OFFICES OF THE
STATE AUDITOR OF MISSOURI
JEFFERSON CITY

CONTRACTUAL AGREEMENT BETWEEN DEPARTMENT OF HEALTH AND HOSPITALS CITY OF ST. LOUIS, MISSOURI AND ST. LOUIS REGIONAL HEALTH CARE CORPORATION

THREE YEARS ENDED JUNE 30, 1989

MARGARET KELLY, CPA

Report No. 90-91
September 18, 1990

CONTRACTUAL AGREEMENT BETWEEN
DEPARTMENT OF HEALTH AND HOSPITALS
CITY OF ST. LOUIS, MISSOURI
AND
ST. LOUIS REGIONAL HEALTH CARE CORPORATION

TABLE OF CONTENTS

STATE AUDITOR OF MISSOURI
JEFFERSON CITY, MISSOURI 65102

MARGARET KELLY, CPA
STATE AUDITOR

(314) 751-4824

The Honorable Vincent C. Schoemehl Jr., Mayor
and
Dr. William Kincaid, Director
Department of Health and Hospitals
City of St. Louis, Missouri 63103

The State Auditor was petitioned under Section 29.230, RSMo 1986, to perform an audit of the city of St. Louis, Missouri. Accordingly, we have conducted a review of the contractual agreement between the Department of Health and Hospitals, city of St. Louis, and the St. Louis Regional Health Care Corporation. Our examination included a review of operations for the year ended June 30, 1987. In addition, a review of the systems and related controls in effect during the two years ended June 30, 1989, was conducted. The purposes of our audit were to:

1. Review probable compliance with certain contractual provisions as deemed necessary or appropriate.

2. Perform a limited review of the integrity and completeness of the St. Louis Regional Medical Center's year-end settlement computation for the years ended June 30, 1988 and 1987.

3. To determine the efficiency and effectiveness of the St. Louis Regional Medical Center operations which may affect the city's financial liability.

4. Review the adequacy of the city's involvement in and monitoring of contractual provisions, the settlement computation and the St. Louis Regional Medical Center's operations.

5. Perform procedures deemed necessary to evaluate petitioner concerns.

Our review was made in accordance with generally accepted government auditing standards and included such procedures as we considered necessary in the circumstances. In this regard, we reviewed the St. Louis Regional Medical Center's payroll procedures and documents, expenditures, contractual agreements, and other pertinent procedures and documents; interviewed personnel of the Department of Health and Hospitals and the St. Louis Regional Medical Center; and compiled the information in the appendix from the department's records and reports. The data presented in the appendix was obtained from the city's

and St. Louis Medical Regional Center's accounting systems. However, it was not verified by us via additional audit procedures and, therefore, we express no opinion on it.

The accompanying History and Organization is presented for informational purposes. This background information was obtained from the department and the St. Louis Regional Medical Center's management and was not subject to the auditing procedures applied in our audit.

Our comments on management practices and related areas are presented in the accompanying Management Advisory Report.

Margaret Kelly

Margaret Kelly, CPA
State Auditor

March 30, 1990

HISTORY AND ORGANIZATION

CONTRACTUAL AGREEMENT BETWEEN DEPARTMENT OF HEALTH AND HOSPITALS CITY OF ST. LOUIS, MISSOURI AND ST. LOUIS REGIONAL HEALTH CARE CORPORATION HISTORY AND ORGANIZATION

The city of St. Louis contracts with the St. Louis Regional Health Care Corporation (SLRHCC), a not-for-profit corporation, for the provision of hospital and clinic services to indigent city patients. Through an agreement with St. Louis County, the city pays SLRHCC based on the proportion of city and county residents use in relation to the hospital's costs and revenues.

Prior to contracting with the SLRHCC, the city provided indigent hospital care through Max C. Starkloff and Homer G. Phillips Hospitals. Homer G. Phillips Hospital was closed in 1979 for costs containment reasons. In 1983, the Joint Commission on Accreditation of Hospitals refused accreditation to Max C. Starkloff Hospital, threatening the loss of the city's primary hospital funding source, federal medicare and medicaid reimbursements. The city then studied its options for providing health care to the city's indigent population. In June 1985, Mayor Schoemehl announced the contractual arrangement with the SLRHCC. Starkloff Hospital was immediately closed and patients were moved to the St. Louis Regional Medical Center (SLRMC). The contract between the city and the SLRHCC was finalized on September 30, 1985. St. Louis County entered into a similar agreement with the SLRHCC on October 25, 1985.

The start up of SLRMC presented a difficult and complex challenge. When Starkloff Hospital was closed in June 1985, patients were moved immediately to the new SLRMC. Only a few days were available to plan and initiate new operations at the Delmar facility and to start implementation of the concept of a regional medical center. A national hospital management firm, National Medical Enterprises, Inc. (NME), was retained to manage the move into the Delmar facility in June and to organize management and operations of the acute care facility. By the end of 1985, it was determined to replace NME personnel with full-time management and staff employed by SLRHCC. Progress has been rapid since that time. Adequate funding levels have been accomplished, operations and financial status of SLRMC have been stabilized, and delivery of medical care has improved consistently. The SLRMC now ranks favorably with other hospitals of its size according to national guidelines on quality of care and medical outcome. Despite the initial challenge and complexities, Regional rapidly achieved its goal of serving the indigent according to the highest professional standards.

The building that houses the SLRMC was purchased by the SLRHCC from Charter Medical Corporation in September 1985. The purchase and renovation of the building was financed through $21.8 million in Land Clearance Redevelopment Authority bonds issued in December 1985.

The SLRMC operations are governed by a fifteen member Board of Directors. Board members are not compensated for their service. The Chairman is the joint nominee of the County Executive and the city of St. Louis Mayor. Seven of the remaining board members are nominated by the mayor and seven are selected by the county. At December 31, 1989, Robert Hyland served as Chairman of the board. City-appointed members were:

W. Lynton Edwards
Robert Frank
William Kincaid, M.D.
Julian C. Mosley Jr., M.D.
Monsignor Sol Polizzi
Virginia V. Weldon, M.D.
Parker Word, M.D.

MANAGEMENT ADVISORY REPORT

CONTRACTUAL AGREEMENT BETWEEN
DEPARTMENT OF HEALTH AND HOSPITALS
CITY OF ST. LOUIS, MISSOURI
AND
ST. LOUIS REGIONAL HEALTH CARE CORPORATION
SUMMARY OF FINDINGS

1. Annual Settlement Procedures (pages 10–11)

   The final settlement did not reflect the transactions as recorded in the books and records of the medical center. The city did not receive credit for $8,228 of interim payments for the 1988 fiscal year.

2. Contract Between the City of St. Louis and the St. Louis Regional Medical Center (pages 11–13)

   The city violated contractual provisions by eliminating the 15 percent contingency appropriation from the year ended June 30, 1989 budget.

3. Eye Associates Arrangement (pages 13–14)

   The monthly rental agreement was not evaluated for proper rental charge until five years after the agreement's inception. Further, the accounting method to monitor rental payments and pay for optical services was inadequate.

4. Professional Services Corporation Arrangement (pages 14–16)

   The written agreement did not contain all relevant terms and, in addition, the St. Louis Regional Medical Center (SLRMC) did not comply with all contract provisions resulting in $12,000 due to SLRMC from the corporation. The basis for allocating professional income was not documented and the SLRMC did not verify the Professional Services Corporation allocations for the 1987 fiscal year.

5. Agreements with St. Luke's Hospital (pages 16–17)

   Agreements dating to 1985 were not placed in writing until July 1989.

6. Medical Records Copying Agreement (pages 17–18)

   The agreement is not written. Until December 1989, the SLRMC did not maintain a record of information copied, the payment to be received, and outstanding receivable amounts.

7. Other Agreements (page 19)

   The funding arrangement for the construction of the prisoner ward was not in writing and will result in the city paying in excess of the verbally agreed amount.

8. Billing Policy and Procedures (pages 19–20)

The billing goal was not written until April 1989 and the goal was not consistently obtained.

9. Collection Efforts and Write Off Policies (pages 20–23)

The SLRMC did not sufficiently document referral of indigent patients to the Division of Family Services for medicaid application. Independent written authorization was not documented for accounts receivable cancellations.

10. Third Party Payments (pages 23–24)

The SLRMC did not have an effective tracking system related to possible medicare and private insurance payment denials.

11. Expenditure Policies and Procedures (pages 24–30)

Expenditures were not consistently supported by invoices, receiving reports, and purchase orders.

12. Employee Related Expenditures (pages 30–31)

Certain policies and procedures concerning employee related expenditures had not been developed to provide assurance that costs were reasonable, necessary, and actually incurred. Some expenditures appeared to relate only to employee relations.

13. Safeguarding Bank Accounts (page 31)

Bank balances exceeding the $100,000 Federal Deposit Insurance Corporation coverage were not adequately secured.

14. Payroll Procedures (pages 31–32)

There was an inadequate segregation of duties concerning payroll record keeping and check handling.

15. Electronic Data Processing Procedures and Controls (pages 32–33)

The SLRMC did not have a written agreement for the use of backup facilities in the event of electronic data processing (EDP) system failure. Also, the SLRMC's EDP controls and procedures were not adequate to ensure the completeness and accuracy of data entered.

CONTRACTUAL AGREEMENT BETWEEN DEPARTMENT OF HEALTH AND HOSPITALS CITY OF ST. LOUIS, MISSOURI AND ST. LOUIS REGIONAL HEALTH CARE CORPORATION MANAGEMENT ADVISORY REPORT

As part of our review of the contractual agreement between the Department of Health and Hospitals, city of St. Louis and the St. Louis Regional Health Care Corporation (SLRHCC) for the three years ended June 30, 1989, we studied and evaluated the internal accounting control system of the department to the extent needed to evaluate the system as required by generally accepted government auditing standards. For the purpose of this report, we have classified the significant internal accounting controls as cash, payroll, revenues, and expenditures. Our study included each of these control categories. Since the purpose of our study and evaluation was to determine the nature, timing, and extent of our audit procedures, it was more limited than would be needed to express an opinion on the internal accounting control system taken as a whole.

It is management's responsibility to establish and maintain the internal control system. In so doing, management assesses and weighs the expected benefits and related costs of control procedures. The system should provide reasonable, but not absolute, assurance that assets are safeguarded against loss, and that transactions are carried out as authorized by management and are recorded in a manner that will permit the subsequent preparation of reliable and proper financial reports.

Because of the inherent limitations in any internal control system, errors or irregularities may still occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation was made for the limited purpose described in the first paragraph and, thus, might not disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the internal accounting control system of the city taken as a whole. However, our study and evaluation disclosed certain conditions that we believe are material weaknesses and these findings are presented in this report.

We reviewed probable compliance with certain contractual provisions, constitutional provisions, statutes, ordinances, and attorney general's opinions as we deemed necessary or appropriate. This review was not intended to provide assurance of full compliance with all regulatory provisions and, thus, did not include all regulatory provisions which may apply. However, our review disclosed certain conditions that may represent noncompliance and these findings are presented in this report.

During our review, we identified certain management practices which we believe could be improved. Our review was not designed or intended to be a detailed study of every system, procedure, and transaction. Accordingly, the findings presented in this report should not be considered as all-inclusive of areas where improvements may be needed.

The State Auditor was petitioned under Section 29.230, RSMo 1986, to audit the city of St. Louis. We included those procedures necessary in our judgment to evaluate the petitioner concerns and those concerns requiring corrective action are addressed in this report.

The period of review for the purposes stated above included, but was not limited to, the periods covered by the contractual agreement for the three years ended June 30, 1989.

1. Annual Settlement Procedures

The city of St. Louis has contracted with the St. Louis Regional Medical Center (SLRMC) for hospital and clinic services for indigent city patients. The city and county have agreed to pay operating costs of the medical center not recovered through charges to patients. The city and county each pay a part of these operating costs based on a percentage computed using the number of city patients and county patients for which service has been provided.

The city and county make estimated monthly payments and at the end of each fiscal year a final settlement is prepared. This final settlement is used to assess any amount due from or the credit due to the city and county after the year's operations are closed out.

At the time we completed our audit fieldwork (March 30, 1990), the city and county had not yet completed review of the final settlement for the fiscal year ended June 30, 1989. We did, however, review the final settlements for the years ended June 30, 1988 and 1987. This review disclosed certain concerns which we believe require corrective action. While the specific corrective action needed may actually be performed by the medical center, we believe the city has the responsibility to enforce such action through its contract monitoring process.

Accounting transactions recorded in the books and records for the medical center were not shown accurately on the final settlement submitted to the city. For the fiscal year 1988 settlement, we determined the medical center did not give the city credit for $8,228, apparently, because of an accounting classification error. Also for fiscal year 1988, debt service payments shown on the final settlement were $23,647 more than shown on the medical center's books.

The fiscal year 1987 settlement showed several items which could not be supported by documentation at the medical center. Some expenses reported were more than the medical center's records, and some expenses reported were less than the medical center's records. Also in fiscal year 1987, our testing of patients classification for determining how much the city and county each should pay revealed several errors. The city engaged an accounting firm to verify the accuracy of city patients versus county patients for the year ended June 30, 1988. We believe this action was appropriate in the circumstances, and the city should extend this procedure to verifying all aspects of the final settlement.

Overall, hospital records for the years ended June 30, 1987 and 1986, were unreliable. Audit reports for those years cited "major inadequacies" and the certified public accountants qualified their opinion on the medical center's financial statements. By 1988, hospital records had improved to the extent that the auditor was able to express an unqualified opinion for the two years ended June 30, 1989 and 1988. Since accounting records at the medical center have improved, the city should consider obtaining an independent audit of the final settlement.

WE RECOMMEND the city work with the SLRMC to continue to improve accounting and financial administration procedures and controls which will allow auditors to continue to express an unqualified opinion. We also recommend the city perform the necessary procedures to test the accuracy of the annual settlement or require as part of the health care contract the independent auditor give a report on the annual settlement concurrently with the annual audit of the SLRMC.

AUDITEE'S RESPONSE

We feel that the SLRMC has made significant strides in improving overall accounting and financial procedures. The 1988 and 1989 audits have received unqualified opinions by independent auditors. The audit for the fiscal year ended June 30, 1990, is now underway and is expected to be completed by October 30, 1990.

In 1989, an independent audit of the city/county report was performed. The auditor found no material exceptions in the report prepared by the SLRMC. In addition, the city requested the assistance of the auditor to properly classify certain expenditures. The recommendations of the auditor were followed in preparing the 1989 settlement. Documents from the independent auditor are on file in the Department of Health and Hospitals office. The 1989 settlement was also reviewed by the Internal Audit Section of the Comptroller's office of the city of St. Louis.

The city and county have requested the SLRMC to employ an independent auditor to review the fiscal year 1990 city/county report prior to negotiating the 1990 settlement.

COMMENTS FROM SLRMC

We agree with the finding the city did not receive an additional $8,228 in the fiscal year ended June 30, 1988, settlement process because of an accounting classification error. This is a very small classification error for an institution the size of SLRMC.

The $23,647 credited to the city for debt service was the correct additional amount and, therefore, the city received appropriate credit.

2. Contract Between the City of St. Louis and the St. Louis Regional Medical Center

A. The city violated contractual provisions by eliminating the 15 percent contingency appropriation from the year ended June 30, 1989, budget. In the contract, which was adopted by ordinance, the city

is required to reserve 15 percent of its estimated annual payments as a contingency for "unanticipated expenditures." According to city officials, the contingency was previously budgeted in the event of unforeseen SLRMC financial difficulties resulting from start-up operations. The contingency clause was eliminated in the fiscal year 1989 city budget. In the event of SLRMC financial difficulties, an emergency appropriation would be requested by the city through the established budget process.

Elimination of the contingency clause violated contractual provisions and therefore, City Ordinance 59532 (1985). Further, the contract states part or all of the contingency reserve would be paid to the SLRMC only upon submission to the city's Comptroller of an explanation of the unanticipated expenditures. Elimination of the contingency clause also eliminates the SLRMC need to justify unanticipated expenditures and the city's ability to monitor such expenditures.

To ensure all city payments for indigent health care services are justified and reasonable, the city should reinstate the 15 percent contingency clause. If current controls over the SLRMC payments are deemed sufficient to detect possible unreasonable or unnecessary expenditures, the city should formally amend its contract with the SLRMC.

B. All donations received by the SLRMC were not approved by the SLRMC Board of Directors as required in the contract. According to the contract, "No contributions or grants shall be accepted by the Corporation, without advance approval of the Board of Directors evidenced in the formal minutes of such board." Failure to comply with this contract section could result in the SLRMC acceptance of donations which require legal action or additional funding. Such commitments could detrimentally affect the city's finances.

WE RECOMMEND the city:

A. Comply with the contract by appropriating the required contingency reserve. If deemed no longer necessary, the contract should be formally amended.

B. Require all SLRMC donations be approved by the SLRMC Board of Directors as required in the contract.

AUDITEE'S RESPONSE

A. In fiscal year 1988-1989, the city budgeted $28,310,000 for the operating costs at the SLRMC. In addition, a small amount was budgeted for the city's settlement with the SLRMC. While the contract, which was created by ordinance states that a maximum of 15 percent will be requested for unanticipated expenditures, the SLRMC's fiscal performance has made the maximum contingency fund unnecessary. In fact, the city did not receive a request for a contingency appropriation for either fiscal year 1990 or fiscal year 1991. To provide necessary funds for a year-end settlement, the city has appropriated funds for settlement based on estimates of year-end performance by the SLRMC.

The city has developed a monthly tracking system to identify unreasonable and unnecessary expenditures as they are reported. The Department of Health and Hospitals has also placed a financial officer on its staff who works closely with the SLRMC on all financial issues.

B. Procedures have been put into effect to assure compliance with this policy. Donations now are reported to the Board of Directors for their approval. Specific policy and procedures have been developed requiring the reporting to and approval of the Board of Directors for gifts, donations, and grants of $1,000 or more. Procedures have been put into effect to help ensure full compliance with this policy.

COMMENTS FROM SLRMC

B. We agree with the recommendation and have implemented this process.

3. Eye Associates Arrangement

Eye Associates (EA), a corporation which provides optical services, rents office space in the SLRMC facility and provides services to SLRMC patients. Our review of the arrangement between SLRMC and EA revealed the following:

A. The monthly rental fee was not changed until over four years after the agreement's inception. The agreement was originated in August 1985 and provided EA would pay $14,440 annually for use of SLRMC space. There was no provision for periodic rate assessments. Failure to periodically monitor rental agreements for reasonableness provides less assurance revenues are maximized and, consequently, city expenditures minimized.

During the fall of 1989, the EA contract was reviewed. Provisions were updated to include an annual percentage increase in the rental rate.

B. The accounting method to monitor rental payments and pay for EA services provided to SLRMC patients resulted in an inability to determine the SLRMC's liability for optical services was properly reduced by rental revenues.

Until May 1989, the value associated with optical services provided each month was netted against the monthly rental rate. One check was paid monthly to the SLRMC. Available records were incomplete and did not provide adequate detail to support the monthly EA payment. Further, this payment method forced the SLRMC to rely on the EA for computation and verification of payment amounts. This inability to monitor the reasonableness and accuracy of optical service charges significantly increased the risk for inaccurate and unsubstantiated charges.

Effective May 1989, the SLRMC implemented a policy to handle rental revenues and optical service charges on a separate basis. This method will allow SLRMC to better monitor charges for services.

WE RECOMMEND the city require the SLRMC periodically evaluate its rental contracts for proper level of rent charges and maintain adequate documentation to support any rent offset.

AUDITEE'S RESPONSE

Although there is no legal or other requirement that the space rental agreements between SLRMC and EA be reviewed annually or at any other frequency, the agreement has been reviewed and amended. It is the judgment of management that the terms and conditions of this space rental agreement are still valid and appropriate.

The Department of Health and Hospitals fiscal officer will work with the SLRMC to monitor such agreements.

COMMENTS FROM SLRMC

A. There was no legal or other requirement that the space rental agreement between SLRMC and EA be reviewed at any particular frequency. It was the judgment of management that the terms and conditions of this space rental agreement were valid and appropriate for the years concerned.

B. We agree with this finding and, as the auditors have noted, appropriate procedural changes have been made.

4. Professional Services Corporation Arrangement

The Professional Services Corporation (PSC) is the corporation which provides physicians to the SLRMC. Our review of the agreement between the SLRMC and the PSC revealed the following:

A. The written contract did not include all relevant agreement terms. For example, the allocation of over-the-counter clinic fee payments on a 50/50 basis was apparently oral. Also, the retention of a 20 percent "handling fee" for over-the-counter collections was not written in the contract. Over-the-counter collections exceeded $190,000 for the year ended June 30, 1987. Although the PSC operations are apparently open to the discussion and approval of the SLRMC board and management, incomplete documentation of agreement terms provides no recourse in the event informal agreements are contested.

B. The SLRMC did not comply with all contractual provisions. The contract states the PSC is to reimburse the SLRMC for any expense the SLRMC incurs on behalf of the PSC. During the year ended June 30, 1987, the SLRMC paid over $20,000 for the salary and related fringe benefits of the Medical Director's secretary. The secretary indicated 60 percent of her time was devoted to the PSC business.

According to the contract, the SLRMC should be reimbursed for an estimated $12,000 for the fiscal year 1987 portion of these costs used for the PSC business. Failure to do so results in violation of the contract and increases the SLRMC expenses.

C. The basis for allocating PSC professional income was not documented and appears to be arbitrarily determined. According to discussions with the PSC and SLRMC management, the allocation of PSC net income is contingent annually on factors such as anticipated PSC costs. For example, the PSC paid the SLRMC 75 percent of their net professional income during the year ended June 30, 1987. During fiscal year 1988, the allocation arrangement was verbally amended and reduced payments to SLRMC to 50 percent of PSC net professional income. For year ended June 30, 1989, the SLRMC's allocated portion was changed to 51 percent. These variations, while apparently verbally negotiated by the SLRMC and PSC management, clearly indicate the city cannot effectively monitor SLRMC revenues. As a result, the city's liability for unfunded costs may be unnecessarily increased.

The allocation ratio for distributing PSC net income should be formally included in a written agreement and should be periodically monitored for reasonableness.

WE RECOMMEND the city:

A. Require the SLRMC to include all relevant terms in its written contracts.

B. Require the SLRMC to comply and enforce compliance with all contract terms.

C. Require the SLRMC to document the income allocation and periodically evaluate it for reasonableness.

AUDITEE'S RESPONSE

A. The PSC exists to provide professional staff for the SLRMC and the outlying clinics. The PSC is a subsidiary of the SLRMC and totally controlled by the SLRMC Board of Directors. The financial affairs and operations of the PSC are entirely opened to the SLRMC board and Chief Executive Officer.

The city will urge the SLRMC to formalize its agreements with PSC in writing on an annual basis.

B. The financial arrangement between PSC and the SLRMC are negotiated each year as a part of the overall SLRMC budget process by the chief executive officer of the SLRMC and the President of PSC, who is also the Vice President for Medical Affairs of SLRMC. The basis for these negotiations, as for the budget allocation of any department, is the overall picture of costs and expenses and requirements for services. A variety of factors, including several mentioned in the audit, are taken into account in arriving at the annual agreement between PSC and the SLRMC.

The city will urge the SLRMC to comply with its agreements with PSC.

C. The allocation of PSC net income is documented in an annual addendum to the Master Agreement between the SLRMC and the PSC. The net revenues have been allocated according to the agreement which uses formulas based on the year in which services were performed rather than on a strict cash basis. This complicates the calculation of the allocation. The written documentation for the allocation has been made available to the auditors.

The Department of Health and Hospitals fiscal officer will work with the PSC and the SLRMC to evaluate and document the income allocation procedure.

COMMENTS FROM SLRMC

A. The State Auditor's criticisms of the lack of written agreements between PSC and the SLRMC are not appropriate because the two are not separate legal entities engaged in arm's length negotiations. In fact, PSC is a subsidiary of the SLRMC and totally controlled by the SLRMC board. The financial affairs and operations of the PSC are entirely open to the SLRMC board and Administrator. The reason for the existence of the PSC is to provide professional staff for the SLRMC and clinics.

B. The financial arrangements between PSC and the SLRMC are negotiated each year, as a part of the overall SLRMC budget process, by the chief executive officer of SLRMC and the President of PSC, who is also the Vice President for Medical Affairs of SLRMC. The basis for these negotiations, as for the budget allocation of any department, is the overall picture of costs and expenses and requirements for services. A variety of factors, including several mentioned in the audit, are taken into account in arriving at the annual agreement between PSC and the SLRMC.

C. This observation is incorrect. The allocation of PSC net income is documented in an annual addendum to the Master Agreement between the SLRMC and the PSC. The net revenues have been allocated according to the agreement, which uses formulas based on the year in which services were performed, rather than a strict cash basis, thus, complicating the calculation of the allocation. The written documentation for the allocation was made available to the auditors.

5. Agreements with St. Luke's Hospital

Agreements dating to 1985 between the SLRMC and St. Luke's Hospital were not placed in writing until July 1, 1989. These agreements include St. Luke's renting clinic space from the SLRMC, St. Luke's paying for employee meals obtained at the SLRMC cafeteria, and the SLRMC purchasing cardiac catheterization services from St. Luke's.

Written agreements are necessary to avoid misunderstandings or contractual disputes. Without written contracts, disagreements are more likely to occur. There was a dispute between the SLRMC and St. Luke's concerning amounts due for the various agreements. From our review, it was determined the monetary dispute was culmination of transactions dating back to the 1985 transition period. The dispute was not settled until August 1989, resulting in the SLRMC receiving a $93,673 settlement.

WE RECOMMEND the city require the SLRMC to have all contracts in writing.

AUDITEE'S RESPONSE

The agreements were not in writing until July 1989. Time and circumstances did not permit the advance negotiation of these agreements in June 1985. The delay caused no prejudice or damage to either party; all services were satisfactorily rendered.

The Department of Health and Hospitals fiscal officer will work with the SLRMC to assure that the appropriate contractual arrangements are formulated.

COMMENTS FROM SLRMC

We concur that the agreements were not in writing until July 1989. Time and circumstances did not permit the advance negotiation of these agreements in June 1985. The delay caused no prejudice or damage to either party; all services were satisfactorily rendered.

6. Medical Records Copying Agreement

The SLRMC receives requests for copies of medical records from third parties such as lawyers and insurance companies. These requests are filled through an arrangement whereby an outside firm copies the records, collects a fee from the requesting party, and pays the SLRMC a $5 retrieval fee for each record copied for an attorney or insurance company. During our review, we noted the following with respect to this arrangement:

A. The agreement with the firm copying records is not in writing. Written contracts are necessary to document the rights and responsibilities of all parties. Without a written contract, there could be misunderstandings which may result in excessive costs to the SLRMC, and, as a result, to the city.

B. Until December 1989, the SLRMC did not maintain a record of information copied, the payment to be received, and receivable amounts. Prior to this time, the SLRMC had no method to monitor the number of records retrieved and the associated payments. During our review, we also found payments are received by the SLRMC in irregular amounts at irregular times and further, payments are not accompanied by a detail listing of all records retrieved. Therefore, SLRMC was not able to assure all records retrieved could be correlated with a timely remittance.

Effective December 1989, the SLRMC implemented the use of a log to record all retrieval requests. The log did not distinguish between charge-exempt retrievals and chargeable retrievals. This feature was added in March 1990; however, our review of the log revealed there is no cumulative indication of the dollar amount of outstanding retrieval fees. We determined the SLRMC had not received a payment for copies made from December 1989, through March 1990. Hospital personnel indicate the associated receivable amount, based on available documentation, was $2,255.

To ensure all revenues are appropriately collected in a timely manner, adequate records of amount due and paid are necessary. While the SLRMC has implemented a record-keeping control, it appears sufficient monitoring cannot be performed until receivable balances are maintained, are actively pursued for collection, and payments are accompanied by a detailed listing of records retrieved.

WE RECOMMEND the city:

A. Require the SLRMC to enter into written contracts for all service arrangements. These contracts should include all terms relating to payment and reporting.

B. Require the SLRMC to establish the records necessary to account for the fee paid, the number of records copied, and accounts receivable.

AUDITEE'S RESPONSE

A. The SLRMC has not pursued an agreement with Major Microfilm (MM) because they originally planned to implement an internal photocopy system in August 1990. Due to delays in staffing and recruitment efforts, the SLRMC has retargeted the implementation of an internal system to September 1990.

B. The SLRMC implemented a formal internal log for photocopying in December 1989. All requests are now logged in upon receipt and logged out when copied by MM Company or by the SLRMC. Prior to December 1989, the SLRMC used the computer printout from MM to compare its correspondence logs to verify the accuracy of the check received.

The Department of Health and Hospitals fiscal officer will work with the SLRMC to review photocopying accounting procedures.

COMMENTS FROM SLRMC

A. We have previously stated that we have not pursued a written agreement with MM because we originally planned to implement our internal photocopying system by August 1, 1990. Due to delays in staffing and recruitment efforts, we have retargeted the implementation to September 17, 1990.

B. Although our internal log was not implemented officially until December 1989, we previously utilized the computer printout from MM as compared to our correspondence logs to verify the accuracy of the check received. All requests are now logged in upon receipt and out when copied by MM Company or by us. Additionally, amounts received depend on the number of records copied and are, therefore, not a "regular" amount.

The outstanding receivable as of August 22, 1990, is approximately $250. Due to the small amount of money involved, an excessive documentation and reconciliation process would probably cost the city more in salary expense than minor discrepancies in the number of $5 charges.

7. Other Agreements

The prisoner ward at SLRMC was constructed without a written agreement concerning funding. According to SLRMC personnel, there was a verbal agreement between the SLRMC, the city, and the county that the city and county would each pay half the construction cost of the prisoner ward. However, after the ward was completed, all parties refused to honor the oral agreement. Because the SLRMC capitalized the ward and is recording depreciation over a twenty-year period, the construction costs will be recovered through the settlement process. However, based on current county/city usage ratios, the city will pay an additional $68,320. This figure does not take into consideration the time value of money. In the future, all agreements involving joint city and county funding should be formalized in writing.

WE RECOMMEND the city require agreements be written before any costs are incurred.

AUDITEE'S RESPONSE

The Department of Health and Hospitals fiscal officer will work with the SLRMC and the city to ensure that appropriate written agreements are in place prior to incurring any costs.

COMMENT FROM SLRMC

This is a partially correct observation. The auditors stated that "all parties refused to honor the oral agreement." Actually, the city and county did not pay the SLRMC for the prisoner ward primarily because nothing was in writing and they chose to ignore their verbal commitment. Since a project of this nature is capitalized and depreciated, the city and county will pay for it during the period of years over which it is depreciated. The SLRMC, therefore, has not yet recovered the cost of the construction. Although, the city will end up paying more than 50 percent of the cost, the SLRMC is really the greatest "loser" since the hospital will recover over many years what was orally promised to be paid upon completion of construction. The SLRMC has since insisted that agreements of this nature be put into writing.

8. Billing Policy and Procedures

According to the SLRMC personnel, it is the hospital's goal to send bills within fifteen days of patient discharge or outpatient treatment.

A. The billing policy was not formalized in writing until April 1989, approximately four years after the inception of SLRMC operations.

The billing policy dictates the groundwork for SLRMC revenues. Lack of a written policy for an excessive period of time unnecessarily increased the risk of inconsistently applied policy and foregone revenues.

B. A review of twenty outpatient accounts resulting from treatment provided during the year ended June 30, 1987, revealed nineteen of

the accounts were not billed within 15 days of service. Billing delays ranged from 44 to 137 days. A subsequent review of five inpatient accounts outstanding for at least 120 days, related to services provided during the year ended June 30, 1989, revealed two accounts had 30-day delays before billing.

Billing policies are developed to maximize collections. Failure to comply with these policies results in increased difficulty in collecting amounts due.

WE RECOMMEND the city require the SLRMC to comply with the stated billing policies.

AUDITEE'S RESPONSE

In 1988, the SLRMC established a goal, not a policy, of billing inpatient discharges and outpatient treatments in fifteen days. This goal was established without regard to the nature of the payor. Due to wide variation in specific billing requirements, this goal proved to be overly optimistic. A formal policy was established in April 1989 with turn around time varying by payor class.

COMMENTS FROM SLRMC

A. As the auditors have stated in their very first sentence in this section, the hospital had established the goal, not the policy, of billing inpatient discharges and outpatient treatments in fifteen days. The goal was established in 1988 and was established without regard to the nature of the payor. That proved unrealistic because of the differences in what various payors, such as medicaid and private insurance companies, expect in a specific billing. A formal policy, as distinguished from a goal, was formalized in April 1989 with the targeted time frames varying by payor class.

B. In the early days of the SLRMC delays in billing undoubtedly were excessive. However, since that time considerable improvement has been made since the billing process is now completed much more quickly. In some instances, however, it is not possible to bill within even thirty days due to delays from the medicaid approval process or other factors not under hospital control.

9. Collection Efforts and Write Off Policies

A. The SLRMC's policy is to refer potential medicaid-eligible patients to the Department of Social Services, Division of Family Services (DFS), to apply for medicaid coverage. We noted the following with regard to the SLRMC procedures:

1) Referral of indigent patients to the DFS for medical application was not sufficiently documented in patient financial files. Our review of twenty files revealed three did not contain appropriate referral information. While it was not clear whether these specific patients would qualify for medicaid, information regarding medicaid referral or reason for nonreferral should have been documented. In seven of the

files reviewed, it was determined the patient was not referred for medicaid coverage due to a one-day stay. Apparently these patients are not contacted by a financial counselor and, therefore, are not evaluated for medicaid eligibility. Based on the risk of forfeited federal reimbursement, the SLRMC should consider contacting these short-stay patients subsequent to their discharge for a medicaid eligibility interview.

2) The SLRMC did not implement an effective follow-up system for the DFS medicaid referrals from early 1987 until September 1988. The SLRMC established an agreement with DFS prior to 1987 which allowed the SLRMC employees to access the DFS computer terminals for medicaid tracking purposes. This agreement was rescinded in early 1987 and a new system was not implemented until September 1988. During the interim medicaid referrals were tracked by mail in an incomplete manner.

If eligible city patients are not properly enrolled in the medicaid program, their total medical costs must be absorbed by the city. Thus, the city is at risk financially, but must rely on the SLRMC for proper referrals and adequate follow up.

B. The SLRMC did not adequately attempt to collect amounts due by billing patients for amounts private insurance denies. We noted in two outpatient billings and one of six inpatient billings reviewed, the patient was not billed when insurance did not pay. Because financial files could not be located for two of these exceptions, we could not determine the secondary financial class, such as indigent. By not adequately following-up on collections, the SLRMC is not maximizing revenues.

C. Independent written authorization is not documented for accounts receivable cancellations or write offs. Prior to mid-1988, write offs were initiated by completing an authorization form. For those accounts reviewed for this time period, forms were not located by SLRMC personnel. Effective late-1988, the SLRMC began tracking write offs through the computer system. While the individual making the adjustment is required to initial the transaction, the periodic printout of all accounts written off is not documented in writing as having been reviewed.

Written authorization by someone other than the individual making the data entry to write off an account is necessary to ensure all debt cancellations are valid and appropriate.

WE RECOMMEND the city:

A. Require the SLRMC to ensure DFS referrals are properly made, documented, and monitored.

B. Require the SLRMC to develop procedures to ensure collection efforts are adequate, including billing patients when insurance does not pay.

C. Request the SLRMC provide written independent authorization for all write-offs of accounts receivable.

AUDITEE'S RESPONSE

A. Although the SLRMC has always performed an initial screening and referred patients to DFS, this was not always noted in the patients' files. This documentation has since been added by including several relevant forms in the patient's financial folder. The accounts are then tracked by the business office which has developed a comprehensive and aggressive program to assist patients in their application for medicaid.

A statement of agreement between DFS and the SLRMC for effective follow up was rescinded in 1987 by the state of Missouri. This decision was protested by the SLRMC, the city and the county. As a result of cooperation among all parties, the current expanded system was instituted.

B. The SLRMC screen each patient to determine financial status by income and family size. If the patient meets the criteria for indigency, he or she is not billed. If a patient refuses to provide financial documentation or does not meet indigency requirements, the patient is billed. A sliding fee scale is used when charges are not paid by a primary payor.

The decision as to who qualifies for indigency status and who does not is not a job function of the billers but rather a function of the financial counselors at the time of registration. Once the Registration Division makes that decision, the appropriate payor code is assigned and the data is entered into the computer. A pay status of indigent always results in the patient not being billed. The patient's financial status, therefore, does not need to be placed in the billing file.

C. The proposed write offs are entered into the computer and the printouts of the prior day's adjustments are reviewed by the SLRMC's Director of Patient Accounts. He reviews the proposed write offs for appropriateness in relation to the service performed and pay status of the patient. If the write off meets the criteria, the Director independently authorizes the write off by initialing the printout.

COMMENTS FROM SLRMC

A. Referrals to DFS to apply for medicaid:

1) Although we have always performed an initial screening and referral of patients to DFS this was previously not always noted in the patients' files. This documentation has since been added by including in the patient financial folders several relevant forms.

We refer to the DFS office patients who are here for only one day. The accounts are then tracked by the business office which has developed a comprehensive program to assist and encourage patients to apply for medicaid.

2) The statement that the agreement between DFS and the SLRMC for effective follow up was rescinded in 1987 is true. The decision to rescind this agreement was, however, an unilateral one on the state's part and was made because we are not a political entity. The SLRMC protested this decision and ultimately was successful in having a similar system reinstalled and expanded.

B. The two outpatient billings referenced were for indigent patients (which we never bill). The inpatient billing referenced was a workman's compensation case that had been tied up in litigation and at the time of the audit could not be billed.

The decision as to who qualifies for indigency status and who does not is not a job function of the billers but rather a function of the financial counselors at the time of registration. Once registration makes that decision the proper payor code is assigned and the data is entered into the computer. A pay status of indigent always results in the patient not being billed. The patient's financial status, therefore, does not need to be placed in the billing file.

C. Old authorization forms were previously held in MIS, but discarded after completion of the fiscal year-end audit. Although the printout of write offs has always been reviewed, it was not previously initialed. Currently, all printouts of the prior day's adjustments are reviewed by the Director of Patient Accounts and initialed by him following his review. He reviews them for appropriateness of the action in relation to the service performed and pay status of the patient.

10. <u>Third Party Payments</u>

The SLRMC does not have a cumulative tracking system to effectively monitor the financial impact of third party payor reviews. On a regular basis, the SLRMC is subjected to audits by a contracted party of the Medicare Program. Occasionally, private insurance companies will audit specific hospital billings related to their clients. The objectives of both of these reviews are to determine any payments made to the SLRMC for services provided are valid, within reasonableness guidelines, and in the case of medicare, conform to federal regulations.

We determined from discussions with SLRMC personnel, the results of each of these reviews are documented on a case by case basis. There is no system however to centrally record all cases reviewed and the outcome of the review. We performed a detailed review of the results of the most recent medicare audit for the quarter ended December 31, 1989. In ninety-five hospital admissions reviewed, the reviewer organization determined, based on specific criteria, that five admissions were inappropriate. While SLRMC personnel were familiar with the details of each case, they could not provide an overall indication of the financial impact associated with these denials. We determined from a review of each of these cases the SLRMC would have to repay approximately $15,162.

Lack of a cumulative tracking system provided no indication to SLRMC management as to the effectiveness of hospital operations and their effect

on operating finances. To provide comprehensive information as to the effectiveness of third party payor programs, a centralized tracking system should be established and monitored on an ongoing basis.

WE RECOMMEND the city require the SLRMC to develop a centralized tracking system to record and monitor third party payor programs.

AUDITEE'S RESPONSE

The volume of denied cases is very low, and the "SLRMC personnel were familiar with the details of each case" as noted by the auditors. Audits by commercial payors (less than 5 percent of the SLRMC's total volume) result in charges not documented in the record being recouped by the insurance firm and charges documented and not billed being paid by the firm. Commercial audits are conducted very infrequently due to the small commercial volume. The SLRMC has had only one audit since July 1988 with a recoupment of less than $500.

The medicare admission denials referenced by the auditors are so low in number that the SLRMC meets medicare criteria for not placing the hospital under intensified review. The SLRMC has consistently maintained this status as a result of its outstanding utilization review department.

COMMENTS FROM SLRMC

Since, as the auditors state, "SLRMC personnel were familiar with the details of each case," and the volume of denied cases is very low, there seems to be little need for a listing.

Audits by commercial payors (less than 5 percent of our total volume) result in charges not documented in the record being recouped by the insurance firm and charges documented and not billed being paid by the firm. Commercial audits are conducted very infrequently due to our small commercial volume. We have had one since July 1988 with a recoupment of less than $500.

The medicare admission denials referenced by the auditors are so low in number that it meets medicare criteria for not placing the hospital under intensified review. We have consistently maintained this status as a result of an outstanding utilization review department.

11. Expenditure Policies and Procedures

A. Expenditures were not consistently supported by vendor invoices, receiving reports or purchase orders. For thirteen of fifty-eight fiscal year 1987 and 1988 expenditures examined, a vendor invoice was not provided. Nine of fifty-one applicable expenditures were not supported by a receiving report. This included two drug purchases totaling over $18,500. Of fifty-seven applicable invoices examined, three were not supported by a purchase order.

In addition, itemized invoices for legal expense payments are not on file at the hospital. The SLRMC personnel have indicated to us that adequate billing statements are reviewed, but returned to the attorneys rather than filing them at the hospital. If this procedure continues to be followed, the SLRMC should document in writing

this review and approval procedure by having a written policy statement and indicating on each payment voucher who has responsibility for having approved the payment.

All expenditures should be supported by a vendor invoice to provide assurance payments are correct and made to an actual vendor for goods and services received. A receiving report verifies that goods of the type and quantity invoiced are received. A purchase order provides assurance the purchase was authorized. Without invoices, receiving reports and purchase orders there is less assurance expenditures are proper.

B. The SLRMC's policy regarding purchases exceeding $1,500 was not consistently followed. For purchases made during the two years ended June 30, 1988, exceeding $1,500, the SLRMC policy requires the purchase to be made through the bid process, a specific hospital buying organization, or based on preexisting supply contracts. In fourteen of twenty-four applicable purchases we reviewed, the vendor was not selected in one of the prescribed manners and there was no documentation of the alternative vendor selection procedures used. The following are some examples:

Item(s)	Amount
Clinic delivery services for June 1986 through August 1986	$ 10,715
Record forms	10,192
Medical supplies - orthopedic hardware	6,027
Towels, sheets, gowns	3,685
Roof repair	12,275
Medical forms	9,545
Prescription labels	1,894
Total	$ 54,333

The SLRMC's vendor selection policy was developed to ensure quality goods and services are obtained at the best available price. Failure to use these procedures violates SLRMC policy and increases the risk goods and services will not be obtained in the most efficient manner available.

C. The SLRMC's late fees for making untimely vendor payments totaled $81,830 and $41,952 during the years ended June 30, 1987 and 1988, respectively. The SLRMC experienced cash flow problems during start-up operations. While these cash flow problems, could have resulted from untimely city settlement payments, our limited review also indicated problems in the billing and collection of patient accounts receivable, as noted in MAR Nos. 8. and 9., which could have caused cash-flow problems.

In the event of future cash flow problems, the city should cooperate with the SLRMC to assure the assessment of late fees is avoided.

WE RECOMMEND the city work with the SLRMC to ensure:

A. All expenditures are supported by a vendor invoice, receiving report, and purchase order prior to payment.

B. Purchasing policies and procedures are consistently followed.

C. Late fees are avoided.

AUDITEE'S RESPONSE

A. In 1987 and early 1988, the SLRMC was experiencing extreme problems with cash flow. It could not pay vendors in a timely manner and, consequently, was put on credit holds with a requirement to pay cash in advance before a purchase could be delivered. The SLRMC staff called in orders, obtained prices and had checks prepared in advance. When the merchandise arrived at the dock, the SLRMC presented the check. However, the invoices were turned over to staff at the receiving dock, who in turn were responsible for sending them to accounts payable. The SLRMC assumes, but cannot state with certainty, that some invoices were lost in transit during some 1986-1987 transactions. Nevertheless, all of the services referenced on the invoices were acknowledged as having been received by the department head whose cost center was charged with the expense.

The SLRMC has always attempted to match the purchase order, receiving document, and invoice before payment to the vendor. A policy dated January 1987 addresses this issued.

B. During its first two and a half years of existence, the SLRMC had extremely bad credit and severe cash-flow problems which resulted in a very poor public image. As a result of these obstacles, especially its cash-flow problems, SLRMC could not in many cases comply with the purchase policy that it had developed. The SLRMC often requested competitive prices from vendors and in nearly all cases were told cash-in-advance or cash-on-delivery was the only way that the SLRMC could obtain services or products. As a result of these existing problems, vendors were selected based on their willingness to sell to the SLRMC on account. The SLRMC still exercised prudent buying practices even under such handicapped conditions, often not knowing when the vendor would be paid or whether the SLRMC could be able to obtain products or services the following week.

C. Late fees in the past have resulted from cash-flow problems. The amount of working capital has improved and the days in accounts payable are on average less than forty days which is under SLRMC's budgeted days in accounts payable. The accounts payable department segregates invoices for which there is a potential to take either a discount or avoid a late fee. The SLRMC attempts to take such discount or avoid late fees whenever possible.

The city will work with the SLRMC to ensure that late fees are avoided.

COMMENTS FROM SLRMC

A. In 1987 and early 1988, the hospital was experiencing extreme problems with cash flow. The SLRMC was not being paid for its services, but it continued to provide services. The problems were well publicized. The SLRMC could not pay vendors timely and, consequently, was put on credit holds with a requirement to pay cash in advance before a purchase could be delivered. SLRMC staff called in orders, obtained prices, and had checks prepared in advance. When the merchandise arrived at the dock we presented the check. However, the invoices were turned over to staff at the receiving dock, who in turn were responsible for sending them to accounts payable. We assume, but cannot state with certainty, that some invoices got lost in transit during some 1986-1987 transactions.

We were not able to locate the following invoices:

Ace Hardware	November 7, 1986	$ 44.17
Western Auto	January 5, 1987	139.96
Accutime Recorder	January 27, 1987	42.50
Chase Park Plaza	April 17, 1987	215.32
Foxmeyer	July 17, 1986	12,340.07
Mastercard	October 8, 1986	782.13
American Hospital	March 25, 1987	9,213.60
Jo Grayson	April 12, 1988	95.00

Other Invoices

Arthur Perkins — March 6, 1987 — $ 602.56
The $602.56 was an advance on a trip to Texas and the costs were estimated. Attached to the invoice was a copy of a check paying the hospital back for $13.53 and documentation for the actual costs of the trip.
Meals were prorated at one half due to another person traveling with him. Documentation was attached to the invoice for $602.56.

TWA — March 17, 1988 — $ 178.00
The ticket was purchased from TWA for a trip to Memphis. The ticket was nonrefundable and the trip, which was approved by administration was never taken. Normally, the ticket itself is used as proof of purchase. The auditors are correct in that there is no documentation.

Lombardo Restaurant — April 22, 1987 — $ 397.10
We agree with the findings regarding this invoice. This expense is for the hospital sponsored bowling banquet for employees.

Dillards — December 1, 1987 — $2,200.00
There was a request for $2,200 to purchase one hundred $25 gift certificates at Dillards for $22 each. Gift certificates were used as a nursing recruitment tool to encourage them to attend an "open house." This was handled as an advance. Our receipts indicate the following:

Cash disbursed	$ 2,200
Fifty gift certificates at $22	1,100
	1,100
Amount returned by Dillards on January 8, 1988, for excess gift certificates	1,125
Due Dillards	$ (25)

Of the nine invoices referenced only two of these items would have entered SLRMC through the receiving department. Nevertheless, all of the services referenced on the invoices were acknowledged as having been received by the department head whose costs center was charged with the expense. Five of the remaining seven invoices were for products or services which were purchased and picked up by nonreceiving personnel.

The invoices referred to are:

a. Chase Park Plaza - SLRMC in previous years has used Chase Park Plaza for a hotel when outside consultants are working at the hospital or future employees are interviewing at the hospital (April 17, 1987).

b. Dillards - Gift certificates for nursing (December 1, 1987).

c. National Supermarket - Nurse recruitment items.

d. Western Auto - Tire replacement on jeep. Maintenance personnel took jeep to Western Auto and had work completed (January 5, 1987).

e. Accutime - Repair of time clock at one of the clinics (January 27, 1987).

Two invoices were from Foxmeyer Pharmaceuticals for orders delivered to the clinics.

The three purchase orders referenced were approved by the respective department head and the Material Management Director, which is within the guidelines of our policy.

Requests for legal assistance are initiated by the President or members of the Board of Directors and all invoices for services are approved by the President and filed. The President also has available a detailed description of services rendered, together with date, time, and rates. A formal policy has been adopted.

B. During the first two and a half years of the SLRMC's existence (1985-1987), we had extremely bad credit, severe cash-flow problems, and a very poor public image. As a result of these obstacles, especially our cash flow problems, we could not in many cases comply with the purchase policy that we had developed.

We often requested competitive prices from vendors and in nearly all cases were told cash-in-advance or cash-on-delivery was the only way that the SLRMC could obtain services or products. As a result of these existing problems, vendors were selected based on their willingness to sell to us on account. We still exercised prudent buying practices even under such handicapped conditions, often not knowing when the vendor would be paid or whether we could be able to obtain products or services the following week.

Listed below is specific information relative to the examples cited from this audit:

Clinic delivery services provided by American Delivery Services. Several vendors were called to provide the services needed. The vendor referenced was the only vendor giving us a good rate and also willing to extend credit to the SLRMC. As a result of the competitive rates and fine service this vendor provided, our local Group Purchasing Organization entered into a contract with this vendor to extend delivery services to other member hospitals.

Record forms provided by Jefferson Printing. During the period this purchase occurred, we were on cash on delivery with our contract vendor (Moore Business Forms). Jefferson Printing was selected because they were the only other firm contacted that would help develop and produce medical record forms on an open account. Jefferson Printing was utilized for a short time and we then returned to our contract vendor.

Medical supplies - Orthopedic Hardware from Richards Medical. During the period that Richards Medical was utilized, the specific hardware items purchased could not be purchased from any other source. Orthopedic Hardware is a physician preference product line. Systems are selected based on physician familiarity, patient comfort, and impact on patient recovery time. Richards Medical was the sole provider for specific shoulder plates and screws used during that time.

Towels, sheets, gowns from Sterling Textile. During the time frame referenced, we accessed Sterling Textile through our local Group Purchasing contract. We could not retrieve a copy of the contract dated 1987 because it had been renegotiated and replaced by the July 1, 1988, contract. However, on the second page of document number G-2036 is a comment referencing the older contract that was in effect at the time of purchase.

Roof repair by Whitehead Roofing. This project was handled by Service Master, our contracted plant management consultant. Specific detailed correspondence could not be obtained.

Medical forms from Hollister Medical. The forms referenced are sole supplier items. The physician coordinating the obstetrics/gynecology services at that time preferred to use the canned-form-system developed by Hollister Medical for our Obstetric Department when it was first opened until such time that the medical staff which was being recruited could develop quality patient care forms to specifically address the

concerns of the Prenatal, Labor and Delivery, and Post Partum Department.

Prescription labels purchased from Shamrock. This vendor was utilized by our pharmacist while at Old City Hospital. As a result, this vendor extended credit to the SLRMC when other suppliers of these products required cash in advance.

C. Late fees in the past have resulted from cash flow problems. These were due both to the city and county owing multimillion dollar settlements to the SLRMC for the first two years of operations and, to a lesser degree, to billing and collection problems. As is obvious from the total amount of the fees, there were less in 1988 than 1987 and less in 1989 than 1988. Our improved financial status was a result of receiving from December 1987 to June 1988 settlements for the two prior years from the city. This additional cash allowed us to pay our vendors more timely.

12. Employee Related Expenditures

A. Employee meal costs submitted for reimbursement were not always sufficiently documented and sometimes exceeded the established allowance. Meal costs must be well documented to ensure compliance with SLRMC guidelines. The limits set by the SLRMC policy are intended to control costs. If meal costs are not well documented, the limits may be exceeded without detection, resulting in excessive expenditures.

B. Some of SLRMC's expenses are for activities to enhance employer relations. During the year ended June 30, 1987, $397 was spent for the hospital bowling team banquet. An employee picnic during the year ended June 30, 1988, which included Six Flag tickets for employees and meals for employees and their families cost $7,841. Because these expenditures are included in the settlement, they are indirectly paid for by city taxpayers.

WE RECOMMEND the city:

A. Require the SLRMC to develop an expenditure policy which ensures meal costs are well documented and within policy limits prior to reimbursement.

B. Consider excluding any costs not directly related to patient treatment and hospital support from the settlement computation.

AUDITEE'S RESPONSE

A. The SLRMC currently has a travel policy limiting meal costs to $45 per day. Claims are reviewed by the Accounts Payable Supervisor and Controller before payment is made to the employee.

B. The SLRMC has conducted activities to enhance employee morale and retention. These expenditures are important to the overall mission of the medical center. However, alternative funding sources are being explored.

COMMENTS FROM SLRMC

A. The SLRMC currently has a travel policy limiting meal costs to $45 per day. This is reviewed by the Accounts Payable Supervisor and Controller before payment is made to the employee.

B. Most organizations subsidize activities such as these in order to enhance employee relations. It should be noted this cost was only $7 per employee.

13. Safeguarding Bank Accounts

Money in the SLRMC's three bank accounts exceeded Federal Deposit Insurance Corporation (FDIC) coverage by approximately $825,000 on December 22, 1986, and $882,000 on June 24, 1987, leaving those amounts unsecured. Requesting depository banks to provide collateral securities for bank account balances would be a prudent business decision for the SLRMC. Unsecured deposits could result in loss of funds in the event of bank failure.

WE RECOMMEND the city request the SLRMC require depositary banks to provide collateral securities for deposits exceeding $100,000.

AUDITEE'S RESPONSE

In a discussion with the Vice President of the Public Services Division of Mercantile Bank, it was noted that the law requires governmental agencies to have collateralized accounts; private institutions, however, are not allowed to collateralized their accounts. The SLRMC is a private corporation and is not required to collateralized its deposits.

COMMENTS FROM SLRMC

The recommendation is not practical. In a discussion with the Investment Banking Representative and the Assistant Vice President of Corporate Banking of Mercantile Bank, a state law requires governmental agencies to have collateralized accounts; private institutions, however, are not allowed to collateralized their accounts. The SLRMC is a private corporation and is, therefore, not a governmental agency and entitled to collateralization.

AUDITOR'S COMMENT

Our discussions with the state Division of Finance indicated that not-for-profit corporations acting in quasi-governmental capacity would be allowed collateralization.

14. Payroll Procedures

Payroll clerks have access to employee time cards; they also review and correct payroll printouts before checks are prepared, and examine the checks for any discrepancies prior to distribution. Failing to adequately segregate payroll functions reduces assurance all payroll disbursements are proper and record-keeping discrepancies are promptly noted and resolved. An adequate system of payroll internal controls includes proper

segregation of duties and assigns responsibility for handling payroll checks to persons with no record-keeping responsibilities.

WE RECOMMEND the city require the SLRMC to independently assign payroll preparation and check distribution responsibilities.

AUDITEE'S RESPONSE

The city agrees that the segregation of duties is the best method for handling these responsibilities; however, employing separate people to handle these functions would be costly. The SLRMC has not encountered any problem resulting from its method of handling payroll.

The Department of Health and Hospitals fiscal officer will work with the SLRMC to explore cost-efficient options for segregating these functions.

COMMENTS FROM SLRMC

We agree that the separation is the best method; however, employing separate people to handle these functions would be costly. We have not encountered any problem resulting from our method of handling payroll.

15. Electronic Data Processing Procedures and Controls

A. The SLRMC did not have a written agreement for the use of backup facilities in the event of Electronic Data Processing (EDP) system failure. During the three years ended June 30, 1989, the SLRMC had a verbal agreement with their hardware suppliers for emergency backup services. This agreement was subsequently severed when the supplier was purchased by another company. As of March 1990, the SLRMC had no provisions for emergency backup services. Management personnel did indicate an internal backup system would be implemented in April 1990.

B. The SLRMC has not implemented the use of batch controls to ensure the validity and completeness of entered data. The SLRMC batched input documents only in terms of number of entries to be made. There was no assurance the entries themselves were accurately made. For example, laboratory service delivery tickets would be transmitted to the EDP department. The laboratory department would indicate the total number of tickets to be entered; this would be verified by the EDP department. However, each service delivery has a unique number corresponding with a specific charge. The data processing system will allow invalid or inaccurate numbers to be entered and since the department did not verify the accuracy of the actual numbers inputted, there was an increased risk service deliveries would be inaccurately entered. This risk could manifest itself in the form of either overcharges or undercharges.

The implementation of a batch control system to verify the individual data entries would provide necessary assurance as to the validity and completeness of entered information.

WE RECOMMEND the city require the SLRMC to ensure:

A. Adequate backup arrangements are in effect and in writing.

B. Batch control procedures to ensure the validity and completeness of data entries are developed and used.

AUDITEE'S RESPONSE

A. The SLRMC has taken appropriate precautions to safeguard its data. At the time of the audit, the SLRMC had off-site tape storage at the County Data Center. Since then it has also built a safe with a two-hour fire rating.

The MIS Department now has a companion system to the original 8530 CPU. This enables staff to process data more efficiently on a day-to-day basis. Each system can be run independently of the other, if necessary, enabling the SLRMC to act as its own "hot site" in the event one unit fails.

B. The SLRMC has implemented a procedure in which a report of all transactions submitted and keyed on a given day goes to each department for its analysis. MIS continues to monitor this report as well by investigating entries which appear to be keying errors or incorrect manual input.

The Department of Health and Hospitals fiscal officer will work with the SLRMC to explore cost-efficient options for improving batch control procedures.

COMMENTS FROM SLRMC

A. The SLRMC has done everything possible to protect its data. At the time of the audit we had off-site tape storage at the County Data Center. Since then we have also built a safe with a two hour fire rating.

The MIS Department now has a companion system to the original 8530 CPU. This enables staff to process data more efficiently on a day-to-day basis. Each system can be run independently of the other, if necessary, enabling us to act as our own "hot site" in the event one unit fails.

B. We have implemented a procedure in which a report of all transactions submitted and keyed on a given day goes to each department for their analysis. MIS continues to monitor this report as well by investigating entries which appear to be keying errors or incorrect manual input. Since millions of transactions are keyed each year, it would be costly to employ additional individuals to further expand this function, especially since the SLRMC employs qualified data entry personnel.

APPENDIX

Appendix

CONTRACTUAL AGREEMENT BETWEEN
DEPARTMENT OF HEALTH AND HOSPITALS
CITY OF ST. LOUIS, MISSOURI
AND
ST. LOUIS REGIONAL HEALTH CARE CORPORATION
SCHEDULE OF CITY PAYMENTS TO THE ST. LOUIS REGIONAL MEDICAL CENTER

(U N A U D I T E D)

	Year Ended			
	June 30		April 30	
	1989	1988**	1987	1986
Indigent care services	$ 28,310,000	22,877,443	19,652,288	7,556,517
Debt service payments	1,620,000	1,703,622	1,764,600	-0-
Settlement payments*	-0-	10,478,827	11,188,044	-0-
Total Payments to the St. Louis Regional Medical Center	$ 29,930,000	35,059,892	32,604,932	7,556,517

* As of March 31, 1990, the 1989 fiscal year settlement had not been filed.

** Fourteen months ended June 30, 1988.

* * * * *