



COUNTY OF LEHIGH  
OFFICE OF THE CONTROLLER

LEHIGH COUNTY GOVERNMENT CENTER  
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GLENN ECKHART  
COUNTY CONTROLLER

JOHN A. FALK  
DEPUTY CONTROLLER

**TO:** Final Report Distribution  
**FROM:** Glenn Eckhart, County Controller *G.E.*  
**DATE:** November 17, 2014  
**RE:** Audit of Brookview Independent Living

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We have completed a financial audit of Brookview Independent Living for the period January 1, 2013 to December 31, 2013. Our audit report number 14-28 is attached.

We made the following observations:

- The "Statement of Receipts and Disbursements and Changes in Cash Balance" present fairly in all material respects, the financial activity of Brookview in 2013.
- Some minor adjustments made to line item expenses in 2013 more appropriately reflect the costs for Brookview.
- All prior findings were addressed or are now being addressed by management.

Attachment

COUNTY OF LEHIGH, PENNSYLVANIA

BROOKVIEW INDEPENDENT LIVING

*Financial Audit*  
*for the Period January 1, 2013 to December 31, 2013*

REPORT NO. 14-28

COUNTY OF LEHIGH, PENNSYLVANIA  
BROOKVIEW INDEPENDENT LIVING

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COUNTY OF LEHIGH, PENNSYLVANIA  
BROOKVIEW INDEPENDENT LIVING

*Background*

Brookview Independent Living Apartments is owned and operated by the County of Lehigh. The apartments were created as the result of eliminating 141 licensed nursing facility beds at Cedarbrook Nursing Homes in Allentown, PA. Construction was made possible through a grant from the County Commissioners Association of Pennsylvania (CCAP) in cooperation with the Department of Public Welfare. The 42 studio and efficiency apartments occupy a three-story wing of the nursing facility, enables Cedarbrook to provide independent living within the security of the Cedarbrook campus. Brookview has its own secure entrance separate from the nursing home, as well as a designated parking lot located to the rear of the building.

On each of the three floors, there is a community dining room, living room/activity room, storage area, lounges, and public restrooms. Eligible applicants have a choice of single or double occupancy. There are 27 single units ranging from 260 to 347 square feet and 15 double units ranging from 494 to 593 square feet. All apartments are equipped with a kitchenette with refrigerator, two burner stove, and microwave oven, handicap accessible bathroom with shower, bedroom, and sitting area. An emergency call system in each apartment connects the tenant with the switchboard of the nursing home in the event of an emergency.

The apartments are affordably priced. The rent includes: cable, heat, air conditioning, electricity, water, sewage, and trash collection. Tenants of Brookview can also access a variety of services from Cedarbrook Nursing Home, such as meals, activities, laundry, housekeeping, barber/beauty, pharmacy, clinics, transportation (medical appointments only), and physical, occupational and speech therapies. Some services may be covered by third party insurance, including Medicare and Medicaid. Brookview does not provide medical care or personal care services on a 24-hour basis. Brookview tenants will have priority for admission to Cedarbrook if short-term rehabilitation or long-term care is needed. (Source: Lehigh County website)



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GLENN ECKHART  
COUNTY CONTROLLER

JOHN A. FALK  
DEPUTY CONTROLLER

Mr. Steve Ryan, Chief Financial Officer  
Cedarbrook Nursing Home Administration  
350 S. Cedarbrook Road  
Allentown, PA 18104

We have audited the accompanying Statement of Receipts and Disbursements and the Changes in Cash Balance of Brookview Independent Living for the period January 1, 2013 to December 31, 2013 as listed in the Table of Contents. The financial statements are the responsibility of the Brookview Independent Living's management. Our responsibility is to express an opinion on the Statement of Receipts and Disbursements and the Changes in Cash Balance based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the generally accepted government auditing standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles.

Also, as discussed in Note 1, the financial statements present only the Brookview Independent Living financial activity and does not purport to, and does not, present fairly the assets, liabilities, and results of operations of the County of Lehigh for the period January 1, 2013 to December 31, 2013 in conformity with the cash receipts and disbursements basis of accounting.

In our opinion, the Statement of Receipts and Disbursements and the Changes in Cash Balance referred to above present fairly, in all material respects, the financial activity arising from cash transactions of the Brookview Independent Living for the period January 1, 2013 to December 31, 2013, on the basis of accounting described in Note 1. However, we noted control deficiencies or other management issues that are described in the accompanying "*Schedule of Audit Findings and Recommendations*" and "*Schedule of Prior Audit Findings and Recommendations*".

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2014 on our consideration of Brookview Independent Living's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

A handwritten signature in dark ink, appearing to read "Glenn Eckhart". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

Glenn Eckhart  
County Controller

October 29, 2014  
Allentown, Pennsylvania

xc: Board of Commissioners  
Mary A. Hazzard, Administrator, Cedarbrook  
Terry Hollinger, Director, Cedarbrook  
Daniel McCarthy, Director of Administration  
Thomas Muller, County Executive  
Timothy Reeves, County Fiscal Officer

COUNTY OF LEHIGH, PENNSYLVANIA  
BROOKVIEW INDEPENDENT LIVING

*Statement of Receipts and Disbursements  
and Changes in Cash Balance  
For the period January 1, 2013 to December 31, 2013  
(NOTE 1)*

<b>Fund Balance January 1, 2013</b>		\$ 774,403
<b>Revenues:</b>		
Rent	\$ 298,720	
Interest-Money Market	1,391	
Other Earnings	<u>48,665</u>	
Total Revenues		\$ 348,776
<b>Expenses (and allocations):</b>		
Operating Supplies	\$ 44,684	
Electricity	63,876	
Water/Sewer	11,376	
Maintenance/Repair Services	21,539	
General Insurance	3,380	
Cost Allocations: (NOTE 2)		
Social Services to CB fund	37,103	
Housekeeping to CB fund	12,709	
Business Office to CB fund	5,577	
Maintenance to CB fund	<u>17,811</u>	
Total Expenses		<u>218,055</u>
<b>Net Operating Profit (Loss):</b>		\$ 130,721
Indirect Cost Allocation		<u>(16,232)</u>
<b>Net Profit (Loss):</b>		114,489
<b>Transfer to Cedarbrook Fund:</b>		
Budgeted Underwrite to CB fund: (NOTE 2)		<u>375,000</u>
<b>Fund Balance December 31, 2013</b>		<b><u>\$ 513,892</u></b>

The accompanying notes to financial statement are an integral part of this statement.

COUNTY OF LEHIGH, PENNSYLVANIA  
BROOKVIEW INDEPENDENT LIVING

*Notes to Financial Statements*  
*for the Period January 1, 2013 to December 31, 2013*

**1. Summary of Significant Accounting Policies**

**A. Reporting Entity**

The Brookview Independent Living's financial activity is a part of the County of Lehigh's reporting entity, included in the general fund and is subject to annual financial audit by external auditors. This report is only for internal audit purposes.

**B. Basis of Accounting**

The accounting records of the County of Lehigh and the Statement of Receipts and Disbursements and the Changes in Cash Balance are maintained on the cash receipts and disbursements basis of accounting. Under this basis of accounting, revenue is recognized when cash is received and expenditures are recognized when paid. This differs from Generally Accepted Accounting Principles (GAAP) which requires the accrual basis of accounting.

**2. Transfer to Cedarbrook Fund**

The 2013 approved budget included financing uses of \$467,232 consisting of the transfer to Cedarbrook Fund of \$451,000 and an indirect cost allocation of \$16,232. Actual 2013 transfers included a \$375,000 Cedarbrook budgeted underwrite, \$64,679 in other cost allocations (Social Services \$28,582, Housekeeping \$12,709, Business Office \$5,577, Maintenance \$17,811) and the indirect cost allocation of \$16,232 for a total of \$455,911. As stated on finding #1 on page eight, we adjusted the Social Services cost allocation from \$28,582 to \$37,103 for reporting purposes.





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Mr. Steve Ryan, Chief Financial Officer  
Cedarbrook Nursing Home Administration  
350 S. Cedarbrook Road  
Allentown, PA 18104

We have audited the financial statements of Brookview Independent Living for the period January 1, 2013 to December 31, 2013 and have issued our report thereon dated October 29, 2014. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the generally accepted government auditing standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

In planning and performing our audit, we considered Brookview Independent Living's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the Statement of Receipts and Disbursements and the Changes in Cash Balance, but not for the purpose of expressing an opinion on the effectiveness of the Brookview Independent Living's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Brookview Independent Living's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

A material weakness is a deficiency, or combination of deficiencies, in internal control, such as there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

As part of obtaining reasonable assurance about whether Brookview Independent Living's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Brookview Independent Living in a separate section titled "*Schedule of Audit Findings and Recommendations*" and "*Schedule of Prior Audit Findings and Recommendations*".

Brookview's response to our audit is included in this report. We did not audit Brookview's response and, accordingly, we do not express an opinion on it.

This report is intended solely for the information and use of management, others within the entity, and Thomas Muller, County Executive; Daniel McCarthy, Director of Administration; Board of Commissioners; Mary Hazzard, Administrator, Cedarbrook; and Terry Hollinger, Director, Cedarbrook and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in dark ink, appearing to read "Glenn Eckhart". The signature is stylized and cursive.

Glenn Eckhart  
County Controller

October 29, 2014  
Allentown, PA

COUNTY OF LEHIGH, PENNSYLVANIA  
BROOKVIEW INDEPENDENT LIVING

*Schedule of Audit Findings and Recommendations*

1. Adjusted Financial Statement Expenses

**Condition:** Brookview implemented a benefits charge for Social Services in January and February 2013 and none for the remaining 10 months of the year. A sewer bill issued in 2013 was expensed in 2014 but no bill from 2012 was included in the 2013 financial statements. Both conditions required adjustment of the 2013 financial statements:

- Social Services expenses of \$28,581.80 per the trial balance were adjusted to \$37,103.19. The adjustment uses a 37.15% benefits charge in addition to the social services expense.
- Water/Sewer expenses of \$9,112.87 per the trial balance were adjusted to \$11,375.52.

**Recommendation:** Include the annual benefit percentage for employee benefits charges in addition to the usual monthly expense rate when calculating Social Services expense. Additionally, management should include a prorated charge for sewer bill(s) in the water/sewer line item 1209.070900.000.46114.

2. Prior Audit Finding Not Addressed (Report 11-63, issued December 8, 2011)

**Condition:** Third party payments for one resident were not billed and submitted in a timely manner. These payments were submitted in intervals over a period of 18 months and ultimately recovered.

**Recommendation:** Management should ensure billing occurs on a timely basis and consider requiring the third party payee to submit resident payment via electronic funds transfer (ACH). Brookview management should reconcile payments monthly for all third-party payees.

COUNTY OF LEHIGH, PENNSYLVANIA  
BROOKVIEW INDEPENDENT LIVING

**Schedule of Prior Audit Findings and Recommendations**

1. Missing Expense Allocation - Maintenance

**Condition:** Brookview management uses Cedarbrook maintenance staff when performing services for Brookview residents prior to, during, and subsequent to resident vacancies. These costs are not being reported or expensed.

**Recommendations:** Management should consider requiring the Cedarbrook Facilities Director report the number of maintenance hours spent on each apartment for preparation, remodeling, and clean up on a monthly basis. These hours should be the basis for reporting and expensing maintenance allocations each month.

**Auditee Response:** At the end of every month, the Facilities Director will be supplying the CFO with the Maintenance hours worked at BV to be included with the monthly allocation process.

**Current Condition:** Management has adequately addressed the condition.

2. Improper Expense Allocation – General Insurance

**Condition:** Brookview management did not provide an insurance allocation for general insurance expense for the audit period.

**Recommendations:** Management should properly allocate costs to Brookview accounts including the above insurance expense.

**Auditee Response:** JE will be completed to allocate insurance monies from the Cedarbrook insurance line 070131.46611.

**Current Condition:** Management has adequately addressed the condition.

3. Third Party Payments Not Submitted Timely

**Condition:** Third party payments for one resident were not billed and submitted in a timely manner. These payments were submitted in intervals over a period of 18 months and ultimately recovered.

**Recommendation:** Management should ensure billing occurs on a timely basis and consider requiring the third party payee to submit resident payment via, electronic funds transfer (ACH).

**Auditee Response:** Most residents of Brookview are currently billed and payment made by the electronic funds transfer (ACH). One resident is paid through the Pennsylvania CAT Fund and the two others pay by check. The billing to the CAT fund and the private pay residents will be done by the 10<sup>th</sup> of each month. The payments are monitored for timeliness.

**Current Condition:** Payments were not adequately made in 2013. See **Schedule of Audit Findings and Recommendations** no. 2.

#### 4. Security Deposits Requirements

**Condition:** Security deposit amounts of \$75 are not high enough to cover any damages that may occur as a result of neglect or damage caused by residents. Industry standards for apartment security deposits are at least one month's rent.

**Recommendation:** Security deposit amounts should be increased to cover costs that may result from neglect and damage caused by residents.

**Auditee Response:** Recommend increasing Security deposit from \$75.00 to \$100.00 as an amount greater than \$100.00, according to the PA Landlord-Tenant Law, would require establishing an escrow account and interest distribution annually in addition to other legal requirements.

**Current Condition:** Management has adequately addressed the condition.

#### 5. Prior Audit Finding Not Implemented (Report 08-56, issued July 30, 2008)

**Condition:** A decrease in water expense allocation of \$39,073 from 2007 was never corrected.

**Recommendation:** Management should properly allocate costs to Brookview accounts.

**Auditee Response:** No action is anticipated to correct the previous financial statement.

**Current Condition:** Management has not addressed the 2007 expense. No action is anticipated to correct the prior financial statement.

#### 6. County Cost of Services Not Covered

**Condition:** Brookview charges \$14 per hour and \$17 per hour for housekeeping and maintenance services, respectively. However, pay grades, inclusive of benefit costs, for housekeeping and maintenance staff are between \$17.36 - \$22.64 per hour and \$21.02 and \$27.43 per hour, respectively.

**Recommendation:** Costs for housekeeping and maintenance services should be equal to or greater than the highest paid position for that grade of work and include 35.1% for benefits, in order to fully reflect county costs. Furthermore, management should periodically review these rates and subsequently change the rate for service to ensure the cost of providing these services are covered.

**Auditee Response:** Recommend Housekeeping, Maintenance, Social Services, and Business Office rates will be increased to reflect County costs and benefits for 2012.

**Current Condition:** Management has addressed the service fees, but the allocated costs for Social Services did not include the benefits charge (37.15% in 2013). See **Schedule of Audit Findings and Recommendations** no. 1.

# CEDARBROOK NURSING HOMES

## INTEROFFICE MEMORANDUM

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**TO:** Glenn Eckhart, County Controller  
**FROM:** Stephen Ryan, Chief Financial Officer, Cedarbrook  
**DATE:** October 29, 2014  
**RE:** Brookview IL Audit Report  
January 1, 2013 to December 31, 2013

Cedarbrook Management Response to Audit findings and Recommendations

- 1) Adjusted Financial Statement Expenses
  - a. Social Services Expenses-All expense allocations for 2014 included an add-on for benefits to any labor based expenses. This add-on is calculated as a percentage of the wage dollars. This percentage will be updated periodically based on input from the County Fiscal Department.
  - b. Water/Sewer Expenses-The Chief Financial Officer reviews all expenses recorded to utility accounts for Cedarbrook, and records allocations of a portion to Brookview. Any amounts that are utility expense to Cedarbrook Allentown will be included in the calculation of the expense allocated to Brookview.
- 2) Prior Audit Finding Not Addressed
  - a. Brookview management now reviews expected rent payments each month and pursues collection on a timely basis when required.
- 3) Prior Audit Finding update
  - a. County Cost of Services Not Covered
    - i. The hourly rates utilized to charge Brookview for services provided by Cedarbrook staff will be reviewed each year and updated as required to more adequately cover the cost incurred by the county to provide services to Brookview tenants.
    - ii. A benefits add-on will be used every month to include benefits expense in the expense allocation to Brookview.