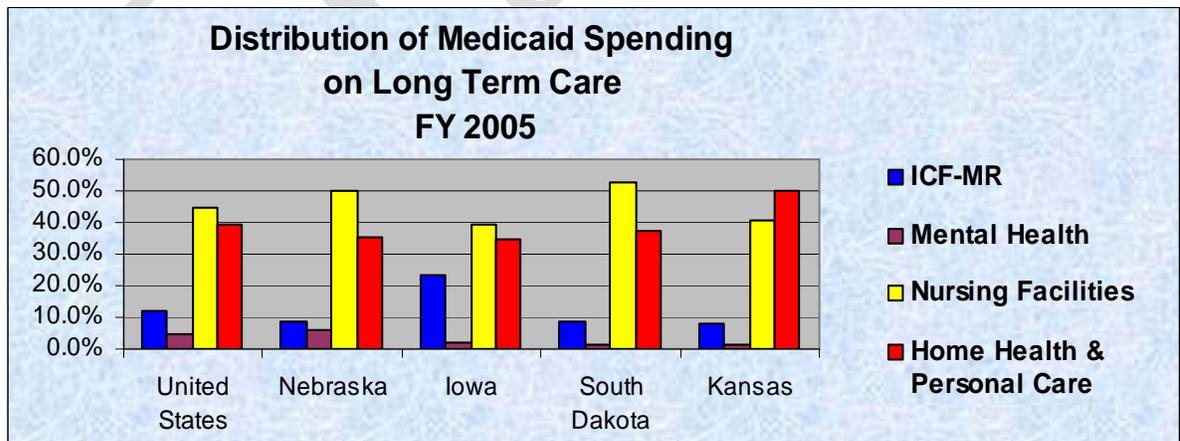


89% of Douglas County Health Center clients are eligible for Medicaid, and 168 residents are dual eligible for Medicare and Medicaid.

Medicaid is a joint state and federal government insurance program that helps people with limited incomes and resources. Medicaid revenue for the Douglas County Health Center in 2006 was \$10,882,000 dollars.

Medicare is a federal insurance program for the aged and disabled. Medicare revenue for Douglas County Health Center for 2006 was \$325,000 dollars.

The following chart illustrates the distribution of long term care spending by category¹⁴.



¹² (<http://www.statehealthfacts.org>)

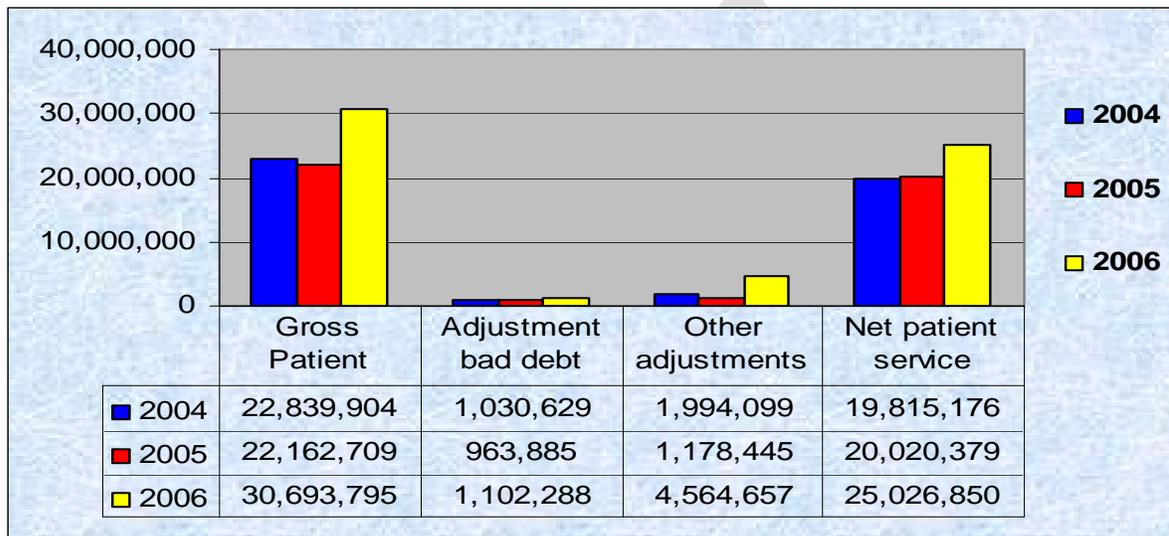
¹³ Nebraska Department of Insurance brochure / Spousal Impoverishment Protection Law 2007

¹⁴ All spending includes state and federal expenditures; Kaiser www.statehealthfacts.org

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ICF-MR is spending at an Intermediate Care Facility for the Mentally Retarded; **Mental Health Facilities** include inpatient psychiatric services for individuals age 21 and under, and other mental health facilities for people age 65 and older; **Home, Health & Personal Care** includes standard home services, personal care, targeted case management, hospice, home, and community-based care for the functionally disabled elderly, and services provided under waivers (**Assisted Living**).

Douglas County Health Center third-party payer agreements provide reimbursement at rates different from the established rates. For example, Medicare and Medicaid rates are adjusted regularly by federal legislation.¹⁵ The following chart compares payments from third party providers for 2004, 2005, and 2006.



¹⁵ The Tax Relief and Health Care Act of 2006 changes the update to the 2007 conversion factor for services paid under the MPFS effective for services provided on or after January 1, 2007. The Tax Relief and Health Care Act of 2006 set the 2007 conversion factor for physician payment at the same level as in 2006 (\$37.8975), reversing the statutorily mandated 5.0 percent negative update. However, it does not maintain 2007 physician payments at 2006 levels. There are a number of other factors that affect payment rates for 2007. <http://questions.cms.hhs.gov>

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In 2005 the United States average Nurse Hours per Resident Day in certified Nursing Homes was 3.7 Nurse Hours per resident / per day. DCHC facilities staffing is exceptional, when compared with National standards.¹⁶

In Nebraska the average was 3.6 and in 2006, the Douglas County Health Center average was 5.31.¹⁷

Nursing Home Facility Data shows a trend of decreasing occupancy for Nebraska Nursing Homes¹⁸

NURSING HOME FACILITY DATA			
All long-term care facilities	1990	2000	2004
Numbers	242	242	232
Long-term Care Facility Residents	17,624	15,760	14,109
Annual Census Days	6,394,562	5,816,267	5,196,240

In 2006 there was an 86.04% occupancy rate for long term care beds in the Douglas County Health Center. The average Nebraska, and national, occupancy rate for long term care facilities is 82.7 % and 82.8%, respectively.¹⁹

Five year occupancy rate 1998 – 2002					
Nebraska	1998	1999	2000	2001	2002
# of Nursing Homes	239	237	236	230	230
# of Beds	18,354	18,150	17,877	17,369	17,034
# of Residents			14,989	14,492	14,082
Occupancy Rates	84.9	83.3	83.8	83.4	82.7
# of Residents per 1,000 of population over 85	461.1	440.8	441.5	415	396.4

¹⁶ Kaiser State Health Facts; <http://www.statehealthfacts.org>

¹⁷ June 2006 DCHC Professional Performance report

¹⁸ Nebraska Health Information Project 2005 Data Book

¹⁹ Nebraska Health Information Project (2005) / Kaiser State Health Facts (2005)

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Medicaid Waiver Assisted Living Services are a broad range of support services, provided in the residents' own living units that allow residents to take charge of their lives and participate in decisions in a homelike environment.²⁰

Douglas County Health Center is a licensed Assisted Living facility and Medicaid waiver provider. Along with the services under the Assisted Living license, the following service components are required by Medicaid.

- ✓ Adult day care / socialization activities
- ✓ Escort
- ✓ Essential shopping
- ✓ Health maintenance activities
- ✓ Housekeeping activities
- ✓ Laundry
- ✓ Meals & Snacks
- ✓ Medication assistance
- ✓ Personal Care
- ✓ Transportation

DCIAD reviewed the internal controls for compliance to state and federal regulations for Assisted Living facilities. As part of our review we evaluated the DCHC Assisted Living facilities, services, and handbook²¹

DCIAD confirmed that DCHC Assisted Living facilities are in compliance with service components required by Medicaid and have implemented a high level of internal control over compliance requirements.

²⁰ Nebraska Health and Human Services; <http://www.answers4families.org/assisted/professionals/handbook/waiver.html>

²¹ DCHC Assisted Living Handbook approved by Health Center Board of Trustees, July 2001

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APPENDIX

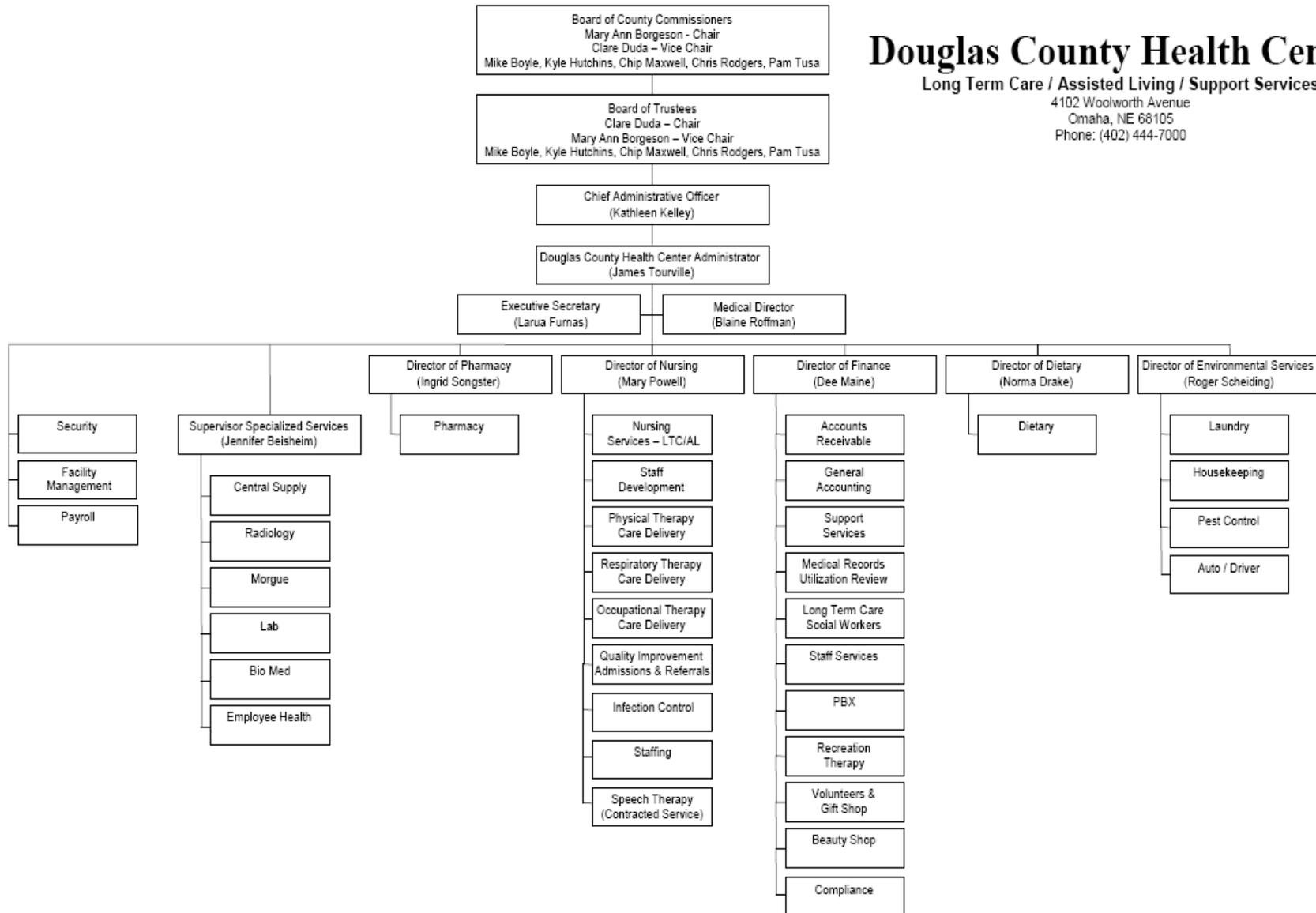
Douglas County Health Center

Long Term Care / Assisted Living / Support Services

4102 Woolworth Avenue

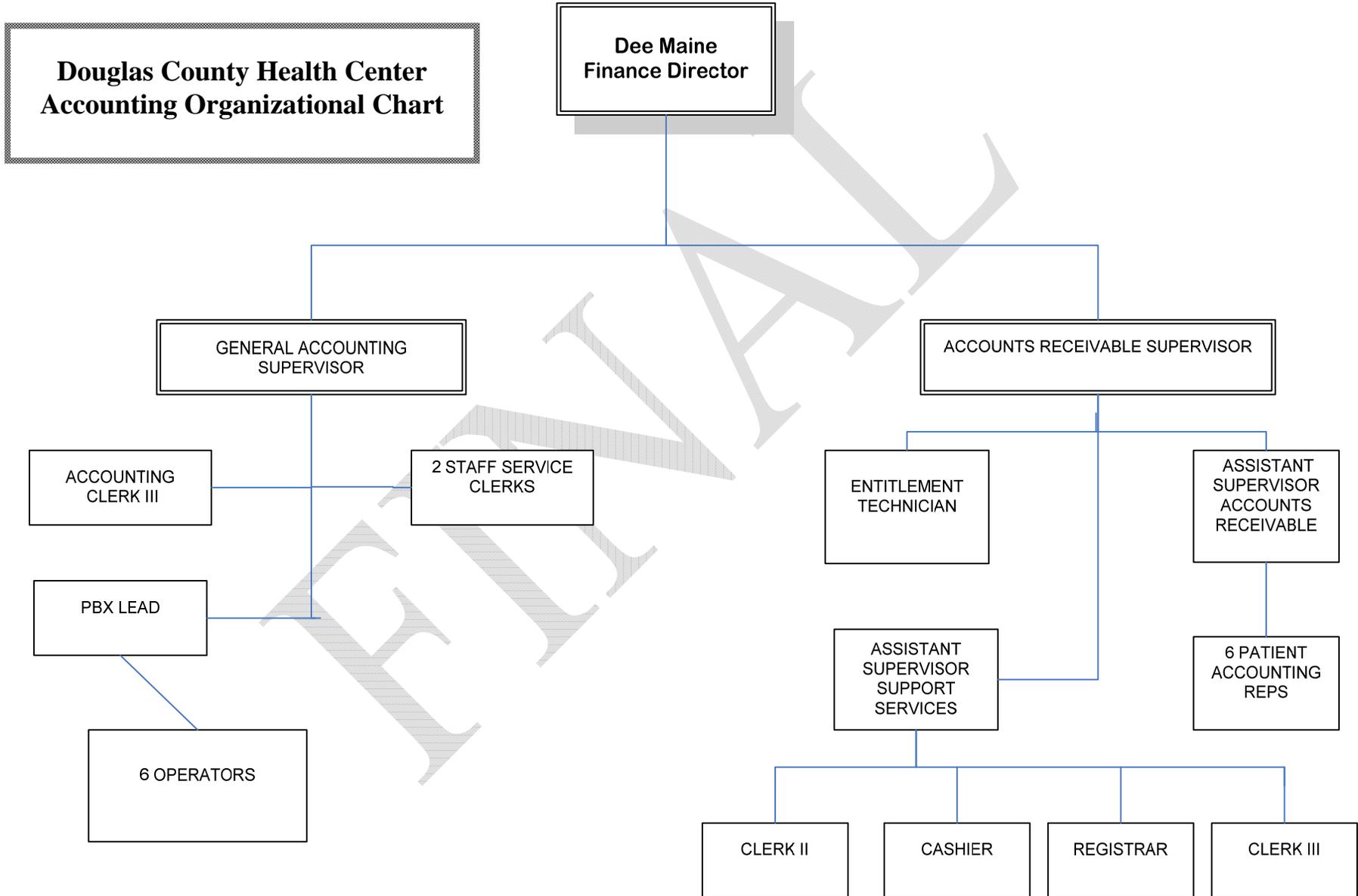
Omaha, NE 68105

Phone: (402) 444-7000



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APPENDIX



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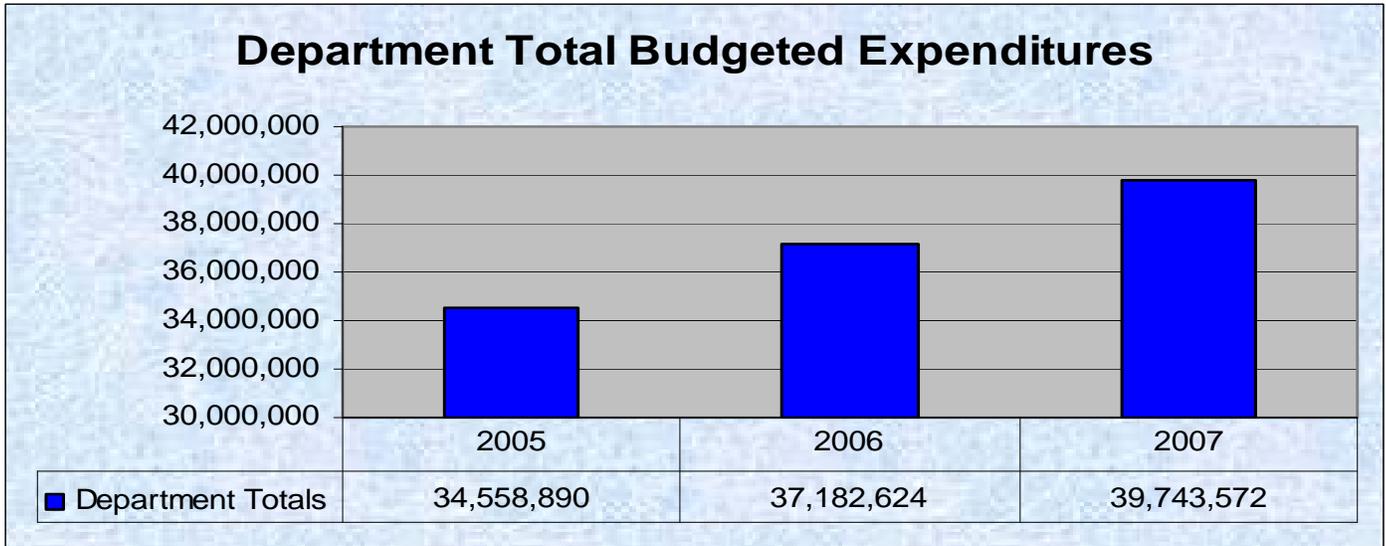


CHART # 1

Douglas County Adopted Budget 2006/2007

Source of Funds	2007
General	\$ 11,025,147
Long Term Care / Assisted Living	14,500,000
Community Mental Health	5,378,500
Pharmacy Reimbursement	3,876,000
Medicaid Settlement	3,000,000
Various	1,963,925
Total	\$39,743,572

CHART # 2

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DCIAD Staff participants in 2006 - 2007 Audit # 02; Douglas County Health Center Internal Controls Relating to the Accounting Process for Long-Term Care and Assisted Living

Kate Witek, Internal Audit Analyst
Primary Auditor

(sign)

Carmen Harmon, Internal Audit Supervisor

(sign)

2006 / 2007 Audit # 02, was released on June 12, 2007