



Commonwealth of Massachusetts
Office of the State Auditor
Suzanne M. Bump

Making government work better

Official Audit Report-Issued September 25, 2013

Geriatric Authority of Holyoke

For the period January 1, 2010 through June 30, 2012





Commonwealth of Massachusetts
Office of the State Auditor
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Making government work better

September 25, 2013

Patricia Devine, Chairperson
Board of Directors of the Geriatric Housing Authority of Holyoke
45 Lower Westfield Road
Holyoke, MA 01040

Kevin Jourdain, President
Holyoke City Council
City Hall
536 Dwight Street
Holyoke, MA 01040

Dear Chairperson Devine and President Jourdain:

I am pleased to provide this performance audit of the Geriatric Authority of Holyoke. This report details the audit objectives, scope, methodology, findings, and recommendations for the audit period, January 1, 2010 through June 30, 2012. My audit staff discussed the contents of this report with management of the agency, and their comments are reflected in this report.

I would also like to express my appreciation to the Geriatric Authority of Holyoke for the cooperation and assistance provided to my staff during the audit.

Sincerely,

A handwritten signature in blue ink, appearing to read "SMBump".

Suzanne M. Bump
Auditor of the Commonwealth

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INTRODUCTION AND SUMMARY OF FINDINGS AND RECOMMENDATIONS

In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, we have conducted an audit of the Geriatric Authority of Holyoke (GAH) for the period January 1, 2010 through June 30, 2012. The objective of our audit was to review GAH's fiscal operations and certain program operations to determine whether proper internal controls exist in these areas and whether efficient and effective operating procedures are in place. The Holyoke City Council, in conjunction with the GAH Board of Directors (the Board), requested that the Office of the State Auditor (OSA) perform an audit of GAH in order to provide GAH's new Board members with a report on GAH's operations and current fiscal condition.

Highlight of Audit Findings

During our audit period, GAH's management and Board of Directors did not effectively manage its financial operations. Specifically, GAH's management and Board did not identify and develop potential available revenue sources that were needed to help ensure its financial viability. The agency also has not established appropriate internal controls, including policies and procedures, over various aspects of its operations; this has resulted in inefficient and unauthorized transactions and inadequate security over cash and other agency assets. Finally, GAH may have requested and received over \$150,000 in state funding during 2012 to which it was not entitled. As a consequence of these management deficiencies, GAH has had to rely on the City of Holyoke (the City) to provide it with substantial financial support and, as of June 30, 2012, owed the City approximately \$2.2 million. GAH will need to increase its revenues and/or eliminate unnecessary operating costs in order to prevent the accumulation of further debt, repay the City, and become financially self-sufficient. Otherwise, GAH's financial viability will depend on the City's willingness to continue its financial support.

Missed Opportunities for Revenue Growth

- Approximately 10 years ago, GAH regularly provided outpatient physical therapy services. However, GAH allowed its license for these services to expire and has not attempted to renew it. GAH could have benefited financially by maintaining its license and continuing to provide these services.
- GAH has a four-floor building three floors of which have become vacant and remained unoccupied. Because GAH has left this space vacant (for more than 13 years in some cases), it has lost an opportunity to generate significant rental income. GAH officials told us that

the agency had recently negotiated a contract with a local human-services agency to rent two of the three floors, which will enable GAH to realize \$88,515 in rental income for this space annually.

- GAH owns two vans, which it uses to transport its nursing-home residents to and from off-site appointments and its adult-daycare attendees to and from their homes. Through observations and discussions with GAH staff, OSA found that these vans were frequently idle and GAH could have used them more effectively to generate transportation revenue – for instance, by offering transportation services to local facilities that serve the elderly.

Inefficient and Unauthorized Transactions

- During the audit period, GAH had not established adequate internal controls over the administration of capital projects. As a result, GAH incurred a loss of \$404,143 during fiscal year 2010.¹ The loss resulted from GAH abandoning a planned capital-expansion project, which was intended to replace its aging nursing-home facility. In order to help finance the project, GAH secured approximately \$19 million from the Massachusetts Development Finance Agency and sold 9.5 acres of land to the City for \$1.2 million. However, GAH's management did not adequately research the availability of funding before undertaking this project and was not able to obtain all of the funding necessary to complete the project. In the meantime, it spent much of the land-sale proceeds on costs unrelated to the project. Consequently, the \$404,143 that GAH spent up front during this project had to be written off as an extraordinary expense, which decreased GAH's net worth.
- During the audit period, GAH had not established policies and procedures for the procurement of capital assets (i.e., those costing over \$25,000). During this period, GAH purchased a Ford F250 pickup truck and an industrial-capacity dishwasher for \$27,924 and \$47,275, respectively, without soliciting bids from potential suppliers or, in one case, receiving the required Board approval. As a result, GAH cannot be certain that it obtained the best value from these procurements.
- During fiscal year 2011, GAH's former Director of Human Resources requested and received a retirement payout package that included a 3% retroactive wage adjustment he had forgone in 2009. The total payout (i.e., sick time, vacation time, and wage adjustment) he ultimately received totaled \$10,905.63. The \$8,035.23 in vacation and sick time payouts included in this amount were appropriate and consistent with GAH's established policies, but the retroactive wage adjustment, which totaled \$2,870.40, was contrary to guidance provided by the Board that said that all pay increases and pay adjustments must be approved by the Board. The former Director of Human Resources worked an additional 960 hours for GAH at the higher adjusted wage rate after he announced his retirement but before actually retiring, resulting in \$4,195.20 in further unauthorized payments.
- During fiscal year 2011, the Board appointed an individual to serve as its seventh member. However, after the appointment, the former Executive Director told us she received

¹ GAH's fiscal year is from January 1 through December 31.

allegations of Board impropriety, including threats to members and possible vote tampering related to this appointment. Because of the allegations, the former Executive Director hired outside legal counsel for an opinion on the appointment. GAH paid the legal counsel \$12,605 to resolve this matter, which ended without change to the appointment or additional legal action. The former Executive Director's actions in this matter appear to have been prudent; however, the Board's inability to effectively collaborate on the appointment led to an avoidable expenditure for legal counsel.

- GAH needed to retain legal counsel to resolve a Board matter involving stipends for "holdovers," who are board members who resign from a board but remain active on the board because a replacement cannot be found. GAH's bylaws do not address payment of stipends during holdover periods, and when a holdover sought a stipend for \$1,333, that claim was contested. Consequently, GAH spent \$2,565 on legal fees to resolve this matter, as well as ultimately paying the \$1,333.
- The former Executive Director's employment contract provided for an automobile allowance of \$500 per month plus a per-mile reimbursement for the actual miles she traveled for business purposes. However, for the mileage reimbursement, the former Executive Director submitted gasoline credit card statements for reimbursement rather than submitting her actual mileage, contrary to the conditions of her employment contract. In total, the former Executive Director received questionable gasoline reimbursements totaling \$3,789 during the period January 1, 2010 through June 30, 2012.

Inadequate Policies and Procedures for Certain Financial Operations

- GAH maintains an account for each resident that records all revenues received on the resident's behalf, including MassHealth reimbursements, third-party insurance payments, and private funds from residents and their family members. However, GAH has not established written policies and procedures to ensure that these resident accounts are accurate. We tested a random sample of all the billings for 20 of the 181 resident accounts that GAH maintained during our audit period. The testing identified two MassHealth reimbursements, totaling \$59,189, for services provided to these 20 residents that were recorded in GAH's operating account but not in the appropriate residents' subsidiary accounts. As a result of this issue, these resident accounts reflected inaccurate balances that went undetected by GAH staff.
- GAH has not established written policies and procedures to ensure that its cash operating accounts are reconciled monthly. In fact, as of the end of our audit period, GAH had not reconciled its cash operating accounts for any of fiscal year 2012. Consequently, GAH cannot ensure that its account balances are current and accurate.
- GAH did not establish policies and procedures to ensure that only authorized employees signed disbursement checks from its bank accounts. Consequently, GAH's former Director of Human Resources – who was an authorized signer on some, but not all, GAH's accounts – signed for disbursements from an account for which he was not an authorized signer. Additionally, we found that when authorized check signers resigned from GAH, it did not remove them from the list of authorized signatories for its bank accounts; we found two

former employees who had retired but were still authorized signers. By not establishing effective policies and procedures in this area, GAH unnecessarily placed its monetary assets at risk of fraud or misuse.

- GAH has not established adequate internal controls over the procurement of non-capital items (e.g., over-the-counter medicines, maintenance supplies, office supplies) on which it spends tens of thousands of dollars annually. Specifically, it did not require purchase orders for all purchases, a requirement that would have helped ensure that purchases of these items were properly requested, authorized, and received. As a result, there is inadequate assurance that purchases of these goods are properly safeguarded against waste or abuse.
- GAH has established, but not always followed, policies and procedures for the security of agency credit cards. The policies and procedures require, among other things, that each credit card be locked within an office safe when not needed for purchases. However, during our audit, we noted that GAH's three credit cards were not located in the office safe as required. Moreover, when we asked where the cards were, GAH's accounting staff was not immediately able to identify which employee(s) had the credit cards. Though the staff did ultimately locate all three cards, it appears that GAH was not enforcing its security measures and subjected itself to potential misuse of its credit cards.
- GAH does not have written policies and procedures for the administration of service contracts. As a result, out of the 23 service providers GAH used during our audit period, 8 provided services without a contract; 3 provided services even though their contracts were not properly signed; and 5 providers, whose contracts automatically renewed, had contracts that had not been reviewed and updated for extended periods.
- GAH purchased 23 fixed assets² during fiscal year 2010 and correctly (since it did not own the assets for the entire fiscal year) reported a partial year's depreciation for these assets in its accounting records. However, rather than calculating the correct full year's depreciation expense for these assets during fiscal year 2011, GAH incorrectly used its 2010 partial-year depreciation calculation for these assets during fiscal year 2011, contrary to generally accepted accounting principles. Consequently, GAH understated its depreciation expenses, overstated its income, and overstated its fixed assets by \$5,836 in its fiscal year 2011 financial statements.
- GAH does not have written policies and procedures related to the inventory of its fixed assets. During the audit period, GAH did not take a physical inventory, maintain a complete list, or document disposal of any fixed assets. As a result, GAH did not adequately safeguard its fixed assets, which totaled \$928,000 as of December 31, 2011, against waste, fraud, and abuse.

² Fixed assets, also known as non-current assets or as property, plant, and equipment (PP&E), are assets and property that cannot easily be converted into cash.

Questionable State Funding

- In 2012, GAH received \$150,056 in payments from the Executive Office of Health and Human Services (EOHHS) based on documentation that GAH submitted to EOHHS indicating that GAH had received \$367,663 in total appropriations from the City for fiscal years 2009 and 2010. However, the City Treasurer told us that this \$367,663 was not appropriations, but money that GAH owed the City for GAH's portion of its active retirees' health, dental, and life insurance. The City Treasurer further explained that to prevent cancellation of health and life insurance coverage, which includes both City employees and active retirees, the City must pay all applicable premiums and obtain reimbursement from GAH for participating in the plan. Therefore, based on the City Treasurer's comments, the information that GAH provided to EOHHS may be inaccurate and the payments it received from EOHHS based on this information inappropriate.

Recommendations of the State Auditor

- GAH should maximize revenue from its current revenue sources and seek additional funding opportunities, which may include (1) providing outpatient physical therapy for adult-daycare attendees and extending the service to other potential patients, (2) leasing excess building space to gain revenue from existing property, and (3) seeking additional uses of transportation services.
- GAH should develop policies and procedures to (1) ensure proper oversight and control of capital-project funds and safeguard such funds for their intended purpose; (2) ensure that purchases of capital assets are based on a competitive bid process and implement a spending threshold for capital assets that would require Board approval prior to purchase; (3) follow all Board directives, including those applicable to pay increases for employees; (4) procure outside legal services solely to resolve matters that necessitate legal intervention; and (5) follow the terms and conditions of employment contracts.
- The Executive Director should continue to identify and implement potential cost savings in order to eliminate wasteful spending and improve GAH's financial viability.
- GAH should implement policies and procedures for its residential and operational bank accounts to ensure that these accounts are reconciled monthly and protected against potential fraud and abuse.
- GAH should implement policies and procedures to ensure that only authorized employees sign checks, that the list of authorized signers is periodically reviewed for accuracy, and that banking responsibilities are segregated to maintain integrity within its banking processes.
- GAH should issue purchase orders in numerical sequence in order to track purchase orders and account for any that are missing, voided, or canceled. GAH should also review open purchase orders periodically and investigate out-of-sequence purchase orders.
- GAH should create a control matrix that designates which GAH employees have authority to approve purchase orders, what dollar limits are imposed on their authority, and at what dollar amounts a second approving signature is required. GAH should establish a similar matrix to

designate employees who have authority to approve invoice payments and any limits to their authority.

- GAH should implement policies and procedures for credit cards to ensure that authorized users return credit cards promptly, that credit cards are stored within a secure device upon return, and that credit cards are used solely for allowable purposes. GAH should also develop a tracking system to ensure that items purchased on an open account are used for GAH projects and employees do not use these items for personal purposes.
- GAH should develop policies and procedures to ensure that contracts are prepared for all vendor services. Contracts should be dated and signed by authorized representatives of the contracting parties and should specify all relevant terms and conditions, including, but not limited to, term of contract, compensation, invoicing and payment, warranty, defaults and terminations, change orders, and special requirements. In addition, GAH should establish policies and procedures to protect its financial interests by selecting all its service providers through a competitive bid process and by updating and renegotiating contract terms and conditions when renewing contracts with existing service providers.
- GAH should establish policies and procedures to ensure accurate reporting of fixed assets and accumulated depreciation balances. GAH should also establish procedures to protect and secure fixed assets against fraud and abuse, including, but not limited to, issuing unique asset control numbers; affixing control tags to assets; conducting an annual inventory of fixed assets; and maintaining a fixed-asset inventory record that identifies purchase price, useful life, depreciation, and location for each new asset purchased. In addition, GAH should establish policies and procedures for conducting an annual inventory of fixed assets.
- GAH and City officials should obtain a legal opinion as to whether the amounts reported by GAH as City appropriations are actually appropriations or are amounts due the City from GAH. Once this matter is resolved, GAH should provide all relevant documentation to EOHHS. If the amounts in question are not appropriations, then EOHHS should take the measures it deems necessary to resolve this matter.

OVERVIEW OF AUDITED AGENCY

The Geriatric Authority of Holyoke (GAH) was established in 1971 under Chapter 554, Section 1, of the Acts of 1971. This legislation established GAH as a municipal board within the City of Holyoke to oversee, maintain, and operate the Municipal Nursing Home of Holyoke and any other facilities established by GAH. Moreover, Chapter 554 established that GAH would be governed by a seven-member Board of Directors. Three members are appointed by the Mayor of Holyoke, three members are appointed by the Holyoke City Council, and the final member is elected by the six appointees.

Chapter 554 was amended by Chapter 1097 of the Acts of 1973, which changed the legal status of GAH from a municipal board to an independent public entity. Chapter 1097 gave GAH control over all its financial receipts and expenditures and expanded GAH's powers to operate the Municipal Nursing Home of Holyoke by removing the need for the facility's operations to be supported by appropriations from the Holyoke City Council.

GAH currently offers a variety of care and service options for the elderly, including 24-hour, short-term, and extended skilled nursing care; physical, occupational, and speech therapy; hospice care; respite care; adult daycare; and transportation services. For its fiscal years 2010 and 2011, GAH received revenue totaling approximately \$6,835,000 and \$6,851,000, respectively, from various sources, as shown below.

Source	Fiscal Year 2010	Percentage	Fiscal Year 2011	Percentage
MassHealth	\$3,506,000	51.3%	\$ 4,310,000	62.9%
Medicare	1,672,000	24.5%	1,132,000	16.5%
Private Pay	1,035,000	15.1%	699,000	10.2%
Other	<u>622,000</u>	9.1%	<u>710,000</u>	10.4%
Total	<u>\$6,835,000</u>		<u>\$ 6,851,000</u>	

AUDIT SCOPE, OBJECTIVES, AND METHODOLOGY

In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, the Office of the State Auditor has conducted an audit of certain activities of the Geriatric Authority of Holyoke (GAH) for the period January 1, 2010 through June 30, 2012. For certain areas, we extended our scope beyond the audit period to fully present GAH's financial situation. The objective of our audit was to examine the fiscal operations and various program operations at GAH to determine whether proper internal controls over revenues and expenditures exist and whether efficient and effective operating procedures are in place. The audit included, but was not limited to, a review of operating policies and procedures, an examination of internal controls over receipts and expenses, a review of GAH's Board of Directors' governance activities, and an analysis of whether staffing levels were appropriate for the programs GAH runs. The Holyoke City Council and GAH's Board of Directors requested this audit.

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.

To obtain our evidence, we used non-statistical random and non-statistical judgmental sampling in the testing of revenues and expenditures. We used non-statistical, random sampling in conjunction with the Massachusetts Medicaid Management Information System (MMIS), the automated claim-processing system used by MassHealth to pay provider claims, to identify all patient services GAH billed to MassHealth during the audit period. We sorted the claim information by patient and randomly sampled 20 patient files for review. For testing in every other area (e.g., adult daycare, transportation, fixed assets, service contracts, payroll, accounts payable), we used non-statistical, judgmental sampling. For each sampling approach, we identified the quantity of samples tested, as it relates to the population, and drew conclusions on the quantity of tests performed. Our rationale for selecting the non-statistical judgmental samples was based on auditor judgment, using such criteria as (1) the significance of the transaction as it relates to the mission of GAH, (2) likelihood of an error or potential abuse due to noted internal-control deficiencies, and (3) the presence and frequency of inherently high-risk transactions.

To achieve our objectives, we reviewed applicable state and federal laws, rules, and regulations. We assessed internal controls to determine whether the processes GAH used to meet the objectives outlined in its enabling legislation were reasonable. We also held discussions and performed operational walkthroughs with GAH's Executive Director, Chief Financial Officer, Purchasing Manager, Director of Human Resources, and other key employees. We analyzed claim data obtained from MMIS to identify the amount and number of claims submitted, the type and frequency of services provided, and service trends and anomalies indicative of systemic billing problems. We compared this information to related source documents and determined that the data were sufficiently reliable for the purposes of this report. In addition, we analyzed (1) all 23 contracts awarded by GAH for pharmaceuticals, over-the-counter medicines, supplies, and general service; (2) manual compilations of claims GAH submitted to MassHealth for transportation and adult-daycare services; and (3) GAH's financial statements for fiscal years 2010 through 2011. We also reviewed GAH's accounting functions and activities related to payroll, accounts payable and receivable, cash management, staffing levels, and fixed assets.

At the conclusion of our audit, we provided GAH with a draft copy of this report for its review and comments. We also consulted with the Executive Office of Health and Human Services, MassHealth, and City of Holyoke officials during audit field work. In preparing our report, we considered and, in many cases, excerpted GAH's comments and other comments we received from City officials.

Based on our audit, we have concluded that, for the period January 1, 2010 through June 30, 2012, the Authority lacked adequate internal controls over revenues and expenditures and did not establish efficient and effective operating policies and procedures, as described below.

AUDIT FINDINGS

1. **GAH'S LEADERSHIP TEAM DID NOT EFFECTIVELY MANAGE THE AUTHORITY'S FINANCIAL OPERATIONS; THIS LED TO A \$2.2 MILLION DEBT TO THE CITY OF HOLYOKE**

During the audit period, the Geriatric Authority of Holyoke's (GAH's) leadership team, including its Board of Directors (Board) and senior managers, did not effectively manage GAH's financial operations. Specifically, GAH's management and Board did not identify and develop potential available revenue sources that were needed to help ensure its financial viability. The agency also has not established appropriate internal controls, including policies and procedures, over various aspects of its operations; this has resulted in inefficient and unauthorized transactions. Finally, GAH may have requested and received over \$150,000 in state funding during 2012 to which it was not entitled. As a result of these management issues, GAH has had to rely on the City of Holyoke (the City) to subsidize its operations and owes the City approximately \$2.2 million as of June 30, 2012. GAH will need to increase revenues and eliminate unnecessary operating costs in order to prevent the accumulation of further debt, repay the City, and become financially self-sufficient. Otherwise, GAH's financial viability will depend on the City's willingness to continue its financial support.

The Massachusetts Attorney General's Guide for Board Members of Charitable Organizations specifies that board members have primary responsibility for making sure that the organization is financially accountable and operates in a fiscally sound manner. Although GAH is not a charitable organization, the Office of the State Auditor believes that the Attorney General's guidelines in many areas represent fundamental oversight activities applicable to all boards of directors, including those of not-for-profit organizations such as GAH. Under the Attorney General's guidelines, in order to provide effective financial oversight, GAH's Board needs to collaborate effectively with GAH's management in order to carry out the Board's decisions and manage the activities of the agency to ensure that it achieves its goals and operates in the most effective and efficient manner.

However, over the past three fiscal years, GAH incurred an average annual operating deficit of approximately \$790,357³ per year. As a result, GAH routinely paid vendors, contractors, and third-party service providers selectively, paying essential providers of resident care immediately and delaying payments to other providers. This occurred because GAH did not have sufficient revenue to pay all its obligations and relied on the City to pay for certain operating expenses. Through 2007, the City frequently paid for some of GAH's operating expenses without seeking reimbursement from GAH for those expenditures. However, in 2008, with the election of a new City Treasurer, the City started tracking these expenses and billing GAH accordingly. As of June 30, 2012, this financial arrangement had resulted in GAH owing the City approximately \$2.2 million. The City's financial records indicate that GAH incurred long-term debts to the City to pay (1) GAH's portion of its employees' retirement contributions; (2) GAH's portion of active retirees' health, dental, and life insurance costs; (3) payment in lieu of taxes (PILOT);⁴ and (4) utility bills to Holyoke Gas and Electric, as well as incurring short-term loans. GAH's debt to the City is described in the table below.

Description	Amount Owed	Delinquency
Employer's portion of active employees' retirement contributions	\$ 464,991	4 fiscal years
Employer's portion of health, dental, and life insurance for active retirees	988,448*	5 fiscal years
PILOT	120,000	3 fiscal years
Holyoke Gas and Electric	427,938	3 fiscal years
Short-term loan	<u>214,712**</u>	5 fiscal years
Total	<u>\$ 2,216,089</u>	

* GAH disputes owing this amount to the City (refer to Audit Finding 3).

** GAH disputes owing this amount, which originated from the City's purchase of 9.5 acres of land from GAH in 2006. After the land sale, the City's Law Department determined that the \$1,200,000 paid by the City violated Chapter 40, Section 14, and Chapter 43, Section 30, of the Massachusetts General Laws, as well as Section 2-349(b)(4) of the City of Holyoke Code of Ordinances. In addition, based on these laws and ordinances, the City determined that it should not have paid more than 25% above the land's average assessed valuation. The City's Law Department determined that at the time of the sale, this assessment limited the allowable sale price to \$985,288, or \$214,712 less than the City had paid.

Since July 1, 2012, GAH has made monthly payments to the City in an effort to pay down the \$2.2 million debt. While GAH and the City have not prepared a formal repayment agreement,

³ The average loss of \$790,357 per year is based upon GAH's financial statements and does not reflect expenses paid by the City on GAH's behalf during the three-year period. After the expenses paid by the City for GAH are accounted for, the restated average loss is \$1,210,126 per year, as detailed in the appendix to this report.

⁴ The PILOT program enables tax-exempt entities to submit a payment for municipal services that are normally funded by taxes.

GAH voluntarily paid \$500 per month through December 31, 2012 and increased its payment to \$750 per month beginning in January 2013. However, during this same eight-month period, GAH's overall debt to the City increased by approximately \$136,000.

GAH's Executive Director pointed out that Medicaid reimbursement rates for the services GAH provides remained constant during the audit period, while GAH's operating costs have increased, contributing to GAH's financial difficulties. However, GAH's Board and management staff are ultimately responsible for maintaining the financial viability of GAH's operations. As described in the ensuing subsections, GAH did not take advantage of potential revenue-enhancing opportunities during the audit period and did not develop policies and procedures to effectively control costs or to safeguard its assets.

These issues presented in this report point to a lack of effective executive leadership at GAH. However, significant changes were made to the Board's composition, including its chairperson, and GAH's management team during the audit period. These changes have resulted in a concerted effort by the current Board and newly appointed Executive Director to improve GAH's financial viability, including increasing revenues and reducing operating expenses. The specific actions taken to improve operating efficiency and effectiveness are discussed throughout this report.

a. Missed Opportunities for Revenue Growth

Potential Revenue from Outpatient Physical Therapy Services

Approximately 10 years ago, GAH regularly provided outpatient physical therapy services. However, GAH allowed its license for these services to expire and has not attempted to renew it. Therefore, GAH is missing an opportunity to increase its revenue and possibly its net income.

During the audit period, GAH contracted with Sundance Physical Therapy, Inc. (Sundance) to provide outpatient physical therapy services to its adult-daycare attendees. Sundance retains 100% of payments received from MassHealth and other third-party payers for providing these services, and its only financial obligation to GAH is a \$250-per-month space rental fee. By allowing Sundance to provide these services rather than offering them itself,

GAH is missing an opportunity to increase its revenue by an amount greater than that \$250 per month.

During the audit, the Executive Director stated that GAH plans to increase revenues from outpatient physical therapy by (1) negotiating new contract terms with Sundance that provide for more rental income, (2) seeking an alternative service provider to rent this space at a higher cost, or (3) reapplying for its outpatient physical therapy license and ultimately providing the services with an in-house or per diem staff.

Potential Revenue from Underutilized Building Space

GAH's physical plant comprises two buildings: Building A and Building B. Building A's usable space is fully occupied and contains a kitchen, a dining facility, a physical-therapy clinic, administrative offices, and living space for 80 nursing-home residents. GAH currently uses Building B to house its adult-daycare and transportation programs. These programs are situated on the first floor. The building's remaining three floors became vacant between fiscal years 2000 and 2008 for a variety of reasons, including a declining demand for residential nursing-home services. However, by leaving this space vacant (in some cases for more than 13 years), GAH lost an opportunity to generate rental income, which would have improved its financial position.

During the audit, GAH's Executive Director acknowledged that Building B is underutilized and could generate potential rental income. The Executive Director also stated that GAH had a letter of intent from Gandara Center, a local human-services agency, to lease 17,703 square feet of space located on two floors within Building B to operate a substance-abuse transitional program. The Executive Director indicated that the pending lease would (1) generate rental revenue totaling \$88,515 per year and (2) require Gandara to pay \$44,257 per year for utilities, \$9 per day per attendee for meals, and the cost of the building modifications needed to accommodate the program, in addition to its rent.

Potential Transportation Revenue

GAH owns two vans, which it uses to transport its nursing-home residents to and from off-site appointments and its adult-daycare attendees to and from their homes. From our observations and our discussion with GAH staff, we found that these vans were frequently

idle and GAH could have used them more effectively to generate potential transportation revenue by offering services to nearby healthcare facilities. Specifically, we identified the following areas where GAH could expand the use of these vans.

- In close proximity to GAH are a newly built Senior Center, an elderly retirement community, and the Soldiers' Home in Holyoke. Elderly residents and visitors of these facilities sometimes require transportation services. GAH could seek to provide these services for a fee.
- GAH's nurses are authorized to call contracted "car chair" services during normal business hours, if needed. However, GAH's accounts-receivable-department staff stated that nurses frequently call for "car chair" service even when a GAH van and driver are available. By encouraging staff to use GAH's vans whenever available, GAH would reduce the cost associated with "car chair" service and increase its own net income.

b. Inefficient, Unauthorized, and Otherwise Questionable Transactions

Extraordinary Loss of \$404,143 Due to Questionable Planning and Oversight of a Capital-Expansion Project

During the audit period, GAH had not established adequate internal controls over the administration of capital projects. Based on GAH's audited financial statements, GAH incurred an extraordinary loss of \$404,143 during fiscal year 2010. The loss resulted from GAH abandoning a planned project to build a modern nursing-home facility intended to replace its existing facility. In order to help finance the project, GAH secured approximately \$19 million from the Massachusetts Development Finance Agency and sold 9.5 acres of land to the City for \$1.2 million on November 16, 2006. Although GAH raised a significant amount of funding for this project, there still remained a \$2 million funding gap; GAH was unable to obtain funding to fill that gap. Consequently, GAH had to abandon the project before breaking ground.

Of the \$1.2 million that GAH received from the land sale, it spent \$238,559 for project-related architectural and engineering expenses. Further, before terminating the project, GAH spent \$165,584 of the \$1.2 million on home health and hospice services, legal and accounting services, and consulting services that were not related to the project. After terminating the project, GAH used the remaining \$795,857 (\$1.2 million – \$404,143) from the land sale to pay general operating expenses.

Although GAH's Board and management were responsible for the administration of the project, they did not adequately ensure that sufficient funding would be available to complete it. Consequently, the \$404,143 (\$238,559 plus \$165,584) that GAH spent up front during this project had to be written off as an extraordinary expense, which reduced GAH's net worth.

Capital Items Purchased without Competitive Bids and Contrary to a Board Directive

During our audit period, GAH had not established written policies and procedures for the procurement of capital items.⁵ Consequently, during the audit period, GAH's former Executive Director purchased a Ford F250 pickup truck and an industrial-capacity dishwasher for \$27,924 and \$47,275, respectively, without soliciting bids from potential suppliers and, in one case, without receiving the required Board approval. The Board's meeting minutes, dated February 22, 2011, state that "[p]urchases greater than \$25,000 require Board approval." The former Executive Director purchased the Ford F250 in January 2011, just before the Board's directive, and the industrial-capacity dishwasher in April 2011, after the Board's directive. Because the former Executive Director did not solicit competitive bids from suppliers for these items, she may not have purchased them at the best price. In addition, for the second purchase (made after the Board directive requiring Board approval), she acted contrary to Board directives.

GAH responded to this issue with written comments, in which it stated, in part,

[The former Chief Financial Officer] requested [the former Executive Director] to submit these purchases to the Board of Directors for approval, but was told that she would decide what was brought before the Board and to "leave it alone."

Unauthorized Retroactive Pay Increase

GAH did not have policies and procedures in place to ensure that all Board directives were followed. In March 2011, the former Director of Human Resources announced his upcoming retirement and requested a payout for his accrued vacation and earned sick time. He also requested a retroactive wage adjustment for the 3% pay increase he had forgone in September 2009 because of the cash-flow problems GAH was having at the time. GAH

⁵ Capital items are fixed assets such as facilities and equipment, the cost of which is normally written off over a number of fiscal periods.

provided a total payout of \$10,905.63 to the former Director of Human Resources on March 24, 2011. While the vacation and sick time payouts (totaling \$8,035.23) were appropriate and consistent with established policies, the retroactive wage adjustment, \$2,870.40, was contrary to guidance provided by the Board. Specifically, the Board's meeting minutes dated February 22, 2011 state, "All pay increases and pay adjustments must be approved by the Board." However, because of a lack of policies and procedures for implementing Board directives, the former Executive Director approved the retroactive wage adjustment without Board approval. After receiving the retroactive pay increase, the former Director of Human Resources worked an additional 960 hours for GAH after announcing his retirement but before actually retiring, resulting in additional unauthorized pay-increase payments to him totaling \$4,195.20.

GAH responded to this issue with written comments, in which it stated, in part,

[The former Director of Human Resources] violated the guidance of the Board of Directors The Board of Directors did not approve the retroactive wage adjustment and was never made aware of it.

Board Conflict and Ineffectiveness Led to Unnecessary Spending on Legal Fees

During fiscal year 2011, the Board appointed an individual to serve as its seventh member. However, after the appointment, GAH's former Executive Director told us she received allegations of Board impropriety, including threats to members and possible vote tampering related to this appointment. Consequently, on January 20, 2012, she sought outside legal counsel for an opinion on resolving the conflict surrounding the appointment. The legal counsel reviewed Chapter 268A of the General Laws; met with GAH's management and Massachusetts State Police officials; drafted a complaint to the Hampden County Superior Court; and drafted letters seeking a legal opinion from the Massachusetts State Ethics Commission. Ultimately, GAH paid the legal counsel \$12,605 to resolve this matter, which ended without change to the appointment or additional legal action. The former Executive Director's actions in this matter appear to have been prudent; however, the Board's inability to effectively collaborate on the appointment resulted in the unnecessary expenditure of these funds.

GAH responded to this issue with written comments, in which it stated, in part,

There is question as to the "appropriateness" [sic] actions of the former Executive Director to seek legal assistance in this matter. This was NOT a facility operational matter. This situation was directly related to the operation of the Board of Directors. Therefore, the decision should have been presented and approved by the Board of Directors to hire legal counsel and not the Executive Director.

In a second instance, GAH needed to retain legal counsel to resolve a Board matter involving stipends for "holdovers," who are members who resign from a board but remain active on the board because a replacement cannot be found. GAH's bylaws provide for its Board members to receive a stipend of \$1,000 per quarter for their service; the bylaws also allow for a holdover period of up to three months for Board members, but they do not address payment of stipends during holdover periods. The stipend omission within the bylaws caused a legal problem. Specifically, a Board member served four months (January 2012 through April 2012) as a holdover on the Board and sought a \$1,333 stipend as payment for that service. The Board member, former Chief Financial Officer (CFO), and Board could not resolve this matter effectively. Consequently, GAH spent \$2,565 in legal fees, which would not have been necessary had GAH's management and Board members been able to effectively collaborate to resolve this matter, as well as ultimately paying the \$1,333.

Former Executive Director Incurred Questionable Transportation Expenses

The former Executive Director's employment contract provided for an automobile allowance of \$500 per month plus a mileage reimbursement for using her personal automobile on behalf of GAH. The mileage reimbursement was to be calculated at the then-current Internal Revenue Code's mileage reimbursement rate. However, rather than requesting mileage reimbursement as required by her contract, the former Executive Director submitted her monthly gasoline credit card statement for reimbursement. GAH's former CFO questioned the former Executive Director and was unable to effect compliance with the contract, and the practice continued because the Board either did not know or did not contest it. In total, the former Executive Director received questionable gasoline reimbursements totaling \$3,789 during the period January 1, 2010 through June 30, 2012.

GAH responded to this issue with written comments, in which it stated, in part,

The former Executive Director received "questionable" gasoline reimbursements totaling \$3,789 during this period. This amount represented not only gasoline purchases, but included interest and late fees. These amounts were charged to her personal Exxon Credit Card.

The former CFO requested a copy of the former Executive Directors [sic] employment contract, but was told by the former Executive Director that he did not need it and she refused to provide a copy.

The former CFO presented this information to one of the Board Members. There was a Finance Committee established by the Board of Directors whereby the former CFO presented this item along with other items to the Committee. The Finance Committee did not present this information to the Board of Directors for discussion or action.

GAH's Proposed Cost Savings

GAH's Executive Director recognizes the need for GAH to eliminate any unnecessary spending in order to improve its financial viability. The Executive Director provided us with a list of areas of potential cost savings, which we have summarized in Appendix B.

Recommendation

In order to address our concerns about GAH's financial viability, we recommend the following:

- GAH should maximize revenue from its current revenue sources and seek additional funding opportunities, which may include (1) providing outpatient physical therapy for adult-daycare attendees and extending the service to other potential patients, (2) leasing excess building space to maximize the revenue-generating potential of existing property, and (3) seeking additional uses of transportation services.
- GAH should develop policies and procedures to (1) ensure proper oversight and control of capital-project funds and safeguard such funds for their intended purpose; (2) ensure that purchases of capital assets are based on a competitive bid process and implement a spending threshold for capital assets that would require Board approval prior to purchase; (3) follow all Board directives, including those applicable to pay increases for employees; (4) procure outside legal services solely to resolve matters that necessitate legal intervention; and (5) follow the terms and conditions of employment contracts.
- The Executive Director should continue to identify and implement potential cost savings in order to eliminate wasteful spending and improve GAH's financial viability.

Auditee's Response

In response to our recommendations, GAH provided comments that we have excerpted below.

The GAH Executive Director as well as the Board of Directors is seeking out all additional funding or revenue sources such as:

Our Outpatient Therapy License which was allowed to expire by the former Executive Director. We are in the process in acquiring this license and, in doing so, this will enable the GAH not only to serve our Adult Day Health population, but outside therapy needs of the community such as GAH and City workman's comp needs.

Other revenue sources that are being developed:

- *Respite Care*
- *Hospice Units*
- *Bi-Lingual Units*
- *Veteran's Units – to handle possible "waiting list" residents for the Soldiers Home.*
- *Units to accommodate the needs of the Blind and/or deaf population.*
- *Rental of "B" Building – space currently in negotiations.*

Transportation revenue is unlikely due to the GAH expanded activities of our current residents

Currently, new and updated policies and procedures are being developed to address all these issues. The Board of Directors are "spear-heading" this area through its Policy and Legal Committee

The current Executive Director has and will continue to identify and eliminate any wasteful spending and improve the financial viability of the GAH.

Every purchase is thoroughly negotiated for best pricing – which has reduced costs greatly. Staffing has been cut in accordance to census levels and overtime has been reduced as well.

2. GAH HAS NOT ESTABLISHED ADEQUATE POLICIES AND PROCEDURES OVER CERTAIN FINANCIAL OPERATIONS

Because GAH receives reimbursements for Medicaid and Medicare services, it is required to comply with regulations promulgated by the state's Division of Medical Assistance (DMA). According to 130 Code of Massachusetts Regulations (CMR) 450.205, promulgated by DMA, GAH is required to maintain its accounting records in accordance with generally accepted accounting principles (GAAP). Under GAAP, organizations must establish systems for the appropriate control of operations and finances in order to minimize the risk of fraud, waste,

abuse, or noncompliance with applicable legal, regulatory, and contractual requirements. Control systems also ensure adherence to internal policies, minimize the risk of undesirable events, and ensure that desired outcomes will be obtained efficiently and economically. Responsibility for establishing control systems, including policies and procedures, rests with an organization's board of directors and senior managers. However, we found that GAH has not established adequate policies and procedures for (1) bank accounts, (2) cash operating accounts, (3) check-signing authority, (4) purchasing and accounts payable, (5) company credit cards, (6) service-provider contracts, and (7) fixed assets.

a. Resident Fund Accounts Not Reconciled

GAH maintains a subsidiary ledger account for each resident that is the primary controlling account for the resident's funds, including MassHealth reimbursements, third-party insurance payments, and private funds from residents and their family members. However, GAH has not established written policies and procedures to ensure that these resident accounts are updated and reconciled monthly. As a result, as of the end of our audit period, some residents' accounts reflected incorrect balances through June 30, 2012. We tested a random sample of all the billings for 20 of the 181 resident accounts that GAH maintained during our audit period. The testing identified two MassHealth reimbursements, totaling \$59,189, for services provided to these 20 residents that were recorded in GAH's operating account but not in the appropriate residents' subsidiary accounts.

By not reconciling the residents' subsidiary ledger accounts to its general ledger, GAH risks misstating the balance of these accounts on its financial statements. Also, without recording all activity accurately and promptly in each resident's subsidiary ledger accounts, GAH would have difficulty supporting the balance of a resident's account should a resident, resident's family, or deceased resident's family question a balance. GAH's CFO agreed that the \$59,189 had not been posted to the appropriate residents' subsidiary ledger accounts and said that these accounts had not been reconciled for 2012 because of insufficient staff resources.

b. Cash Operating Accounts Not Reconciled Promptly

GAH has not established written policies and procedures to ensure that its cash operating accounts are periodically reconciled. In fact, as of the end of our audit period, GAH had not reconciled its cash operating accounts for any of fiscal year 2012. Consequently, GAH

cannot ensure that its account balances are current and accurate and that its assets are adequately safeguarded against fraud, waste, and abuse. The table below details GAH's cash operating account balances, which totaled \$492,842 as of December 31, 2011 (which was the last time that GAH reconciled these accounts).

Operating Account	Account Balance
General Operating	\$ 470,544
General Fundraising	20,867
Activities	2,104
Worker's Compensation	250
Payroll	(923)
Adult Day Health*	N/A
Cash Reserves*	N/A
Total	<u>\$ 492,842⁶</u>

* GAH opened these two accounts in July 2012.

GAH responded to this issue with written comments in which it stated, in part,

All policies are in the process of being reviewed and/or written. A written policy that Bank Statements are reconciled monthly will be added.

All Bank reconciliations are current.

c. Unauthorized Access to Checking Accounts

GAH did not establish policies and procedures to effectively restrict its employees' access to its bank accounts. During the audit period, GAH maintained eight bank accounts, and all checks drawn on these accounts required at least two authorizing signatures. The former Executive Director and the Board's Treasurer were authorized signers on all these accounts. A third signature, from the former Director of Human Resources, was required on checks drawn from the Worker's Compensation account. However, GAH did not ensure that only authorized employees signed disbursement checks from these accounts. Consequently, the former Director of Human Resources – who was authorized to sign for disbursements from some, but not all, of GAH's accounts – signed for disbursements from an account for which he was not an authorized signer.

Additionally, we found that GAH did not update its signature cards to inform its financial institutions when any authorized check signers resigned from GAH so that they could be

⁶ The GAH also controls a resident trust account that had a balance of \$21,563.93 as of December 31, 2011. This account is designated on GAH's balance sheet as "Assets Limited as to Use."

removed as authorized signatories from its bank accounts. Specifically, GAH's former Executive Director and the former Director of Human Resources both resigned from GAH in September 2012, but both remained authorized signatories on certain bank accounts until at least December 31, 2012. GAH officials were unaware of this situation until we brought it to their attention.

By not establishing adequate controls over check-signing authority, GAH placed its monetary assets at risk of fraud, as current and former employees could access bank accounts inappropriately and potentially issue checks payable to themselves or others for personal use.

After we provided GAH with a copy of our draft report, GAH took action to correct this problem, as described in its written response:

The Board of Directors approved by vote authorized employees to sign checks. A special meeting was held for the approval after the former Executive Director left. The Treasurer promptly removed [the former Executive Director's] and [the former Director of Human Resources'] signing authority with the facility's bank.

d. Ineffective Purchasing and Accounts-Payable Systems

GAH has not established an effective purchase order process for purchases of goods (e.g., over-the-counter medicines, maintenance supplies, office supplies) on which it spends tens of thousands of dollars annually. An effective purchase order system includes, among other things, the submission and approval of purchase requisitions, preparation and approval of purchase orders, and use of a purchase order numbering system to control the process. Additionally, once the purchased goods are received, an effective accounts-payable system requires proper approval of related invoices prior to payment. However, as described below, GAH was not operating effective purchasing and accounts-payable systems during the audit period.

Purchase orders typically include items such as (1) requestor, (2) requested goods and services, (3) potential suppliers, (4) quantity of items needed, and (5) signatures of the requestor and authorized approver. However, GAH simply allowed its employees to either verbally request items or leave notes with the purchasing manager indicating requested purchases.

Further, purchase order forms usually follow a sequential numbering system that enables users to control ordering, receiving, and paying for goods and services. However, GAH uses a generic purchase order that lacks sequential numbering. In lieu of a unique, pre-assigned number, GAH inserts an employee name on its purchase orders. For example, GAH inserts the name of its maintenance supervisor on all purchase orders for maintenance.

This non-systematic approach is ineffective when goods and services are delivered and employees need to match delivery receipts with corresponding purchase orders. With many orders marked with the same information instead of being assigned unique numbers, the process can become more time-consuming and thus more vulnerable to errors. Additionally, complications arise if incorrect or defective materials are delivered and require a return, because vendors typically require a unique purchase order number in order to generate a return authorization, trace the sale back to the original purchase order, and accurately credit an account.

We also found that GAH has not developed policies and procedures regarding who is authorized to request and/or approve transactions at each spending level. Such authority is typically established by an authoritative body, such as an entity's board of directors, at incremental levels (e.g., less than \$500, between \$500 and \$25,000, greater than \$25,000). At each incremental spending level, a different authorizing signature is required for approval. However, GAH has not designed a signing authority matrix to control purchases and payments for goods and services. In fact, we found a number of purchase orders and billing invoices that lacked any approval signatures. For example, the majority of purchases initiated by the former Executive Director during our audit period lacked any form of approval.

During the audit, the former CFO expressed similar concerns over GAH's purchasing and accounts-payable system. In fact, during the audit, the former CFO questioned whether items purchased by the maintenance department (e.g., paint, tools, air conditioners) were actually used for GAH projects. The former CFO's comments highlight the need for GAH to develop policies and procedures for purchasing and accounts payable.

GAH responded to this issue with written comments in which it stated, in part,

At the time of the audit there was no policy and procedures for these purchases. There is now a written policy and procedure in place and is being followed

An important note to make – pharmaceutical and over-the-counter medicines are ordered based upon doctor's orders. The doctor's orders must be followed.

e. Lack of Security over GAH Credit Cards and On-Account Purchases

GAH maintains three credit cards, from Sears, Staples, and the Home Depot, which its department managers and executive-level staff use to purchase office supplies and maintenance items. Additionally, GAH maintains an open line of credit at two local retailers, Haberman True Value Hardware and Sherwin-Williams. GAH's maintenance supervisor is authorized to purchase items on this line of credit. During the audit period, GAH's purchases from the Home Depot, Haberman True Value Hardware, and Sherwin-Williams totaled \$43,608, while purchases from Staples and Sears were for nominal amounts.

Although there are no formal written policies and procedures for the use and security of these cards, GAH officials stated that informal policies and procedures are in place that help secure and control the use of its credit cards. Specifically, each credit card is locked within an office safe when not needed for purchases, use is limited to department managers and executive-level staff, and spending limits are predetermined by the credit card companies.

However, while verifying GAH's credit card security measures, we found that the three credit cards were not in the designated office safe. Furthermore, GAH's accounting staff was not immediately able to determine which employees had the credit cards. GAH's staff was ultimately able to locate the cards, but a lack of enforcement of its informal security policy subjects GAH to potential unauthorized purchases.

Regarding the two local accounts, Haberman True Value Hardware and Sherwin-Williams, GAH provided these retailers with a list of employees authorized to make on-account purchases. We found that GAH implemented this control effectively and that only authorized users made purchases during the audit period. However, GAH has not implemented policies and procedures to ensure that items purchased on account were actually used at GAH. For example, during our audit period, GAH's maintenance department made frequent purchases (e.g., paint, wallpaper, lumber) that are necessary for

GAH's operations, but there are no control measures in place to ensure that employees were using the items for GAH instead of for personal purposes.

GAH responded to this issue with written comments in which it stated, in part,

Credit Cards were under the direct control of the former Executive Director and they were not safeguarded.

Currently all but one credit card had been canceled and is controlled by the Purchasing Director. The credit card is placed in a locked area under the control of the Purchasing Director. [When an employee is permitted to take the card out to make a purchase,] there is a log-out sheet whereby the Maintenance Director signs out the credit card and the Purchasing Director signs in when the credit card is returned. The credit card is for Home Depot and only the Maintenance Director can use it.

f. Deficiencies with Service-Provider Contracts

GAH has not implemented adequate internal controls over its administration of contracts with its service providers. Proper internal controls would ensure that (1) to the extent possible, competitive procurement processes are followed; (2) due diligence is performed to ensure that proper licensure, product requirements, and service needs will be met; (3) the contract is signed by both parties; and (4) terms, conditions, and length of service are detailed within contracts. During our audit, we reviewed all the documentation GAH was maintaining on the 23 service providers it used during our audit period and found that 8 provided services without a contract; 3 provided services even though their contracts were not properly signed; and 5 providers, whose contracts automatically renewed, had contracts that had not been reviewed and updated for extended periods of time.

Because it did not maintain adequate controls over its procurement activities for these services, GAH may not have received the best price and did not adequately protect itself from abuse or from any legal matters that may arise from the services. Below are three examples of contract deficiencies identified during the audit.

- In 2008, GAH signed a one-year contract with Waste Management to provide trash removal and recycling services. However, since 2009, GAH has allowed Waste Management to provide these services without a contract. In 2012, GAH paid Waste Management \$8,366.
- Since September 2011, an outside contractor has served as GAH's Medical Director. However, GAH allowed the Medical Director to treat residents without negotiating a

contract to specify (1) required medical services, (2) period of service, (3) compensation, (4) work hours, (5) professional liability insurance, (6) professional qualifications and licensure, and (7) use of GAH facilities and resources.

- In 2010, GAH outsourced its billing process in order to reduce processing time and improve its cash position. However, GAH did not negotiate a contract with the provider of these services, LTC Billing, specifying (1) required services, (2) term of service, (3) compensation, and (4) defined deliverables and responsibilities.

In its response, GAH indicated that it was in the process of correcting these contract deficiencies.

g. Inadequate Controls over Fixed Assets

Our audit found that GAH did not correctly calculate its fiscal year 2011 depreciation expense on the 23 fixed assets that it purchased in fiscal year 2010. While GAH's depreciation calculation for fiscal year 2010 was correct and based on owning these assets for a partial year, GAH did not report a full year's depreciation on these assets for fiscal year 2011 as required by GAAP. Consequently, GAH understated depreciation expenses, overstated income, and overstated fixed assets on its fiscal year 2011 financial statements by \$5,836. GAH's former CFO agreed with this finding. He also explained that depreciation calculations are performed manually and that the fiscal year 2010 depreciation expense was simply carried forward into fiscal year 2011 without adjusting for a full year's depreciation.

In addition, we found that GAH did not properly inventory its fixed assets, which totaled \$928,000 as of December 31, 2011. Before December 2009, for each new asset purchased, GAH (1) issued an asset control number, (2) affixed an asset tag, and (3) added an entry to the fixed-asset inventory list that documented each new asset's control number, description, acquisition date, cost, useful life, depreciation method, and building location. However, beginning in December 2009, GAH halted these control procedures. We also found that GAH did not take a physical inventory of its fixed assets during the audit period or maintain a list of assets that had been disposed of. Consequently, GAH neither safeguarded its assets against waste, fraud, and abuse nor ensured proper reporting of fixed-asset and depreciation balances on its financial statements. GAH officials told us that the agency did not have the staff resources necessary to properly maintain its inventory process.

GAH responded to this issue with written comments in which it stated, in part,

The depreciation expense is calculated manually using an excel spreadsheet.

There was a calculation error in fiscal year 2011 due to this manual error. GAH [sic] outside CPA firm failed to discover this error as well.

Effective with fiscal year 2013, two separate individuals will review the fixed asset depreciation schedule

Under the direction of the Chairwoman, the GAH will develop and implement a proper Fixed Asset – tag and log system whereby all fixed assets will be physically accounted for and then maintained and personnel trained.

GAH will begin this process ASAP.

An important note to make is that the majority of the fixed assets are fully depreciated and have very little scrap value.

Recommendation

In order to address our concerns over the lack of controls over its financial operations, we recommend that GAH take the following actions:

- Implement policies and procedures for its residential and operational bank accounts to ensure that these accounts are reconciled monthly and protected against potential fraud and abuse.
- Implement policies and procedures to ensure that only authorized employees sign checks, that the list of authorized signers is periodically reviewed for accuracy, and that banking responsibilities are segregated to maintain integrity within GAH's banking processes.
- Issue purchase orders in numerical sequence, which would enable GAH to track purchase orders and account for any that are missing, voided, or canceled. GAH should also review open purchase orders periodically and investigate out-of-sequence purchase orders.
- Establish policies and procedures to implement the Board's directive for a dollar threshold above which Board approval is required for bid requests, purchase orders, and payment of invoices.
- Create a control matrix that designates which GAH employees have authority to approve purchase orders, what dollar limits are imposed on their authority, and at what dollar amounts a second approving signature is required. Establish a similar matrix to designate employees who have authority to approve invoice payments and any limits to their authority.
- Implement policies and procedures for credit cards to ensure that authorized users return credit cards promptly, that credit cards are stored within a secure device upon return, and that credit cards are used solely for allowable purposes. In addition, GAH should develop a

tracking system to ensure that items purchased on an open account are used for GAH projects and employees do not use these items for personal purposes.

- Develop policies and procedures to ensure that contracts are prepared for all vendor services. Ensure that contracts are dated and signed by authorized representatives of the contracting parties and specify all relevant terms and conditions, including, but not limited to, term of contract, compensation, invoicing and payment, warranty, defaults and terminations, change orders, and special requirements. In addition, GAH should establish policies and procedures to protect its financial interests by selecting all its service providers through a competitive bid process and by updating and renegotiating contract terms and conditions when renewing contracts with existing service providers.
- Establish policies and procedures to ensure accurate reporting of fixed assets and accumulated depreciation balances. GAH should also establish procedures to protect and secure fixed assets against fraud and abuse, including, but not limited to, issuing unique asset control numbers; affixing control tags to assets; and maintaining a fixed-asset inventory record that identifies purchase price, useful life, depreciation, and location for each new asset purchased. In addition, GAH should establish policies and procedures for conducting an annual inventory of fixed assets.

Auditee's Response

GAH provided general comments on our audit recommendations; we have excerpted those comments below:

All bank reconciliations are current and a policy will be established along with other needed policies for the GAH by the Board of Directors – Policy & Legal Committee

GAH [sic] banking institution requires a Resolution to be ratified by the Board of Directors for any changes to authorized signers on any bank account. The Board will review the signers on GAH bank accounts on an annual basis

GAH has implemented a Purchase Order system that complies with a numerical sequence for tracking purchase orders to identify any missing, voided or canceled orders. Further, additional safeguards are in place for the sign-off of invoices and attachment of receiving documents to ordered invoices

GAH has established a policy and procedure that establishes a \$25,000 threshold which requires Board approval for bid and purchased items. Contracts above \$25,000 are approved by the Board of Directors

GAH has created a control matrix for authority and dollar limits on purchase orders

Purchases are made only by Department Heads or Managers. Any unusual items are questioned and verified for the need to purchase. Any tools or other like items that are purchased, can only be replaced when the old item is returned

GAH is in process to develop the policy and procedures necessary to comply with this [contracts for all vendors] suggestion.

Important to note – It is not advantageous to have contract with all vendors, because it takes away the ability to negotiate with multiple vendors. There is quite a saving that can be realized when employing this method.

GAH – Board of Directors – Policy and Legal Committee is in process with this

GAH is in process of establishing policies and procedures to implement a proper Fixed Asset – tag and log system whereby all fixed assets will be physically accounted for and then maintained and personnel trained.

Auditor's Reply

Based on GAH's response, it appears that the Authority's Board and Executive Director are taking appropriate action to resolve most of our audit findings. However, we do not agree with GAH's assertion that it is not advantageous to have contracts with all vendors, since, as stated in our report, such contracts serve to protect the interests of all involved parties. Therefore, we again recommend that GAH have contracts in place for all service providers.

3. GAH RECEIVED QUESTIONABLE STATE FUNDING TOTALING \$150,056

Under 101 CMR 206.06, the Executive Office of Health and Human Services (EOHHS) provides payments called Certified Public Expenditure (CPE) payments to nursing facilities, such as GAH, that are owned and operated by a municipality, for a nursing home's public expenditures for providing Medicaid services to eligible Medicaid recipients. EOHHS promulgated regulations governing CPE payments under 101 CMR 206.06(2), excerpted below:

206.06 Other Payment Provisions

(2) Certification of Public Expenditures of a Nursing Facility owned and operated by a municipality.

(a) Within 60 days after the filing of its Medicare CMS-2540 cost report, a Nursing Facility, which is owned and operated by a municipality, may submit a request for Certified Public Expenditures (CPE) to EOHHS. This CPE will account for its public expenditures of providing Medicaid services to eligible Medicaid recipients. The submission shall be based on the inpatient routine service cost reported on the CMS-2540 Medicare cost report.

(b) Following review of the Nursing Facility's submission, EOHHS will, within 60 days of the submission, approve, deny, or revise the amount of the CPE request based upon its evaluation of the reported costs and payments. The final approved amount will be equal to the difference between the Medicaid interim payments and the total allowable Medicaid costs as determined by EOHHS. This final determined amount will be certified by the municipality as eligible for federal match.

During our audit period, GAH received two CPE payments, totaling \$150,056, from EOHHS. CPE payments are calculated using a formula based in part on the amount of public funds a public nursing facility receives to fund its operations. The first CPE payment totaled \$38,351 for the last four months of calendar year 2009; the second payment totaled \$111,705 for all of calendar year 2010. As part of its CPE requests, GAH submitted a Certification of Public Expenditures to EOHHS signed by both the former Executive Director and the Mayor of Holyoke. Within the two CPE requests, GAH stated that it had received appropriations from the City totaling \$186,295 and \$181,368 for calendar years 2009 and 2010, respectively, for a total of \$367,663. These reported appropriations were used to determine how much GAH's two CPE payments would be. However, we obtained both written and verbal evidence indicating that the reported appropriations were not public expenditures but amounts GAH owed to the City. Therefore, based on 101 CMR 206.06, they may not have been eligible for these CPE payments from EOHHS. Specifically, the City Treasurer gave us a document titled "[GAH] Debt to the City as of 02/19/2013" indicating that GAH owes the City \$988,448 for "City Covered Health and Life Payments." This amount is GAH's portion of health, dental, and life insurance for its active retirees. Included in this amount are the \$186,295 and \$181,368 that GAH reported on its CPE application as appropriations from the City. The Treasurer emphasized that the two amounts were not appropriations, but amounts paid by the City to maintain continued coverage for GAH's active retirees. The Treasurer further explained that to prevent cancellation of the policy, which covers both City employees and active retirees, the City must pay all applicable premiums and obtain reimbursement from GAH for participating in the plan.

However, GAH's Executive Director believes that the \$186,295 and \$181,368 do not reflect debts to the City. The Executive Director explained to us that he considered these payments appropriations rather than debts because GAH has participated in this group insurance plan for more than 40 years, but that the City started billing GAH the cost of the appropriations / public expenditures in 2007 without explanation.

This issue raises questions about the validity of GAH's two CPE payments and affects the financial statements of both GAH and the City. If the \$186,295 and \$181,368 actually represent GAH debts to the City, then the liabilities reported on GAH's balance sheet are understated by these same amounts. In addition, given GAH's tenuous financial position, adding any debt – not

only repaying the two debts to the City, but also returning the amount of the CPE payments to EOHHS – would raise further questions about its financial viability.

During the audit, we brought this matter to EOHHS's attention. EOHHS officials indicated that any additional CPE payments to GAH would be withheld until the situation between the City and GAH is resolved. In addition, on April 17, 2013, the Center for Health Information and Analysis informed GAH,

The Office of the State Auditor (OSA) has notified EOHHS of an ongoing audit at the facility. Pending the final audit results of the OSA audit, the April 3, 2013, CPE notice and proposed payment are being rescinded.

Recommendation

GAH and City officials should obtain a legal opinion as to whether the \$367,663 reported on GAH's Certification of Public Expenditures as City appropriations actually represents such appropriations or is money due the City from GAH. Once this matter is resolved, GAH should provide all relevant documentation to EOHHS. In addition, if the amounts in question are not appropriations, then EOHHS should take the measures it deems necessary to resolve this matter.

Auditee's Response

The Board and Management retained legal counsel which specialized in Health Care law to help complete the CPE in question. At that time the board worked very closely with Rep Kane and Sen. Knapik, our counsel and Health and Human Services to secure this funding. All of this was reviewed by counsel and HHS and was approved for payment.

This continues to be investigated by GAH legal council [sic] and city officials.

Auditor's Reply

After we completed our field work, the City Treasurer notified us of communication between EOHHS and the City on this matter. In a letter dated April 23, 2013, EOHHS requested confirmation from the City that the \$62,268⁷ and \$181,368 reported by GAH as appropriations from the City is accurate. The City's response to EOHHS, in a letter dated April 29, 2013, states,

⁷ Although GAH's application for CPE payments reported that it had received \$186,295 and 181,368, respectively, in appropriations from the City during fiscal years 2009 and 2010, EOHHS only considered the last four months of the amount reported for fiscal year 2009 in its calculation of GAH's CPE payments. The amount for that four months was \$62,268.

The city adamantly denies that any appropriation was made to the GAH, as was claimed by the Executive Director, in the April 26, 2012 fillings. In fact, the numbers she used in her "Certification of Public Expenditure" match the amount the city claims is owed for the Employers Portion of Health, Dental, & Life Insurance premiums for its active retirees

Based on this correspondence, the validity of the CPE payments provided to GAH is still in question. GAH and the City must resolve this matter and report their final determination to EOHHS with supporting documentation. This will enable EOHHS, if warranted, to commence recovery of any inappropriate CPE payments made to GAH.

APPENDIX A

Geriatric Authority of Holyoke Summary of Income and Expenses Calendar Years 2009 to 2011

	2009	2010	2011	Average
<u>Revenue</u>				
Medicaid	\$ 3,372,654	\$ 3,504,983	\$ 4,308,947	
Medicare	1,267,498	1,672,824	1,133,679	
Hospice	410,273	261,401	170,171	
Private pay	326,632	1,035,141	699,249	
Other	519,242	361,136	539,342	
Total revenue	<u>5,896,299</u>	<u>6,835,485</u>	<u>6,851,388</u>	
<u>Expenses</u>				
Nursing	2,133,983	2,196,703	2,198,635	
Dietary	566,544	571,827	577,791	
Medical services	417,987	506,563	465,154	
Adult health and transportation	393,698	421,392	506,947	
Physical therapy	338,016	567,481	520,561	
Housekeeping	260,253	269,522	283,263	
General and administrative	1,554,342	1,752,054	1,508,834	
Plant and operations	554,603	588,731	586,410	
Fees and interest	311,061	449,472	489,411	
Depreciation	188,330	181,597	188,935	
Total operating expenses	<u>6,718,817</u>	<u>7,505,342</u>	<u>7,325,941</u>	
Extraordinary loss		404,143		
Net income (loss)	<u>(822,518)</u>	<u>(1,074,000)</u>	<u>(474,553)</u>	<u>(790,357)</u>
Restated income statements to reflect expenses paid by City of Holyoke				
Employer's portion of active employee's retirement contributions	101,493	105,553	109,775	
Employer's portion of health, dental, and life insurance for active retirees	186,295	181,368	175,910	
Holyoke Gas & Electric	123,565	123,565	61,782	
Payment in Lieu of Taxes	30,000	30,000	30,000	
Total additional expenses	<u>441,353</u>	<u>440,486</u>	<u>377,467</u>	
Restated net income (loss)	<u>(\$ 1,263,871)</u>	<u>(\$ 1,514,486)</u>	<u>(\$ 852,020)</u>	<u>(\$ 1,210,126)</u>

APPENDIX B

Areas of Potential Cost Savings Anticipated by the Geriatric Authority of Holyoke's Executive Director

Area/Item	Potential Savings
Consultants/Contractors	
Contract with a new physical therapy provider	\$ 80,000
Eliminate the second Medical Director position	50,000
Eliminate the Public Relations Consultant position	35,000
Eliminate special counsel for legal matters	16,000
Improved Resource Use and Personnel Savings	
Ensure that union contract negotiations are conducted by Board chairperson instead of an attorney	60,000
Ensure that Probate Court hearings are handled by newly hired Social Services Director, who has a law degree	15,000
Eliminate the Director of Human Resources position	36,000
Implement staffing changes/reorganization to save money on salaries	30,000
Other Proposed Cost Savings	
Eliminate the PILOT	30,000
Reduce supplier costs	<u>20,000</u>
Total Cost Savings Proposed	<u>\$ 372,000</u>