



COUNTY OF LEHIGH  
OFFICE OF THE CONTROLLER

LEHIGH COUNTY GOVERNMENT BUILDING  
17 SOUTH SEVENTH STREET  
ALLENTOWN, PA 18101-2800  
610-782-3892 FAX 610-871-2807

GLENN ECKHART  
COUNTY CONTROLLER

JOHN A. FALK  
DEPUTY COUNTY CONTROLLER

**TO:** Final Report Distribution  
**FROM:** Glenn Eckhart, County Controller **G.E.**  
**DATE:** September 23, 2013  
**RE:** Audit of Nursing Home Fund

---

We have completed a financial audit of Nursing Home Fund for the calendar year ended December 31, 2012. Our audit report number 13-51 is attached.

The results of our audit are:

- The process for recording resident trustee account bank deposits does not provide an adequate audit trail
- The Investment Advisory Account policy should be updated
- Some funds are not deposited on a timely basis
- Internal controls should be strengthened over beauty shop billings and canteen sales

Attachment

AUDITS/NURSING HOME FUND

**COUNTY OF LEHIGH, PENNSYLVANIA**  
**NURSING HOME FUND**

*Financial Audit*  
*For the calendar year ended December 31, 2012*

REPORT NO. 13-51

COUNTY OF LEHIGH, PENNSYLVANIA  
NURSING HOME FUND

*Table of Contents*

	<b>Page(s)</b>
Background .....	1
OPINION OF GLENN ECKHART LEHIGH COUNTY CONTROLLER .....	2-3
Statement of Receipts, Disbursements and Changes in Fund Balance for the calendar year ended December 31, 2012 .....	4
Notes to Financial Statement .....	5
Comments on Compliance/Internal Control .....	6-7
Schedule of Audit Findings and Recommendations .....	8-10
Management's Response .....	11-13

COUNTY OF LEHIGH, PENNSYLVANIA  
NURSING HOME FUND

*Background*

The Nursing Home Fund is separate from the Cedarbrook Fund and is comprised of three components:

1. Resident trustee accounts - funds belonging to the residents held in a separate bank account
2. Gift shop and craft sale profits - accumulated profits from gift shop and craft sales occurring at both nursing home locations
3. Investment advisory account - funded by donations, trust account earnings, and interest income and used to fund resident activities and quality of life expenses

Gift shop and craft sales profits and investment advisory funds are held in the county bank accounts.

Nursing home operations are recorded in The Cedarbrook Fund and are not included in the scope of this audit.



COUNTY OF LEHIGH  
OFFICE OF THE CONTROLLER

1110 N. SECOND STREET, SECOND FLOOR  
PO BOX SEVENTEEN 50607  
ALLENTOWN, PA 18101-2900  
610-782-3482 FAX 610-877-2647

GLENN BUKHART  
COUNTY CONTROLLER

JOHN A. FALK  
COMPTROLLER GENERAL

Guy Leader III, Chief Financial Officer  
Cedarbrook Nursing Homes  
350 South Cedarbrook Road  
Allentown, PA 18104

We have audited the accompanying Statement of Receipts, Disbursements and Changes in Fund Balance of the Nursing Home Fund for the calendar year ended December 31, 2012 as listed in the Table of Contents. The financial statements are the responsibility of the Nursing Home Fund's management. Our responsibility is to express an opinion on the Statement of Receipts, Disbursements and Changes in Fund Balance based on our audit.

We conducted our audit in accordance with the 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 that 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, the financial statements present only the Nursing Home Fund 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 calendar year ended December 31, 2012 in conformity with the cash receipts and disbursements basis of accounting.

In our opinion, the Statement of Receipts, Disbursements and Changes in Fund Balance referred to above presents fairly, in all material respects, the financial activity arising from cash transactions of the Nursing Home Fund for the calendar year ended December 31, 2012, 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*".

In accordance with *Government Auditing Standards*, we have also issued a report dated September 13, 2013 on our consideration of the Nursing Home Fund'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.



GLENN ECKHART  
County Controller

September 13, 2013  
Allentown, Pennsylvania

Final Distribution:

Jamie Aurand, Administrator/Director, Cedarbrook Homes  
Board of Commissioners  
Matthew Croslis, County Executive  
Mary Hazzard, Assistant Administrator, Cedarbrook Homes  
Brian Kahler, Fiscal Officer  
Thomas Muller, Director of Administration  
Michelle Reichard, Office Supervisor, Cedarbrook Homes



COUNTY OF LEHIGH, PENNSYLVANIA  
NURSING HOME FUND

*Statement of Receipts, Disbursements and Changes in Fund Balance  
For the calendar year ended December 31, 2012  
(NOTE 1)*

	<u>Trustee Accounts</u>	<u>Gift Shop and Craft Sales</u>	<u>Investment Advisory</u>	<u>Total</u>
<b>RECEIPTS (NOTE 2)</b>				
Trustee account deposits	\$7,825,573	\$	\$	\$7,825,573
Gift shop and craft sales		31,505		31,505
Warmkessel Trust			3,986	3,986
Morning Call commissions			1,874	1,874
Donations			828	828
Interest income			452	452
<b>TOTAL RECEIPTS</b>	<b>7,825,573</b>	<b>31,505</b>	<b>7,140</b>	<b>7,864,218</b>
<b>DISBURSEMENTS (NOTE 3)</b>				
Nursing home fees	6,735,121			6,735,121
Resident account expenditures	1,190,637			1,190,637
Gift shop purchases		21,973		21,973
Resident entertainment/activities			22,245	22,245
<b>TOTAL DISBURSEMENTS</b>	<b>7,925,758</b>	<b>21,973</b>	<b>22,245</b>	<b>7,969,976</b>
Excess of Receipts Over (Under) Disbursements	(100,185)	9,532	(15,105)	(105,758)
Fund Balance - January 1, 2012	1,262,743	165,041	219,313	1,647,097
Fund Balance - December 31, 2012	<u>\$1,162,558</u>	<u>\$ 174,573</u>	<u>\$ 204,208</u>	<u>\$1,541,339</u>

The accompanying notes are an integral part of the financial statement.

COUNTY OF LEHIGH, PENNSYLVANIA  
NURSING HOME FUND

*Notes to Financial Statement*  
*For the calendar year ended December 31, 2012*

**1. Basis of Accounting**

The accounting records of the Nursing Home Fund and the Statement of Receipts, Disbursements and Changes in Fund Balance for the year ended December 31, 2012, 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. Receipts**

- A. Trustee account deposits are comprised of resident pensions, payments for non-covered services (beauty shop), family member donations, and bank account interest.
- B. Gift shop and craft sales revenues are from both locations.
- C. Warmkessel Trust receipts are quarterly distributions of trust earnings. The trust was funded with the proceeds of a former resident's estate. The trust is not an asset of the Nursing Home Fund, the Cedarbrook Fund, nor the County of Lehigh.
- D. Morning Call commissions are received bi-weekly and are based on newspapers sold at the nursing homes. The payments from the Morning Call ended in early 2013 when the route was turned over to a private carrier.
- E. Donations are cash payments received from friends and family of former residents.
- F. Interest income is based on funds held in County of Lehigh bank accounts.

**3. Disbursements**

- A. Nursing home fees are monthly charges by the nursing homes for resident lodging and care.
- B. Resident account expenditures include payments for non-covered services, medical insurance premiums, clothing and gift shop purchases, and other payments made in behalf of the resident.
- C. Gift shop purchases are payments made for items purchased for resale. There is no adjustment for beginning and ending inventories.
- D. Resident entertainment and activities are payments for nursing home entertainment, meals for residents at restaurants, decorations, etc.





COUNTY OF LEHIGH  
OFFICE OF THE CONTROLLER

LEHIGH COUNTY GOVERNMENT - 17000  
17 SOUTH SEVENTH STREET  
ALLENTOWN, PA 18101-2400  
PH: 781-482-1144 FAX: 610-877-2007

GLENN ECKHART  
COUNTY CONTROLLER

JOHN A. FALK  
COUNTY MANAGER

Guy Leader III, Chief Financial Officer  
Cedarbrook Nursing Homes  
350 South Cedarbrook Road  
Allentown, PA 18104

We have audited the financial statements of the Nursing Home Fund for the calendar year ended December 31, 2012 and have issued our report thereon September 13, 2013. 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 the Nursing Home Fund'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, Disbursements and Changes in Fund Balance but not for the purpose of expressing an opinion on the effectiveness of the Nursing Home Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Nursing Home Fund'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 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 the Nursing Home Fund'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 the Nursing Home Fund in a separate section titled "*Schedule of Audit Findings and Recommendations*".

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

This report is intended solely for the information and use of county management, others within the county, and Lehigh County Commissioners 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 black ink, appearing to read 'Glenn Eckhart', written in a cursive style.

Glenn Eckhart  
County Controller

September 13, 2013  
Allentown, Pennsylvania

COUNTY OF LEHIGH, PENNSYLVANIA  
NURSING HOME FUND

*Schedule of Audit Findings and Recommendations*

1. Daily deposits not posted

Condition: Daily deposits were not recorded in the county's accounting system. We were unable to reconcile the daily resident bank deposits to the monthly amount recorded in the general ledger. The current practice is to record bank deposits via a monthly journal entry. The monthly amount recorded in the county accounting system is a calculated amount forcing the balance from bank statement to match the total resident account balance. Forced balances can allow errors or omissions to go undetected by county management.

Recommendation: Post daily resident account bank deposits (for each location) in the county's accounting system (general ledger) on a daily basis. This process will enable management to properly reconcile the bank statement balances to the total resident account balance. Daily general ledger postings should match detailed listings of accounting transactions to provide an adequate audit trail.

2. Investment advisory policies should be updated

Condition: The existing investment advisory policy does not adequately address current spending activities and funding streams. The existing policy established in 1993, and last updated in June 2010, states: *"The Resident Investment Advisory Account shall be utilized to enhance the quality of life and activities for the residents of Cedarbrook-Allentown and Cebbrook-Fountain Hill"*.

In addition to funding entertainment programs and resident outings, investment advisory funds were used to purchase eight wall-mounted hair dryers costing a total of \$1,438 for the beauty shop in July 2012. We believe the purchase was consistent with the current investment advisory policies; however, it is unclear whether these items should have been charged to the investment advisory account or nursing home operations. Conversely, other nursing home expenditures may more appropriately be charged to the investment advisory account.

The investment advisory fund balance (\$204,208 as of 12/31/12) is expected to increase significantly during 2013 with additional anticipated trust fund receipts of approximately \$390,000.

Recommendation: The policy should be updated to address the following issues:

- establish a clear definition of allowable expenditures
- request the county executive to appoint an independent board (per section 602 of the Home Rule Charter) to oversee investment advisory account activities and prepare annual spending plans
- consider placement of funds in a restricted bank account ensuring they cannot be diverted to other uses
- document fund disposition if one or both nursing locations are divested



3. No clear guidance for use of accumulated profits

Condition: Gift shop and therapeutic recreation (TR) sale and purchasing transactions are being posted to the Nursing Home Fund. As of 12/31/12, cumulative postings amount to \$174,573.

Gift shop and TR sales are part of daily nursing home operations and should be recorded in the Cedarbrook Fund, unless there is authoritative documentation approving diversion of profits to the Nursing Home Fund.

Recommendation: Gift shop and TR sales activities should be recorded in the Cedarbrook Fund.

4. Inadequate controls over billing/collection for beauty shop services

Condition: The responsibility for invoicing and recording payment for Beauty Shop services are not separated. The same person invoices and updates payment status for beauty shop services at each location. Without separation of duties, errors or omissions could occur and not be detected by management.

Also, we found past due invoices of \$1,255 and \$354 for Allentown and Fountain Hill residents, respectively, as of May 31, 2013. Some of the past due amounts are owed by residents who have since passed away. In other cases family members responsible for payment have not made payment.

Recommendations:

- To ensure one person does not have complete control over a financial transaction, duties for invoicing beauty shop services should be separated from collecting and recording payments for services.
- Management should pursue collection of past due accounts to ensure timely payment.

5. Funds not deposited timely

Condition: We found some receipts are not deposited on a timely basis –

- Cash from Fountain Hill location snack and meal ticket sales is deposited weekly (approximately \$160 a week, mostly from snack sales)
- Cash from Allentown location meal ticket sales is deposited monthly (approximately \$50 a month)
- Checks received at Fountain Hill location are occasionally held a few days due to end of month automated accounting system processes (amounts vary)

Although these funds are not large sums, and are kept in secure locations, failure to deposit all cash and cash items on a daily basis increases the risk of financial loss.

Recommendation: We recommend daily deposit of all funds received.

6. No periodic physical inventories at the gift shop

Condition: Periodic physical inventories are not conducted at the Allentown location gift shop (average annual sales approximately \$30,000). Failure to conduct physical inventories and monitor inventory activity at regular intervals precludes management from identifying inventory shrinkage. Also, management does not utilize any trend reporting comparing purchases / sales / inventory on-hand.

Recommendation: Periodic inventories (or periodic spot checks of select gift shop items) should be taken by personnel not involved with gift shop operations. Results should be recorded, compared to purchasing records, and approved by management in writing. Any discrepancies should be investigated. In addition, management should monitor monthly revenues and purchases to ensure current sales are consistent with past purchases and inventory on-hand.

7. No receipts issued for Fountain Hill snack sales

Condition: All sales at the Fountain Hill location are cash sales averaging \$147 per week (based on 2012 transactions). No receipts are issued. Without a receipt system, funds could be lost or stolen without detection by management.

Recommendation: To ensure all sales are recorded receipts should be issued for each sale. However, since resources are limited and sales are mostly small price items we suggest a more pragmatic approach - have the receptionist keep a daily tally of sales, sign and date the tally sheet, and turn it over to the finance office daily for review and (daily) deposit.



**CEDARBROOK NURSING HOME  
RESPONSE TO AUDIT – NURSING HOME FUND  
DRAFT LETTER DATED August 12, 2013**

**TO:** Glenn Eckhart, County Controller, Controller's Office  
Thomas F. Schweyer, Senior Auditor, Controller's Office

**FROM:** Guy Leader, CFO, Cedarbrook Nursing Home

**DATE:** September 13, 2013

*Handwritten signature and date: 9/13/13*

**1. Daily deposits not posted.**

It was recommended that the County post daily resident account bank deposits (for each location) in the accounting system (general ledger) on a daily basis.

Discussions have been initiated with Brian Kahler, County Fiscal Officer, concerning this recommendation. We are awaiting his response on whether procedures will be formalized to accommodate the recommendation, or make other procedural changes based on our discussions.

**2. Investment advisory policies should be updated.**

It was recommended that the Investment Advisory policy should be updated to address the following issues: establish a clear definition of allowable expenditures; request the County Executive to appoint an independent board to oversee; consider placement of funds in a restricted bank account and document fund disposition if one of both nursing locations are divested.

The Resident Investment Advisory policy has been updated to also include the Canteen and the T/R Craft Funds. A definition of allowable expenses was not included as flexibility was needed for the variety of expenses possible for the benefit of the residents. While it is not felt that an independent board is necessary, the decision making authority has been expanded to include the Assistant Administrator and the Director of Therapeutic Recreation in addition to the Administrator. We do not believe that the funds need to be placed in a restricted bank account, but we have initiated discussion on this recommendation with the County Fiscal Officer. As to the disposition of the funds in case of divestment, it was felt that since the funds were donated for the benefit of the residents, the monies should stay with the facilities if reorganized or privatized as an endowment, but believe that this would be specified in the settlement/sell agreement.

**3. No clear guidance for use of accumulated profits.**

It was recommended that the Gift Shop and the T/R Craft funds be recorded in the Cedarbrook Fund.

We have included the Gift Shop and the T/R Craft funds in the updated Resident Advisory Fund Policy. We believe these funds should also be used for the benefit of the residents per that policy.

**4. Inadequate controls over billing/collection for beauty shop services.**

It was recommended that invoicing beauty shop services should be separated from collecting and recording payments for services.

At Allentown, the invoicing is now being performed by the receptionist while the receipts are recorded by another staff member and the deposit is then done by the Office Manager. At the Fountain Hill site, the billing of services is performed by the office staff, while the recording of receipts is performed by the receptionists and the deposits are done by the office staff. Any balances over 60 days will be referred to the CFO for further action, if necessary.

**5. Funds not deposited timely.**

It was recommended that all funds received be deposited daily.

While the funds in this recommendation are small and are kept in a secure location, we have initiated daily deposits of all funds.

**6. No periodic physical inventories at the gift shop.**

It was recommended that periodic inventories (or periodic spot checks of select gift shop items) should be taken by personnel not involved with the gift shop operations.

The gift shop is managed by one part time Business Office person while the actual daily operations are performed basically by volunteers. The main sales are candy and snacks valued at \$1.00 and under. There are only a very few higher priced items, such as \$10 watches and \$15 tee shirts. As this fund is now monitored through the updated Investment Advisory Policy, we believe that this will provide the oversight that is needed for sound financial operations and we do not believe that with the Business Office staff person involved an inventory is necessary or practical.

**7. No receipts issued for Fountain Hill snack sales.**

It was recommended that in order to ensure that all sales at the Fountain Hill location are recorded, receipts be issued for each sale; although, due to pragmatics, it was further recommended that only a daily tally sheet by the receptionist would be sufficient.

We believe that moving the cash register from the Fountain Hill business office to the receptionist area would resolve this issue. The register would provide receipts for purchases and a daily tape for deposits. Therefore, the register will be moved and all receptionists trained in the operation of the register. This will be accomplished by October 1, 2013.