




COUNTY OF LEHIGH
OFFICE OF THE CONTROLLER

LEHIGH COUNTY GOVERNMENT CENTER
17 SOUTH SEVENTH STREET
ALLENTOWN, PA 18101-2400
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TO: Final Report Distribution

FROM: Thomas Slonaker, County Controller 

DATE: February 18, 2009

RE: Audit of Cedarbrook Nursing Homes Residents' Trustee Accounts

We have completed an internal audit of Cedarbrook Nursing Homes residents' trustee accounts for the period January 1, 2008 through September 30, 2008. Our audit report number 09-9 is attached.

The results of our audit are:

- Cash controls have improved.
- Controls over gift shop inventory should be strengthened.

Attachment

AUDITS/CEDARBROOK

COUNTY OF LEHIGH, PENNSYLVANIA
CEDARBROOK NURSING HOMES
RESIDENTS' TRUSTEE ACCOUNTS

Internal Audit for the Period

January 1, 2008 through September 30, 2008

REPORT NO. 09-9

COUNTY OF LEHIGH, PENNSYLVANIA
CEDARBROOK NURSING HOMES
RESIDENTS' TRUSTEE ACCOUNTS

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COUNTY OF LEHIGH, PENNSYLVANIA
CEDARBROOK NURSING HOMES
RESIDENTS' TRUSTEE ACCOUNTS

Background

Trustee accounts are established for each resident tracking financial activity related to their care. A separate bank account is maintained for resident trustee funds. As of September 30, 2008, trustee funds amounted to \$683,541.34 for approximately 670 residents. Deposits stem from state medical assistance, social security, private pensions, and private pay charges. Expenses include room and board, gift shop purchases, and other services.

Funds related to nursing home operations are maintained in a separate bank account.



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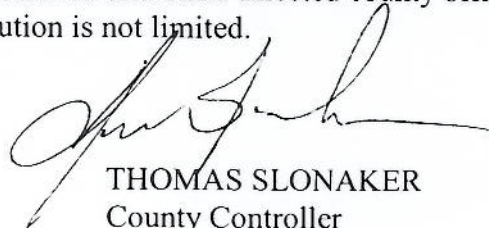
Larry Epting, Chief Financial Officer
Cedarbrook Nursing Homes
350 South Cedarbrook Road
Allentown, PA 18104

We have recently completed an internal audit of the financial records of the resident trustee accounts at Cedarbrook Nursing Home. The scope of our detail audit testing was January 1 through September 30, 2008. Our objective was to ensure the adequacy of cash handling controls.

We conducted our audit in accordance with "*Standards for the Professional Practice of Internal Auditing*", promulgated by the Institute of Internal Auditors. Our audit included examination of the accounting records, documentation, discussions with Cedarbrook and other county personnel, and such other auditing procedures we considered necessary in the circumstances.

We concluded cash handling controls have been enhanced due to the centralization of personnel and implementation of an automated cash receipts system. Additional opportunities for improvement are discussed in the accompanying "*Schedule of Audit Findings and Recommendations*".

We wish to thank the nursing home staff for their cooperation during the audit. This report is intended for the information and use of nursing home administration and other affected county offices. However, this report is a matter of public record and its distribution is not limited.



THOMAS SLONAKER
County Controller

February 12, 2009
Allentown, Pennsylvania

Final Distribution:
Board of Commissioners
Donald T. Cunningham, Jr., County Executive
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COUNTY OF LEHIGH, PENNSYLVANIA
CEDARBROOK NURSING HOMES
RESIDENTS' TRUSTEE ACCOUNTS

Schedule of Audit Findings and Recommendations

1. Inventory Control

Condition: Gift shop inventory controls could be enhanced. Physical counts are not conducted and subsidiary ledgers are not maintained. Periodic physical counts compared to inventory records would alert management to a discrepancy in a timely manner.

Recommendation: Ideally, inventory transactions should be traced by item and compared to physical counts conducted at least on a quarterly basis. Due to the current volume of sales (\$32,000/year), a modified approach would be more practical.

COUNTY OF LEHIGH, PENNSYLVANIA
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RESIDENTS' TRUSTEE ACCOUNTS

Schedule of Prior Audit Findings and Recommendations

1. Ineffective Cash Handling Procedures

Condition: Current cash handling procedures do not provide adequate internal control, require substantial manual data entry, and under-utilize resources.

- Cash is collected at six sites:
 - 1) Allentown business office
 - 2) Allentown human resources department
 - 3) Allentown gift shop
 - 4) Fountain Hill business office
 - 5) Fountain Hill human resources department
 - 6) Fountain Hill lobby (candy sales)

Not all sites have the resources to allow adequate segregation of cash handling duties. One person should not have complete control over a financial transaction.

- Numerous manual receipt systems are utilized to record cash transactions. Manual receipting requires re-entering the data from the receipt into the automated accounting system. Also, each receipt system requires separate oversight controls, including safekeeping of unused receipts and accounting for numerical sequence.
- Approximately 150 social security checks are mailed to the business offices monthly, instead of directly deposited into the trustee bank account. This is due to a backlog in completing direct deposit applications.

Direct deposit would eliminate the time-consuming process of receipting, recording, and depositing, as well as provide a stronger control over resident funds.

Recommendations: Management should consider the following changes to the cash collection and recording process:

- Use the Allentown business office as the main cash collection site and centralize all business office staff in Allentown. By centralizing responsibilities and resources, management is in a better position to segregate duties, re-direct resources, and monitor cash handling activities.
- Assign additional resources to the completion of direct deposit applications.
- Utilize direct deposit whenever possible for resident receipts and ensure applications for direct deposit are submitted on a timely basis.

Auditee Response: Cash will be collected and processed at the following sites: Allentown Business Office, Allentown Gift Shop, Fountain Hill Business Office (see special remarks on combining the Fountain Hill office with the Allentown location) and Fountain Hill receptionist area (candy sales).

All cash handling events that occurred in the Allentown and Fountain Hill Human Resources have been stopped and directed to the Business Office.

As personnel permits, we will separate the duties of the same employee that collects the cash, writes the receipts, and prepares the bank deposit slip. We are currently working with the County Computer Service personnel to establish in KEA a daily cash receipts entry system that will also create a computerized receipt.

We have developed a schedule that permits us to be timely in the application of resident checks, social security and pension, to be directly deposited into the resident trust accounts; thus saving us time and increasing the efficiency of the office operations.

As you have suggested and we have discussed, we are in the process of combining the Business Office operations of Fountain Hill with Cedarbrook-Allentown. This will involve moving the staff (two) at Fountain Hill to Allentown. The only Business Office functions that will remain at Fountain Hill will be the daily resident distribution of personal petty cash, the handling of candy sales, and the required bank deposits. The transition of the Business Office to Allentown will not require any additional staff.

Current Status:

- Cash collections points have been reduced from six to four sites and most cash handling responsibilities have been segregated.

However, we recommend that the cash receipts log be periodically reconciled to bank deposits by management not involved with cash handling activities.

- The cash receipt system has been automated.
- A delay still exists in processing applications for direct deposit of government checks issued to residents.

Currently, applications for 40 long-term residents (in residence longer than three months) have not been processed. We recommend management establish and monitor compliance with a firm time line for submission of applications and automate the process where feasible. Management should also consider assigning additional resources to assist in clearing the backlog.

2. Inadequate Control Over Education Program (Career Ladder)

Condition: We are unable to determine the amount of forfeited tuition due to the county because of inadequate administration of the career ladder program. Career ladder was established in 2001 to enable members of the nursing staff to achieve their LP or RN certification.

Based on the written contract between the county and employee, the county will fund tuition costs and the employee will complete the program and remain in the county's employ for a specified period of time.

As of April 13, 2006, program funding amounted to \$156,444. However, management is unable to provide the amount of forfeited tuition.

Recommendation: Management should assign responsibility for monitoring compliance. Items to be monitored include:

- Tuition costs by employee
- Tuition forfeitures by employee
- Collection of forfeitures (utilize the Department of Law to collect forfeited tuition, when necessary)

A program status report should be issued after each semester for management review.

Auditee Response: We have completed the audit and work schedules that identify the following transactions of the Career Ladder Program that began with 2001 Fall semester:

- County cost to Lehigh Carbon Community College identified by semesters from the Fall of 2001 through the Spring of 2006.
- Identified the tuition costs by employee per semester.
- Identified each employee that has graduated from the program, each employee that has terminated from the program.
- Identified the amount owed by each employee that has terminated from the program.
- Identified the "pay-back" amounts collected through payroll deductions and personal checks. All non-collectible amounts will be handled through the County Department of Law for follow-up with a collection process.

The final report and schedules will be submitted to the County Controller and Fiscal Departments for comments and review.

Current Status:

- Tuition costs and forfeitures have been tabulated and are being monitored by management.
- As of September 30, 2008, \$22,508 in forfeited tuition remains unpaid from former employees.

These accounts should be turned over to the Lehigh County Department of Law for collection.

3. **Inadequate Control Over Billable Beauty Shop Services**

Condition: The current process for invoicing and collecting billable beauty shop services does not provide adequate control.

The same person prepares the invoice, collects payment, and tracks unpaid invoices. Invoice copies are discarded after payment is received. No detail record of charges and payments is maintained.

A good control system is vital in preventing and detecting errors or omissions.

Recommendation: Separate the billing, collection, and accounts receivable tracking functions. Use the in-house automated system to track charges and payments.

Auditee Response: We will work with the Computer Services Department to establish a system in KEA that will allow the Beauty Shop operators to input the service and charges daily from the point of service. This will automatically establish an accounts receivable that will allow us a more efficient tracking system for payments.

Current Status: Billing functions have not been separated. The same person prepares the invoice, collects payments, and tracks unpaid invoices.

As previously recommended, billing, collection, and accounts receivable tracking functions should be separated. This would ensure one person does not have complete control over financial transactions. Also segregation of duties could be useful in addressing billing backlogs.

COUNTY OF LEHIGH
CEDARBROOK NURSING HOMES

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TO: Thomas Slonaker, CPA, County Controller

FROM:  Larry Epping, Chief Financial Officer, Cedarbrook Nursing Homes

Date: February 11, 2009

RE: Audit Draft Report, February 03, 2009, Cedarbrook Residents' Trustee Accounts

Dear Mr. Slonaker:

Thank you for allowing us to respond to the draft copy of the Cedarbrook Residents' Trustee Accounts audit report dated February 03, 2009. While we have made tremendous improvements from the previous Trustee Audit, dated May 16, 2006, Management and the Business Office staff take the findings and recommendations from this report very seriously and we have reviewed the report earnestly. Based on your findings and recommendations, we fully believe our response and actions will make the Business Offices' operations more effective and increase internal accounting controls.

Below are the actions that we plan to implement as the result of the findings from the audit report. The list of actions will follow the "Schedule of Audit Findings and Recommendations" from pages 3, 5, and 7.

1. Inventory Control -- Gift Shop (page 3)

As mentioned in the Audit Report, the Gift Shop currently does not have a basic systematic inventory control that includes a periodic physical counting of certain selected items that would reflect a "shortage" of the selected items. Effective April 1, 2009, we will proceed to establish a modified inventory control system, that will include ten different candy items based on the highest volume usage.

The inventory will include a beginning physical count of the ten selected items, account for all the sales, item (inventory) re-stocking, and a final periodic inventory count. The inventory period will be monthly, depending on the month-end day of the week. The CFO will be responsible to establish an excel worksheet that will contain all the necessary data. Quarterly the information will be forwarded to the Controllers Office.

2. Periodic Reconcile the Cash Receipts Log (page 5)

Currently, the CFO does periodic "spot" checks from the bank deposit transmittals to the daily deposit logs. Based on the suggestion from the Audit Report, we will enhance

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this procedure to include more emphasis reconciling the daily cash log at the "Switchboard" to the Bank deposit transmittals. As with the previous reconciling of the bank deposit transmittals, we will complete a period check at least one per week.

3. Direct Deposit Processing Applications (page 5)

The Audit Report identified approximately 40 residents (past 90 days) that their Monthly government checks have not been processed for banking direct deposit. We currently review the "open" direct deposit residents routinely. As we mentioned previously, 20 of the 40 outstanding non direct deposits are linked to VA benefits not Social Security. The Veterans Administration operates under different guidelines than Social Security. It is extremely difficult to obtain permission for the Direct Deposit of the VA check. However, our goal remains the same in reducing the number of outstanding non direct deposit to the least number possible.

4. Career Ladder Program (page 7)

The Audit Report identified \$22,508 that remains as uncollectible tuition payments for Cedarbrook former employees that did not fulfilled their obligation under the Career Ladder Program. All current employees that leave the Program prematurely must start a payroll deduction to fulfill their financial obligation to the County.

We have previously written letters to the former employees in an attempt to collect the monies and we did contact the Lehigh County's Law Department for there assistance. We will again contact the Law Department and perhaps research using a collection firm if so advised from the Law Department. This will be completed by July 1, 2009.

5. Beauty Shop Billing – Separation of Duties (page 7)

As identified in the Audit Report, we have the same Financial staff member completing all the functions for the Beauty Shop billing. They are currently responsible for collecting the daily charges slips form the Beauty Shop, posting the charges (via KEA) to the resident invoices, posting the cash collected to the resident invoices and preparing the monthly invoices for the Beauty services. This situation is clearly not a separation of duties from a "good" cash collection practice.

Beginning April 1, we will separate the duties of collecting the cash, posting the cash and preparing the monthly invoices from handling the daily charge slips and posting the resident Beauty Charges to the resident invoices.