



Office of Missouri State Auditor
Nicole Galloway, CPA

Ray County Memorial Hospital



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Missouri State Auditor

CITIZENS SUMMARY

Findings in the audit of Ray County Memorial Hospital

Bonuses	The Board approved annual year-end payments to all hospital employees starting in 2013 and continuing through 2016, in violation of the Missouri Constitution. Including additional payroll taxes, these payments totaled over \$133,000 from 2013 through 2016.
Sunshine Law	The Board did not always comply with the Sunshine Law. Open meeting minutes did not always document the reason and specific section of law allowing the meetings to be closed. Meeting minutes for closed sessions did not always include sufficient details of the topics discussed.

In the areas audited, the overall performance of this entity was **Good**.*

*The rating(s) cover only audited areas and do not reflect an opinion on the overall operation of the entity. Within that context, the rating scale indicates the following:

- Excellent:** The audit results indicate this entity is very well managed. The report contains no findings. In addition, if applicable, prior recommendations have been implemented.
- Good:** The audit results indicate this entity is well managed. The report contains few findings, and the entity has indicated most or all recommendations have already been, or will be, implemented. In addition, if applicable, many of the prior recommendations have been implemented.
- Fair:** The audit results indicate this entity needs to improve operations in several areas. The report contains several findings, or one or more findings that require management's immediate attention, and/or the entity has indicated several recommendations will not be implemented. In addition, if applicable, several prior recommendations have not been implemented.
- Poor:** The audit results indicate this entity needs to significantly improve operations. The report contains numerous findings that require management's immediate attention, and/or the entity has indicated most recommendations will not be implemented. In addition, if applicable, most prior recommendations have not been implemented.

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Ray County Memorial Hospital

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NICOLE GALLOWAY, CPA
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Honorable Eric Greitens, Governor
and
Ray County Memorial Hospital Board of Trustees
and
Ray County Commission
Richmond, Missouri

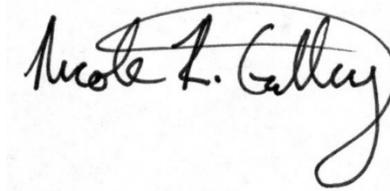
We have audited certain operations of the Ray County Memorial Hospital in fulfillment of our duties under Chapter 29, RSMo. This audit is included in a series of rural health care audits, which focus on financial and operating best practices at various acute care facilities that are critical to their local community. The objectives of our audit were to:

1. Evaluate internal controls over significant management and financial functions as they relate to the financial condition of the care facility.
2. Evaluate compliance with certain legal provisions as they relate to the financial condition of the care facility.
3. Evaluate the economy and efficiency of certain management practices and operations, including certain financial transactions, as they relate to the financial condition of the care facility.

We conducted our audit in accordance with the standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform our 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 such a basis.

The accompanying Organization and Statistical Information is presented for informational purposes. This information was obtained from the hospital's management and was not subjected to the procedures applied in our audit.

For the areas audited, we identified (1) no significant deficiencies in internal controls, (2) noncompliance with legal provisions, and (3) no significant deficiencies in management practices and procedures. The accompanying Management Advisory Report presents our findings arising from our audit of the Ray County Memorial Hospital.

A handwritten signature in black ink, reading "Nicole R. Galloway". The signature is written in a cursive style with a large, looping flourish at the end of the name.

Nicole R. Galloway, CPA
State Auditor

The following auditors participated in the preparation of this report:

Director of Audits:	Robert E. Showers, CPA, CGAP
Audit Managers:	Corey McComas, M. Acct, CPA Travis Owens, MBA, CPA, CFE, CGAP
In-Charge Auditor:	Matthew Schulenberg, CFE
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Ray County Memorial Hospital

Introduction

Background

On August 4, 1954, Ray County voters approved a \$497,000 revenue bond issue to be funded by a property tax levy for the construction of a new hospital in Richmond, Missouri. The hospital also acquired \$135,000 in federal and state aid, and multiple donations and gifts from the public, including real estate, to help fund the construction of the hospital. The hospital opened on January 15, 1957, with the first patient admitted the same day.

In March 1967, Ray County voters approved a property tax levy increase of \$0.07 per \$100 of assessed valuation to help increase the hospital from 36 beds to 65 beds. In early 1975, the hospital retired the last of the original bonds issued and eliminated the additional property tax levy. On November 4, 1987, voters approved a \$3.2 million revenue bond issue to perform a major renovation of the hospital. The planned expansion included a new emergency room area, two new surgical units, a new x-ray department, a new physical and occupational therapy department, and a new entrance and lobby. In August 1997, the Missouri Health Facilities Review Committee approved another expansion of the hospital at an estimated cost of \$7.4 million, which included a \$5 million revenue bond issue. Those bonds were retired in 2007.

The hospital was designated as a critical access hospital (CAH) in 2005. The CAH designation was created by Congress in the 1997 Balanced Budget Act in response to hospital closures in the late 1980s and early 1990s. The designation is given by the Centers for Medicare and Medicaid Services (CMS) to certain rural hospitals meeting specific criteria. The primary eligibility requirements for CAH designation are the hospital must (1) have 25 or fewer acute care inpatient beds, (2) be located more than 35 miles from another hospital, (3) maintain an annual average length of stay of 96 hours or less for acute care patients, and (4) provide 24/7 emergency care services. The CAH designation is designed to reduce the financial vulnerability of rural hospitals and improve access to healthcare by keeping essential services in rural communities. The hospital is one of 36 CAHs in Missouri and is licensed for 25 acute care beds.

Scope and Methodology

The scope of our audit included, but was not necessarily limited to, the hospital's fiscal year ending October 31, 2016.

We reviewed payroll records and expenditure documentation of the hospital. Our review of payroll records included a review of salaries and wages paid to all employees. Our review of expenditure documentation included a review of space leased from or to other entities, as well as a general review of other expenditures.



Ray County Memorial Hospital Introduction

Our methodology also included conducting interviews with appropriate hospital personnel and reviewing Board of Trustees (Board) meeting minutes and other pertinent documents.

We obtained an understanding of the internal controls that are significant within the context of the audit objectives and assessed whether such controls have been properly designed and placed in operation. We obtained an understanding of legal provisions that are significant within the context of the audit objectives, and we assessed risk that illegal acts, including fraud, and violation of applicable contract or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting instances of noncompliance significant to those provisions.

Ray County Memorial Hospital

Management Advisory Report

State Auditor's Findings

1. Bonuses

The Board approved annual year-end payments to all hospital employees starting in 2013 and continuing through 2016, in violation of the Missouri Constitution. The meeting minutes indicate the payments to each employee were \$100 net pay in 2013, \$125 net pay in 2014 and 2015, and \$150 net pay in 2016. Including additional payroll taxes, these payments totaled over \$133,000 from 2013 through 2016. The payments, which were not associated with any established incentive program and were paid equally to all employees, represent bonus compensation for services previously rendered.

Payments for services previously rendered are in violation of Article III, Section 39, of the Missouri Constitution, and contrary to Attorney General's Opinion 72-1955 (June 14, 1955), which states, "...a government agency which derives its power and authority from the Constitution and laws of this state would be prohibited from granting extra compensation in the form of bonuses to public officers or servants after the service has been rendered."

Recommendation

The Board ensure all employee compensation is in compliance with state law.

Auditee's Response

The Board will require the CEO and CFO to follow the law concerning employee compensation. Ray County Memorial Hospital will ask that its independent auditors look at this on an annual basis.

2. Sunshine Law

The Board did not always comply with the Sunshine Law.

2.1 Reasons for closed meetings

Open meeting minutes did not always document the reason and specific section of law allowing the meetings to be closed. The Board generally meets monthly and enters closed session during most meetings. We noted numerous instances where a motion was made to go into closed session; however, the open minutes did not indicate the reason and specific statute section allowing the Board to enter closed session.

Section 610.022, RSMo, of the Sunshine Law, requires public bodies announce the specific reasons allowed by law for going into a closed session and to enter the vote and reason into the minutes. The section also limits discussion topics and actions in closed meetings to only those specifically announced prior to closure.

2.2 Insufficiently detailed meeting minutes

Meeting minutes for closed sessions did not always include sufficient details of the topics discussed. We noted two instances where closed session minutes did not include any details about the topics discussed, and as a result, we were unable to determine if the discussion was restricted to only allowable topics.



Ray County Memorial Hospital
Management Advisory Report - State Auditor's Findings

Such documentation is important to both demonstrate compliance with statutory provisions and provide information for future reference should concerns or questions be raised regarding topics addressed in closed meetings. Sections 610.020 and 610.021, RSMo, provide requirements regarding closure of meetings and documentation.

Recommendations

The Board:

- 2.1 Ensure the reason for closing a meeting and the specific section of law allowing the meeting to be closed are documented in the open meeting minutes.
- 2.2 Ensure closed meeting minutes include sufficient detail necessary to provide a complete record of all significant matters discussed and actions taken.

Auditee's Response

- 2.1 *The Board will announce the section of the law that justifies a closed session. A copy of the Sunshine Law will be in the room where the Board is meeting for reference.*
- 2.2 *Sufficient details of the topics discussed in the closed session will be recorded in the closed session minutes.*

Ray County Memorial Hospital

Organization and Statistical Information

Ray County Memorial Hospital is headed by a five-member board. Each member is voted to a 4-year term. As of October 31, 2016, the Ray County Memorial Hospital Board of Trustees consisted of the following members:

Member	Term Expires
Valerie Miller, Chairman	April 2021
Tom King, Vice Chairman (1)	April 2017
Dale Maddux, Secretary	April 2019
Dale Vandiver, Treasurer	April 2018
Dr. John Scowley, Trustee	April 2020

(1) Ronnie Russell was elected to the Board in April 2017 and replaced Tom King.

The hospital provides medical services, such as cardiac rehabilitation, emergency services, inpatient care, dietician services, home health services, laboratory services, oncology services, outpatient clinic services, physical therapy services, radiology services, and respiratory therapy services in Ray County.

Earl Sheehy has served as CEO of the hospital since June 30, 2014.

At October 31, 2016, the hospital employed 192 full-time employees, 8 part-time employees, and 42 as needed employees.

Ray County Memorial Hospital

Statement of Revenues, Expenses, and Changes in Net Position

This appendix documents Ray County Memorial Hospital's audited financial statement for the fiscal year ended October 31, 2016.

Operating Revenues	
Patient service revenue	\$ 26,910,510
Provision for bad debts	<u>(3,524,371)</u>
Net patient service revenue	23,386,139
Other operating revenues	200,287
Loss on disposal of capital assets	<u>(26,026)</u>
Total operating revenues	<u>23,560,400</u>
Operating Expenses	
Salaries and wages	9,920,291
Employee benefits	3,899,924
Medical professional fees	2,916,852
Other professional fees	132,684
Supplies and other	4,025,445
Depreciation and amortization	939,667
Insurance	<u>197,328</u>
Total operating expenses	<u>22,032,191</u>
Operating Income (Loss)	<u>1,528,209</u>
Non-operating Revenues (Expenses)	
Interest expense	(6,004)
Investment income	151,831
Noncapital grants and contributions	21,533
Property tax appropriations - Ray County	585,982
Rental income	<u>120,449</u>
Total non-operating revenues	<u>873,791</u>
Increase (Decrease) In Net Position	<u>2,402,000</u>
Net Position, Beginning of Year	32,590,644
Net Position, End of Year	<u>\$ 34,992,644</u>

Source: Ray County Memorial Hospital's audited Statement of Revenue, Expenses, and Changes in Net Position for fiscal year 2016.

Ray County Memorial Hospital Critical Access Hospital Average Comparison

This appendix compares Ray County Memorial Hospital's revenues per bed, payroll expense per bed, Medicare governmental revenues per Medicare discharge, occupancy rate, and federal revenues as a percent of total revenues to the CAH statewide average for fiscal years 2013, 2014, and 2015.

Data provided by the Missouri Department of Health and Senior Services indicates that as of May 4, 2017, there are 36 CAHs in Missouri. The CAH designation was created by Congress in the 1997 Balanced Budget Act in response to hospital closures in the late 1980s and early 1990s. The designation is given by the Centers for Medicare and Medicaid Services (CMS) to certain rural hospitals meeting specific criteria. The primary eligibility requirements for CAH designation are the hospital must (1) have 25 or fewer acute care inpatient beds, (2) be located more than 35 miles from another hospital, (3) maintain an annual average length of stay of 96 hours or less for acute care patients, and (4) provide 24/7 emergency care services. Some benefits of hospitals obtaining the CAH status include (1) cost-based reimbursement from Medicare (as of January 1, 2004, CAHs are eligible for allowable costs plus 1% reimbursement); (2) required networking with an acute care hospital, which can provide support to the CAH and allow for transfer of more acute patients; (3) flexible staffing and services; (4) capital improvement costs included in allowable costs for determining Medicare reimbursement; and (5) access to educational resources and technical assistance and/or grants.

	2015			2014			2013		
	Ray County Memorial Hospital	CAH Statewide Average	Percent of CAH Statewide Average	Ray County Memorial Hospital	CAH Statewide Average	Percent of CAH Statewide Average	Ray County Memorial Hospital	CAH Statewide Average	Percent of CAH Statewide Average
Revenues Per Bed ¹	\$904,895	892,973	101.3%	812,319	843,668	96.3%	822,991	778,522	105.7%
Payroll Expense Per Bed ²	\$380,996	378,908	100.6%	364,091	364,963	99.8%	346,780	328,062	105.7%
Medicare Governmental Revenues Per Medicare Discharge ³	\$41,474	54,421	76.2%	32,864	54,768	60.0%	36,081	45,647	79.0%
Occupancy Rate ⁴	25.9%	32.2%		25.6%	32.0%		19.8%	31.1%	
Federal Revenues as a Percent of Total Revenues ⁵	59.6%	59.7%		62.4%	63.5%		62.8%	60.7%	

Source: Missouri Department of Health and Senior Services and SAO calculations

¹Revenues per bed = (total net patient revenue / number of staffed beds).

²Payroll expense per bed = (total payroll expenses / number of staffed beds).

³Medicare governmental revenues per Medicare discharge = (total Medicare governmental revenues / number of Medicare discharges).

⁴Occupancy rate = (inpatient days * 100) / (licensed bed capacity * 365).

⁵Federal revenues as a percent of total revenues = (Medicare revenues + Medicaid revenues) / (Medicare revenues + Medicaid revenues + total non-government revenues).