



LINCOLN COMMUNITY NURSING HOME DISTRICT

YEAR ENDED JUNE 30, 2000

**From The Office Of State Auditor
Claire McCaskill**

Report No. 2000-124
December 14, 2000
www.auditor.state.mo.us

AUDIT REPORT



Office Of The
State Auditor Of Missouri
Claire McCaskill

December 2000

www.auditor.state.mo.us

Some problems were discovered as a result of an audit conducted by our office in response to the request of petitioners from the Lincoln Community Nursing Home District, Lincoln, Missouri.

The district did not prepare a budget for the year ended June 30, 1998 and the budget prepared for the year ended June 30, 1999 was not adopted by the board. State law requires the preparation of an annual budget which shall present a complete financial plan for the ensuing year. In addition, the approved budget for the year ended June 30, 2000, did not include a budget message, a comparative statement of actual revenues and expenditures by budget category for the two preceding years, or a budget summary as required by law.

A complete and well-planned budget, in addition to meeting statutory requirements, can serve as a useful management tool by establishing specific cost and revenue expectations for each area of district operations. A budget can also provide a means to effectively monitor actual costs by periodically comparing budgeted amounts to actual expenditures. A complete budget should include separate revenue and expenditure estimations by account, and include the beginning available resources and reasonable estimates of ending available resources. The budget should also include a budget message and comparisons of actual or estimated revenues and expenditures for the two preceding fiscal years.

For the year ended June 30, 2000, the district approved expenditures in excess of the budgeted amount by \$35,809. The board did not receive periodic reports so that it could compare actual revenues and expenditures to budgeted amounts.

The district did not have a formal bidding policy. As a result, the decision of whether to solicit bids for a particular purchase was made on an item-by-item basis. During the past several years, bids were either not solicited, bid documentation was not retained, or the lowest bid was not always accepted. Examples include, bid documentation could not be located for a \$3,341 folding door and the district spent \$9,690 for computers and the lowest bid (which was \$9,290) was not accepted. There was no documentation to indicate the reason why the higher bid was accepted.

Formal bidding procedures for major purchases provide a framework for economical management of district resources and help ensure the district receives fair value by contracting with the lowest and best bidders. Competitive bidding helps ensure all parties are given an opportunity to participate in the district's business.

(over)

YELLOW SHEET

The board conducted several closed meetings during the years ended June 30, 1999 and 2000; however, the minutes did not always document the related vote or the reasons for closing the meeting. State law requires that before any meeting may be closed, the question of holding the closed meeting and the reason for the closed meeting shall be voted on at an open session.

The board minutes did not always include sufficient detail of matters discussed and actions taken at the board's meetings. For example, in March 1998 the district approved a proposal to upgrade the computers. The minutes do not indicate the bids that were submitted and which bid the district approved. In addition, the minutes of the board meetings did not always contain information required by state law. When the minutes indicated a motion had been passed, the minutes did not generally indicate the number of votes for and against.

The district did not have a formal policy regarding public access to district records. A formal policy regarding access to district records would establish guidelines for the district to make records available to the public. This policy should establish a person to contact and an address to mail requests for access to records. State law lists requirements for making district records available to the public.

LINCOLN COMMUNITY NURSING HOME DISTRICT

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CLAIRE C. McCASKILL
Missouri State Auditor

To the Board of Directors
Lincoln Community Nursing Home District
Lincoln, Missouri 65338

The State Auditor was petitioned under Section 29.230, RSMo, to audit the Lincoln Community Nursing Home District. The nursing home district had engaged Wilson, Toellner & Associates, Certified Public Accountants (CPA), to perform a financial audit of the district for the year ended June 30, 2000. To minimize any duplication of effort, we reviewed the report and substantiating working papers of the CPA. Our audit of the district included, but was not limited to, the year ended June 30, 2000. The objectives of this audit were to:

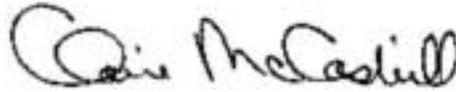
1. Perform procedures we deemed necessary to evaluate the petitioners' concerns.
2. Review compliance with certain constitutional provisions, statutes, policies, and attorney general's opinions as we deemed necessary or appropriate in the circumstances.
3. Review certain management practices which we believe could be improved.

Our audit was made in accordance with generally accepted government auditing standards and included such procedures as we considered necessary in the circumstances. We also reviewed board minutes, policies, and various district financial records.

Our audit was limited to the specific matters described above and was based on the selective tests and procedures considered appropriate in the circumstances. Had we performed additional procedures, other information might have come to our attention which would have been included in this report.

The accompanying History and Organization is presented for informational purposes. This information was obtained from the district and was not subjected to the auditing procedures applied during our audit of the district.

The accompanying Management Advisory Report presents our findings and recommendations arising from our audit of the Lincoln Community Nursing Home District.



Claire McCaskill
State Auditor

September 26, 2000 (fieldwork completion date)

The following auditors participated in the preparation of this report:

Director of Audits: Karen Laves, CPA
Audit Manager: John Luetkemeyer, CPA
Audit In-Charge: Nicole Brackman

HISTORY AND ORGANIZATION

LINCOLN COMMUNITY NURSING HOME DISTRICT
HISTORY AND ORGANIZATION

The Lincoln Community Nursing Home District is located in Benton and Pettis Counties and is a nursing home district established pursuant to Chapter 198, RSMo. The district was organized following voter approval in July 1969. The district operates a 60 bed nursing home in Lincoln, Missouri. At June 30, 2000, the district had 60 employees.

A six-member Board is elected for three-year terms, serves without compensation, and is the policy-making body for the district's operations. Members of the Board at June 30, 2000 and their current terms of office are:

| <u>Name and Position</u> | <u>Current Term Expires</u> |
|---------------------------------------|-----------------------------|
| Jerry Rank, President | April 2003 |
| Dr. Donald J. Allcorn, Vice President | April 2001 |
| Janice Swearngin, Secretary | April 2002 |
| Barbara Mehrens, Treasurer | April 2001 |
| Rhonda Reedy, Member | April 2003 |
| Gary Neumann, Member | April 2002 |
| | |
| <u>Other Principal Official</u> | <u>Annual Compensation</u> |
| Erma Leming, Administrator | \$47,629 |

The elected officials and the employees are covered by a \$2,000,000 public official liability bond for each wrongful act.

Assessed valuation and tax rate information for the district are as follows:

| | <u>1999</u> | <u>1998</u> |
|--------------------|-------------|-------------|
| Assessed Valuation | 31,761,219 | 30,571,569 |
| Tax Rate | .05 | .05 |

MANAGEMENT ADVISORY REPORT

LINCOLN COMMUNITY NURSING HOME DISTRICT
SUMMARY OF FINDINGS

1. Expenditures (pages 7-9)

The district does not have a formal bidding policy. A listing of checks is not approved by the board prior to payment and included with the minutes and the receipt of goods or services is not indicated on some invoices. The district made some expenditures which were not a prudent use of public funds and supporting documentation was not retained for a disbursement made in 1998.

2. Budgets and Financial Reporting (pages 9-11)

A budget was not prepared for the year ended June 30, 1998 and the budget prepared for the year ended June 30, 1999 was not adopted by the board. The district overspent the budget for the year ended June 30, 2000. Financial reports were not filed on a timely basis with the State Auditor's office.

3. Meetings, Minutes, and Records (pages 11-13)

The minutes did not always indicate why the board went into a closed session. The board minutes were not signed by the president and were not always signed by the secretary. The minutes did not always include sufficient detail of matters discussed and actions taken at the board's meetings. The tentative agenda is not included with the posting of the notice of the monthly board meeting. The district does not have a formal policy regarding public access to district records.

4. Property Records (pages 13-14)

The district has not prepared and maintained detailed property records.

5. By-Laws (page 14)

The district's by-laws have not been updated to reflect current operations.

LINCOLN COMMUNITY NURSING HOME DISTRICT
MANAGEMENT ADVISORY REPORT –

| | |
|-----------|---------------------|
| 1. | Expenditures |
|-----------|---------------------|

- A. The district does not have a formal bidding policy. As a result, the decision of whether to solicit bids for a particular purchase is made on an item-by-item basis. During the past several years, bids were either not solicited, bid documentation was not retained, or the lowest bid was not always accepted. Examples include, bid documentation could not be located for a \$3,341 folding door and the district spent \$9,690 for computers and the lowest bid (which was \$9,290) was not accepted. There was no documentation to indicate the reason why the higher bid was accepted.

Formal bidding procedures for major purchases provide a framework for economical management of district resources and help ensure the district receives fair value by contracting with the lowest and best bidders. Competitive bidding helps ensure all parties are given an opportunity to participate in the district's business. Bids can be handled by telephone quotation, by written quotation, by sealed bid, or by advertised sealed bid. Various approaches are appropriate, based on dollar amount and type of purchase. Whichever approach is used, complete documentation should be maintained of all bids received and reasons noted why the bid was selected.

- B. The Office Manager prepares a listing of checks for the board to review. However, the register is for checks that have already been paid and the listing is not initialed to note approval by the board. The president of the board began signing checks in November 1999; however, the president does not review the supporting documentation. Prior to November 1999, only the Administrator or the Office Manager signed checks.

Good business practices require all disbursements to be closely scrutinized by the board and properly authorized. Failure to properly review supporting documentation and document the board's approval of disbursements increases the possibility of inappropriate disbursements occurring.

- C. In December 1999 and 1998, the district purchased \$50 employee gift certificates from a local merchandise store at a total cost of approximately \$3,500 in both 1999 and 1998. Also, in November 1999 the district purchased turkeys for employees at a total cost of \$715. In addition, the district disburses \$50 in an employee drawing at each pay period. In total, the district spent \$1300 during 1999 for these drawings. This additional compensation is not reported on the employee's W-2. In addition, a vendor invoice or other supporting documentation was not retained for the gift certificates purchased in 1998.

The district's residents place a fiduciary trust in their public officials to expend public funds in a necessary and prudent manner. These purchases do not appear to represent a necessary and prudent use of public funds. In addition, all expenditures should be supported by vendor invoices or paid receipts to ensure the obligation was actually incurred.

- D. Receipt of goods or services is not always indicated on the invoice prior to an expenditure being approved for payment. The office manager indicated that a form is always filled out which notes the date the goods were received, however she does not always retain this document. The documentation of the receipt of goods or services is necessary to ensure the district actually received the items or services being paid.

WE RECOMMEND the Board of Directors:

- A. Establish formal bidding policies and procedures, including documentation requirements regarding the bids or quotes received and justification for the bid selected.
- B. Ensure detailed and complete listings of bills are prepared, the board's approval is reflected on the listing, and the listing is retained. In addition, the board should ensure it performs adequate reviews of all disbursements and the supporting documentation.
- C. Ensure all expenditures from district monies are a necessary and prudent use of public funds. In addition, the board should ensure all employee compensation is properly reported to the IRS, and that adequate supporting documentation is retained for all expenditures.
- D. Ensure the receipt of goods or services is indicated on invoices prior to them being approved for payment and this documentation is retained.

AUDITEE'S RESPONSE

- A. *The Lincoln Community Nursing Home Board of Directors approved a formal bidding policy in the July 2000 board meeting. A copy of said policy will be placed in the board minutes notebook in the Administrator's office. Since the July 2000 board meeting, all purchases for \$1,000 and under will be the decision of the Administrator, purchases from \$1,000 to \$3,000 will be determined by the Board of Directors and purchases over \$3,000 will be through a bidding process, either by public notice or telephone bids from vendors that deal with the item being selected. Henceforth, all board minutes will be more specific as to why and/or why not bids are accepted. This information will be maintained with board minutes in the month they were discussed, with supporting documentation if available.*
- B. *The Lincoln Community Nursing Home Board of Directors, since June 2000, receives a copy of the prior month's check register and it votes to approve it. The president, treasurer and*

administrator will sign after approval. This signed copy will be kept in the board minutes notebook in the Administrator's office. The Administrator or Office Manager and one board member must sign all checks. The board accepted this process in October 1999.

- C. *The Lincoln Community Nursing Home offers an attendance incentive which is the \$50 drawing for each pay period to one employee. This is positive motivation for everyone to work their shifts as posted, and this is in an effort to have staff at work to give proper resident care. Since September 2000 this has been paid on the following paycheck so that it shows up on their W-2 at the end of the year.*

The turkeys at Thanksgiving and the \$50 gift certificates at Christmas for each employee each year are also positive motivations. These are given to people that are willing to come in and take care of community family members that families are no longer able to take care of on their own. The Lincoln Community Nursing Home Board of Directors feels this is a much more positive motivation action rather than an unnecessary and imprudent use of public funds.

The Lincoln Community Nursing Home now has a more efficient record keeping system than in 1998. When an item is purchased the purchasing department head fills out a facility check request form (including vendor, purchase date, date received, account code and Administrator's approval) and attaches it to the invoice. These are then maintained in the business office with the check stub to the vendor.

- D. *The Lincoln Community Nursing Home Board of Directors feels that with the policy of keeping the facility check request with the invoice with the vendor check stub will produce a paper trail of items received and approved by the Administrator prior to payment. Then, maintaining that information in the business office will ensure it is kept as a part of the permanent records.*

2. Budgets and Financial Reporting

- A. The district did not prepare a budget for the year ended June 30, 1998 and the budget prepared for the year ended June 30, 1999 was not adopted by the board. Section 67.010, RSMo 1994, requires the preparation of an annual budget which shall present a complete financial plan for the ensuing year. In addition, the approved budget for the year ended June 30, 2000, did not include a budget message, a comparative statement of actual revenues and expenditures by budget category for the two preceding years, or a budget summary as required by law.

A complete and well-planned budget, in addition to meeting statutory requirements, can serve as a useful management tool by establishing specific cost and revenue expectations for each area of district operations. A budget can also provide a means to effectively monitor actual costs by periodically comparing budgeted amounts to actual expenditures. A complete budget should include separate revenue and

expenditure estimations by account, and include the beginning available resources and reasonable estimates of ending available resources. The budget should also include a budget message and comparisons of actual or estimated revenues and expenditures for the two preceding fiscal years.

- B. For the year ended June 30, 2000, the district approved expenditures in excess of the budgeted amount by \$35,809. Currently, the board does not receive periodic reports so that it can compare actual revenues and expenditures to budgeted amounts.

The budget process provides a means to allocate financial resources in advance. Failure to adhere to the expenditure limits imposed by the budgets weakens the effectiveness of this process. Section 67.040, RSMo 1994, allows for budget increases, but only after the governing body officially adopts a resolution setting forth the facts and reasons. Section 67.080, RSMo 1994, provides that no expenditure of public monies shall be made unless it is authorized in the budget. The district should require that timely budget to actual comparisons are received and reviewed prior to approving expenditures.

- C. Section 105.145, RSMo 1994, requires the district to file a financial report with the State Auditor's office annually. The district filed the financial statements for each of the last 5 fiscal years in September 1999. The financial report is to be filed within four months after the end of the district's fiscal year (the requirement is six months after the end of the fiscal year if an audit report prepared by a certified public accountant (CPA) is filed).

WE RECOMMEND the Board of Directors:

- A. Prepare and adopt annual budgets in accordance with state law.
- B. Periodically compare actual revenues and expenditures with budgeted amounts to help ensure expenditures do not exceed the amounts approved in the budget. If circumstances require expenditures in excess of amounts budgeted, a formal resolution should be adopted authorizing the additional expenditures and documenting the reasons for such.
- C. Ensure annual financial reports are filed with the State Auditor's office as required and that such reports are filed within four months after the end of the district's fiscal year (or six months after the end of the fiscal year if a CPA audit report is filed).

AUDITEE'S RESPONSE

- A. *The Lincoln Community Nursing Home Board of Directors is unaware as to why there were no budgets before 1998, since those Administrators are not present to answer. The Lincoln Community Nursing Home Board of Directors have approved a budget for the years ending June 30, 1999, 2000 and 2001. The budget for 1999 was presented to the board in October*

1998, but not formally approved, and since that time all budgets have and will continue to be approved before the start of the new budget year. The budget for 2001 does have a message, comparative statement of actual revenues and expenditures by budget category for the two preceding years and a budget summary. The Lincoln Community Nursing Home Board of Directors will ensure that all future budgets carry the necessary components.

- B. The Lincoln Community Nursing Home Board of Directors now receives a copy of the actual versus budgeted accounting each month for it to review and keep. This is a part of the Treasurer's Report approved each month by the Lincoln Community Nursing Home Board of Directors. The Lincoln Community Nursing Home Board of Directors will monitor and amend the budget according to expenditures through the year, to ensure that expenditures do not exceed the budgeted expenses.*
- C. The Lincoln Community Nursing Home Board of Directors will ensure that each year a copy of the financial report is submitted to the Office of State Auditor on a timely basis. The Board of Directors was unaware, as was the Administrator, that the previous years had not been received until notified on September 23, 1999, by the Office of State Auditor.*

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| 3. Meetings, Minutes, and Records |
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- A. The board conducted several closed meetings during the years ended June 30, 1999 and 2000; however, the minutes did not always document the related vote or the reasons for closing the meeting. Section 610.022, RSMo Cum. Supp. 1999, requires that before any meeting may be closed, the question of holding the closed meeting and the reason for the closed meeting shall be voted on at an open session.
- B. The board minutes are prepared by the board secretary, but the minutes are not signed by the President and are not always signed by the board secretary. The board minutes should be signed by the President to provide an independent attestation that the minutes are a correct record of the matters discussed and actions taken during the board's meetings.
- C. The board minutes did not always include sufficient detail of matters discussed and actions taken at the board's meetings. For example, in March 1998 the district approved a proposal to upgrade the computers. The minutes do not indicate the bids that were submitted and which bid the district approved. In addition, the minutes of the board meetings did not always contain information required by statute. When the minutes indicated a motion had been passed, the minutes did not generally indicate the number of votes for and against.

Complete and accurate minutes provide an official record of board actions and decisions. In addition, Section 610.020, RSMo 1994 states that "the minutes shall include the date, time, place, members present, members absent, and a record of votes taken."

- D. The board holds regular meetings on the third Tuesday of each month. Notice of the regular board meetings is posted at the nursing home; however a tentative agenda indicating what is to be discussed at the monthly board meeting is not posted as required. Section 610.020, RSMo Cum. Supp. 1999, requires a tentative agenda to be included in the notice posted for an upcoming meeting.
- E. The district does not have a formal policy regarding public access to district records. A formal policy regarding access to district records would establish guidelines for the district to make records available to the public. This policy should establish a person to contact and an address to mail requests for access to records. Section 610.023, RSMo Supp. 1999, lists requirements for making district records available to the public.

WE RECOMMEND the Board of Directors:

- A. Hold a vote to go into closed session, state the reasons for going into closed session, publicly disclose the final disposition of applicable matters discussed in closed session, and ensure only allowable, specified subjects are discussed in closed session as required by state law.
- B. Ensure board minutes are signed by the secretary and by the President to attest to their completeness and accuracy.
- C. Ensure all significant discussions, actions taken, and information required by state law are included in the minutes.
- D. Ensure the notices posted advising the public of upcoming meetings include tentative agendas as required by state law.
- E. Establish formal written policies and procedures regarding public access to district records.

AUDITEE'S RESPONSE

- A. *The Lincoln Community Nursing Home Board of Directors agrees that if it goes into closed session it will request the reason, and vote on going into closed session before doing so. This information will be placed in the minutes and maintained as part of the record.*
- B. *The Lincoln Community Nursing Home Board of Directors does agree that the Secretary, President, and Administrator will sign all minutes after approval.*
- C. *The Lincoln Community Nursing Home Board of Directors, since June 2000, has seen to it that the minutes are more detailed and specific information, including attaching any corroborating documentation to the minutes. The Board of Directors, since June 2000, has*

seen to it that when a vote is taken the number and names of those voting for and against an action will be recorded. This is accomplished in most cases, because our board votes unanimously on an issue.

- D. The Lincoln Community Nursing Home Administrator, since June 2000 has been placing a copy of the tentative agenda in the usual notice position.*
- E. The Lincoln Community Nursing Home Board of Directors, in July 2000, approved a "request of records" form. This form is to be filled out and returned by anyone requesting records from the Lincoln Community Nursing Home. The request form names the Administrator as the official keeper of records and announces the cost to be incurred for gathering and copying said records, if copies are requested. A copy of said request will be kept in the board minutes notebook in the Administrator's office.*

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| 4. Property Records |
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The district has not prepared and maintained permanent, detailed property records for general fixed assets, including the cost of land, buildings, equipment, and furniture owned by the district. In addition, annual physical inventories are not performed.

Property records for general fixed assets are necessary to ensure accountability for all items purchased and owned.

To develop appropriate records and procedures for general fixed assets, the district needs to undertake a comprehensive review of all property owned by the district. Assets should be counted, tagged for specific identification, and recorded by description and serial number in a detailed property ledger at historical cost or estimated historical cost if the original cost is not available. The district should properly record all fixed asset transactions, and ensure the accuracy of the recorded fixed assets. Periodically, the district should take physical counts of its assets and compare them to the detailed records.

WE RECOMMEND the Board of Directors establish property records for general fixed assets that include all pertinent information for each asset, such as tag number, description, cost, acquisition date, location, and subsequent disposition. In addition, annual physical inventories should be performed.

AUDITEE'S RESPONSE

The Lincoln Community Nursing Home Administrator has a departmental inventory of all items in each department at this time. Since some items had been in the facility for some time it was hard to determine the cost of those items, so no dollar value was placed on those items. The inventory list will be maintained and updated with all new purchases as well as the cost of said purchase. This inventory list will be updated annually during the annual inventory for the close of the fiscal year.

This assets inventory will be maintained in the Administrator's office, in the budget folder for that year.

5.

By-Laws

The district's by-laws are outdated. The district has not reviewed its by-laws to ensure current district operations are in agreement.

For example, the by-laws indicate that the meetings are to be held the first Monday of each month. Currently, the board holds the monthly meetings on the third Tuesday of each month. The by-laws also indicate that checks are to be signed by the secretary and the treasurer. The checks are signed by the Administrator or Office Manager and recently the President also started signing checks.

The district should abide by its by-laws or revise them to reflect the current wishes of the board.

WE RECOMMEND the Board of Directors update the by-laws to reflect the board's intentions, and ensure current operations comply with the adopted by-laws.

AUDITEE'S RESPONSE

This recommendation was implemented effective September 2000.

This report is intended for the information of the district's management and other applicable government officials. However, this report is a matter of public record and its distribution is not limited.