

STATE OF WEST VIRGINIA
INTERNAL CONTROL STUDY
OF
WILLIAM SHARPE, JR. HOSPITAL
FOR THE PERIOD
JULY 1, 2003 - JUNE 30, 2006



OFFICE OF THE LEGISLATIVE AUDITOR
CAPITOL BUILDING
CHARLESTON, WEST VIRGINIA 25305-0610

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WEST VIRGINIA LEGISLATURE
Joint Committee on Government and Finance



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CHARLESTON, WEST VIRGINIA 25305-0844

To the Joint Committee on Government and Finance:

The objectives of this internal control study were to obtain an understanding of William R. Sharpe, Jr. Hospital's internal control policies and procedures relating to selected accounts administered by the Hospital and to review the cash receipt and cash disbursement transactions processed through these accounts for compliance with such internal control policies and procedures and additionally to determine whether those procedures assured compliance with the West Virginia Code. The selected accounts covered by this internal control study include a special revenue account called the Hospital Services Revenue Fund - Institutional Facilities Operations and the following local accounts: Trustee Account, Patient Welfare Fund Account, and Snack Bar Account. Our report of William R. Sharpe, Jr. Hospital covered the period July 1, 2003 through June 30, 2006.

To achieve the above objectives, we performed the following:

- a. Obtained an understanding of the hospital's internal control policies and procedures for the aforementioned accounts through interviews with pertinent spending unit personnel and walkthroughs and,
- b. Performed a general review of the cash receipt and cash disbursement transactions processed through these selected accounts to determine compliance with applicable sections of the West Virginia Code, the West Virginia Division of Health Patient Trust Funds Policy and Procedures Manual, and the Hospital's internal control policies and procedures.

The results of our work are contained in the General Remarks section of this Internal Control Study.

Respectfully submitted,

A handwritten signature in black ink that reads "Theford L. Shanklin".

Theford L. Shanklin, CPA, Director
Legislative Post Audit Division

March 13, 2007

Auditors: Ethelbert Scott, Jr., CPA, Audit Manager
Michael E. Sizemore, CPA, Audit Manager
Jean A. Krebs, CPA, Audit Manager
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Derek O'Neal

WILLIAM R. SHARPE, JR. HOSPITAL

INTERNAL CONTROL STUDY

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WILLIAM R. SHARPE, JR. HOSPITAL

INTERNAL CONTROL STUDY

EXIT CONFERENCE

We held an exit conference on May 29, 2007 with the Chief Executive Officer and other representatives of William R. Sharpe, Jr. Hospital, as well as, a representative of the West Virginia Department of Health and Human Resources and all findings and recommendations were reviewed and discussed. The spending unit's responses are included in bold and italics in the Executive Summary and after our findings in the General Remarks section of this report.

WILLIAM R. SHARPE, JR. HOSPITAL

INTERNAL CONTROL STUDY

INTRODUCTION

William R. Sharpe, Jr. Hospital is a state-of-the-art adult psychiatric facility located in Weston, West Virginia and operating under the direction of the West Virginia Department of Health and Human Resources (DHHR). This facility was opened in 1994 and replaced the old Weston State Hospital. It is a 150-bed acute care psychiatric facility with full accreditation from the Joint Commission Accreditation of Healthcare Organization (JCAHO) and Medicare certification. Sharpe Hospital offers a wide range of services to patients either committed to the hospital through civil commitment or, in the case of forensic patients, ordered through the judicial system. The hospital works closely with the Community Behavioral Health Centers and with other community organizations to ensure a smooth transition back to the community after discharge.

The mission of the hospital is to be successful in improving the quality of life for each patient, in becoming an employer of choice and a recognized leader in mental health. To this end, the hospital is dedicated to the patients in providing the highest quality of care in a safe and therapeutic environment. For the staff, the hospital is dedicated to maintaining an empowered work force, fostering the highest level of professional conduct, team work and individual growth. For the community, the hospital is dedicated to maintaining partnerships, enhancing community growth and development, and providing accountability in all hospital operations.

The hospital is formally affiliated with West Virginia University School of Medicine (Department of Psychiatry and Behavioral Medicine) and WVU Department of Nursing,

Psychology, Public Administration and Social Work, which provide professionals from different backgrounds (psychologists, clinical service workers, physician assistants, and psychiatrists) to the hospital. Additional affiliation agreements exist with a variety of other institutions of higher learning. Over the years, Sharpe Hospital has emerged as a premier center for mental health education, as well as research, in the state of West Virginia.

WILLIAM R. SHARPE, JR. HOSPITAL

INTERNAL CONTROL STUDY

ADMINISTRATIVE OFFICERS AND STAFF

Jack C. Clohan, Jr. Chief Executive Officer
Kevin Stalnaker Chief Financial Officer (January 3, 2006 to June, 30, 2006)
Margaret Collette Chief Financial Officer (July 1, 2003 to February 3, 2005)
Pamela Carpenter Program Manager I
Chip Garrison Hospital Administrative Assistant
Terry Small Administrative Service Manager I
Madonna Roach Nurse Director II
Suzanne Heater Business Manager
Alex Cruz Accountant
Veda Lou Brake Trustee Clerk
Debra Cook Human Resources Director
Kevin McHenry Purchasing Agent
Debbie McVay Food Service Supervisor
Sue Riffle Accounting Technician III
Sharon Franklin Secretary I

WILLIAM R. SHARPE, JR. HOSPITAL

INTERNAL CONTROL STUDY

EXECUTIVE SUMMARY

1. System of Internal Control

During the course of our study, it became apparent to us, based on the observed noncompliance with the West Virginia Code, the West Virginia Division of Health Patient Trust Funds Policy and Procedures Manual, and the hospital's own internal policies, William R. Sharpe, Jr. Hospital did not have an effective system of internal controls in place to ensure compliance with applicable State laws, rules and regulations.

Auditors' Recommendation

We recommend William R. Sharpe, Jr. Hospital comply with Chapter 5A, Article 8, Section 9(b) of the West Virginia Code and establish a system of internal controls.

Spending Unit's Response

We will comply with the recommendation. (See pages 10 - 12.)

2. Operation of the Trustee Function

We noted several internal control weaknesses relating to the operation of the Hospital's trustee function. These weaknesses include the Trustee Clerk being assigned additional duties unrelated to the trustee function, lack of effective supervision, unauthorized personnel allowed to perform trustee duties, monies received on behalf of patients not deposited timely or posted timely to the proper patient accounts, and an unlocked trustee safe being accessible by unauthorized personnel.

Auditors' Recommendation

We recommend the Hospital comply with the provisions of Chapter 5, Article 25, Section 1 of the West Virginia Code, as amended; Section B of William R. Sharpe, Jr. Hospital's Policy No. 32.115 Receipts and Deposits; and Section 102.00 of the Division of Health and Human Resources Patient Trust Funds Policy and Procedures Manual by strengthening internal controls over the trustee function.

Spending Unit's Response

We will comply with the recommendation. (See pages 12 - 14.)

3. Monthly Statements Not Being Issued to Patients/Patient Representatives

Patients are not being issued monthly statements of all activity in their respective trustee accounts.

Auditors' Recommendation

We recommend the Hospital comply with the provisions of Sections 108.00 and 500.00 of the West Virginia Division of Health Patient Trust Funds Policy and Procedures Manual.

Spending Unit's Response

We will comply with the recommendation. (See pages 15 and 16.)

4. Patient Trustee Fund Disbursements

The Trustee Office is not disbursing patient funds from the Trustee Account in accordance with Hospital policy.

Auditors' Recommendation

We recommend the Hospital comply with the provisions of William R. Sharpe, Jr. Hospital's Policy No. 32.116 Disbursements of Patient's Personal Funds and strengthen internal controls over the disbursement of patient funds from the Trustee Account.

Spending Unit's Response

We will comply with the recommendation. (See pages 16 - 19.)

5. Trustee Account Bank Reconciliations

The bank statement reconciliations performed by the Hospital for the Trustee Account are ineffective.

Auditors' Recommendation

We recommend the Hospital strengthen internal controls over bank statement reconciliations.

Spending Unit's Response

We will comply with the recommendation. (See pages 19 and 20.)

6. Laboratory Services Contract

The Hospital entered into a verbal agreement with Laboratory Corporation of America (Lab Corp) to provide laboratory services for employees/retirees in noncompliance with State purchasing regulations.

Auditors' Recommendation

We recommend the Hospital comply with the provisions of Section 8.13 of the West Virginia Purchasing Division Policies and Procedures Handbook by strengthening internal controls over the competitive bidding of professional service contracts.

Spending Unit's Response

We will comply with the recommendation. Additionally, all lab work performed by the Hospital for employees, staff and retirees has been discontinued. (See pages 20 - 23.)

7. Patient Welfare Fund Account

The Hospital did not maintain accounting records for the Patient Welfare Fund Account. We also noted monies in the account were used for "temporary employee loans" and grant funds were commingled with the patient welfare monies.

Auditors' Recommendation

We recommend the Hospital comply with the provisions of both Chapter 5, Article 25, Section 1 of the West Virginia Code, as amended, and William R. Sharpe, Jr. Hospital's Policy No. 32.120 Receipts and Disbursements of Patients' Welfare Fund by strengthening internal controls over the record keeping function for the Patient Welfare Fund Account.

Spending Unit's Response

We will comply with the recommendation. (See pages 24 - 28.)

8. No Statutory Authorization for Snack Bar Local Account

We were unable to locate statutory authority for the Hospital to use a local bank account for the cash receipt and disbursement transactions of the snack bar.

Auditors' Recommendation

We recommend the Hospital comply with the provisions of Chapter 12, Article 2, Section 2 of the West Virginia Code, as amended.

Spending Unit's Response

We will comply with the recommendation. (See page 28.)

9. Snack Bar Account

No formal accounting ledgers or daily inventory records were maintained for the Snack Bar Account.

Auditors' Recommendation

We recommend the Hospital comply with the provisions of William R. Sharpe, Jr. Hospital's Policy No. 32.130 Verification of Cash Receipts and Deposits for Snack Bar Receipts by strengthening internal controls over the record keeping for the Snack Bar Account.

Spending Unit's Response

We will comply with the recommendation. (See pages 29 - 31.)

10. Employee Meal Tickets

Monies received from the sale of employee meal tickets were not deposited timely and internal controls were absent over the accounting of the tickets.

Auditors' Recommendation

We recommend the Hospital comply with Chapter 12, Article 2, Section 2 of the West Virginia Code, as amended. We further recommend the Hospital comply with the provisions of William R. Sharpe, Jr. Hospital's Policy No. 32.115 Receipts and Deposits by strengthening internal controls over the collection and depositing of cash receipts received from the sale of employee meal tickets.

Spending Unit's Response

We will comply with the recommendation. (See pages 31 - 33.)

WILLIAM R. SHARPE, JR. HOSPITAL

INTERNAL CONTROL STUDY

GENERAL REMARKS

INTRODUCTION

We have completed an internal control study of selected accounts of William R. Sharpe, Jr. Hospital. The study covered the period July 1, 2003 through June 30, 2006.

LOCAL ACCOUNTS

In order to have cash available for specific local operations, local bank accounts are used for managing funds required on a day-to-day basis. These local accounts are described as follows:

Trustee Account

This account is used to maintain resident trustee accounts for all residents who request such accounts or who are unable to manage their own funds. Monies deposited to this account are disbursed when required for the maintenance of the resident (such as to pay for their hospital care and medical bills) or when agreed to by the resident.

Patient Welfare Fund Account

This account provides funds for group purchases for the benefit of all clients or for the meeting of expenditures of indigent clients. Monies deposited to this account usually include donations from various sources, commissions from vending machines and funds left over from check issuances.

Snack Bar Account

This account is used to fund the operation of the snack bar operated by the hospital for the use of both patients and staff. The receipts from the snack bar operation are deposited to the bank daily and used to pay vendor invoices in a timely manner.

SPECIAL REVENUE ACCOUNT

During the study period, William R. Sharpe, Jr. Hospital's (Hospital) Trustee Clerk made deposits into the following special revenue account for employee meal ticket sales and, subsequent to our study period, employee laboratory charges were deposited and paid from this account:

Account Number

Description

5156-335.Hospital Services Revenue Fund - Institutional Facilities Operations

System of Internal Control

During the course of our study, it became apparent to us, based on the observed noncompliance with the West Virginia Code, the West Virginia Division of Health Patient Trust Funds Policy and Procedures Manual, and the Hospital's internal policies, the Hospital did not have an effective system of internal controls in place to ensure compliance with applicable State laws, rules and regulations. Chapter 5A, Article 8, Section 9 of the West Virginia Code states in part:

“The head of each agency shall:... (b) Make and maintain records containing adequate and proper documentation of the organization, functions, policies, decisions, procedures and essential transactions of the agency designed to furnish information to protect the legal and financial rights of the state and of persons directly affected by the agency's activities....”

This law requires the agency head to have in place an effective system of internal controls in the form of policies and procedures set up to ensure the agency operates in compliance with the laws, rules and regulations which govern it.

During our internal control study of selected accounts, we found the following noncompliance with State laws or other rules and regulations and significant internal control weaknesses: **(1)** We noted several internal control weaknesses relating to the operation of the Hospital's trustee function. These weaknesses include the Trustee Clerk being assigned additional duties unrelated to the trustee function, lack of effective supervision, unauthorized personnel allowed to perform trustee duties, monies received on behalf of patients not deposited timely or posted timely to the proper patient accounts, and an unlocked trustee safe being accessible by unauthorized personnel. **(2)** Patients are not being issued monthly statements of all activity in their respective trustee accounts. **(3)** The Trustee Office is not disbursing patient funds from the Trustee Account in accordance with Hospital policy. **(4)** The bank statement reconciliations performed by the Hospital for the Trustee Account are ineffective. **(5)** The Hospital entered into a verbal agreement with Laboratory Corporation of America (Lab Corp) to provide laboratory services for employees/retirees in noncompliance with State purchasing regulations. **(6)** The Hospital did not maintain accounting records for the Patient Welfare Fund Account. We also noted monies in the account were used for "temporary employee loans" and grant funds were commingled with the patient welfare monies. **(7)** We were unable to locate statutory authority for the Hospital to use a local bank account for the cash receipt and disbursement transactions of the snack bar. **(8)** No formal accounting ledgers or daily inventory records were maintained for the Snack Bar Account. **(9)** Monies received from the sale of employee meal tickets were not deposited timely and internal controls were absent over the accounting of the tickets.

We recommend the Hospital comply with Chapter 5A, Article 8, Section 9(b) of the West Virginia Code and establish a system of internal controls.

Spending Unit's Response

Sharpe Hospital will comply with Chapter 5A, Article 8, Section 9(b) of the West Virginia Code, as amended, and establish a system of internal control.

Operation of the Trustee Function

While performing a general review of cash receipt and cash disbursement transactions processed through the Trustee Account for the period July 1, 2003 through June 30, 2006, we noted the following internal control weaknesses over the operation of the trustee function:

- The Trustee Clerk was assigned additional responsibilities unrelated to the trustee function by her supervisor which may reduce the Trustee Clerk's effectiveness to accurately maintain patient accounts. These additional responsibilities include (1) cash receipt and disbursement activities for the Patient Welfare Fund Account and Snack Bar Account; (2) assisting the billing function with posting of charges for medical care to patient accounts on the hospital's computer system; (3) preparation of deposits for the Hospital Services Revenue Fund - Institutional Facilities Operations Account; and (4) selling meal tickets to employees for use in the hospital's cafeteria.
- There is a lack of effective supervision over the trustee function. Supervision of the Trustee Clerk's duties is necessary because no segregation of duties exists in the trustee function – the Trustee Clerk collects patient monies, records collections in the receipt books, prepares deposits, maintains the individual patient trustee accounts on the computerized system, prepares checks for signatures by other parties, safeguards checkbooks and unused checks, and has access to the \$450 imprest fund to cash checks drawn on the Trustee Account as needed. The Trustee Clerk also maintains the patients' "paper" files which includes the supporting documentation for computerized transactions. Finally, the Trustee Clerk inventories and safeguards patients' valuables seized during the intake process – patients' valuables are returned to the patient upon discharge from the hospital. We found no evidence indicating the Trustee Clerk's work was monitored or reviewed.
- An employee of the Division of Health and Human Resources (but not of the hospital) who occupies office space in the Trustee Office is handling patient funds. This employee's job function is to coordinate Medicaid eligibility for hospital patients between the DHHR and the Hospital and not to perform job duties assigned to the trustee function. Trustee duties

performed by this unauthorized employee included receipting in monies received on behalf of patients and placing the monies received into the trustee safe.

- Monies received on behalf of patients by the Trustee Office are not being deposited on a daily basis in noncompliance with the Hospital's Policy No. 32.115.
- Monies received on behalf of patients are not being posted in a timely manner to the appropriate patient accounts being maintained on the hospital's computer system.
- Stale dated checks are not being redeposited in a timely manner.
- The safe being maintained in the Trustee Office is unlocked during business hours and is easily accessible by unauthorized personnel who may visit the Trustee Office during normal business hours.

Chapter 5, Article 25, Section 1 of the West Virginia Code, as amended, states in part:

“All state institutions including, but not limited to, those institutions under the control of the department of veterans affairs, the department of health, or the department of human services which provide custodial care for any person for any purpose whatsoever shall establish resident trustee accounts for all persons resident at the institution who request such accounts or who are unable to manage their own funds. The administrator in charge of the institution shall take possession of all money or other valuables on the person of or sent to each resident for whom a trustee account has been established: *Provided*, That this article shall not apply to state institutions under the control of the department of corrections or where there is a legal representative appointed for such person. The administrator shall credit such money and valuables to the resident entitled thereto and shall keep an accurate record of all moneys and valuables received or disbursed. This account is subject to examination by the head of the department which controls the institution. The administrator shall deposit such fiduciary funds received into federally insured account approved by the director of the department except for those funds required to be kept locally. The local funds shall be deposited in one or more responsible banks. The accounts shall be designated “resident trustee account.”....”

Also, Section B of William R. Sharpe, Jr. Hospital's Policy No. 32.115 Receipts and Deposits states in part:

“...An employee of the Security Department takes the deposits to the bank daily....”

Additionally, Section 102.00 of the Division of Health and Human Resources Patient Trust Funds Policy and Procedures Manual states:

“102.00 Daily Accounting

Receipts and disbursements to and from resident trust funds are to be recorded on a daily basis.”

Hospital management’s failure to implement effective supervision over the trustee function to ensure patient accounts are being accurately maintained has resulted in the aforementioned internal control weaknesses. The lack of effective supervision over the trustee function creates the opportunity for the unauthorized use of patient funds by the Trustee Clerk.

We recommend the Hospital comply with the provisions of Chapter 5, Article 25, Section 1 of the West Virginia Code, as amended; Section B of William R. Sharpe, Jr. Hospital’s Policy No. 32.115 Receipts and Deposits; and Section 102.00 of the Division of Health and Human Resources Patient Trust Funds Policy and Procedures Manual by strengthening internal controls over the trustee function.

Spending Unit’s Response

Sharpe Hospital will comply with the provisions of Chapter 5, Article 25, Section 1 of the West Virginia Code, as amended; Section B of William R. Sharpe, Jr. Hospital’s Policy No. 32.115 Receipts and Deposits; and Section 102.00 of the Division of Health and Human Resources Patient Trust Funds Policy and Procedures Manual by strengthening internal controls over the trustee function.

It should be noted the practice of allowing unauthorized personnel to perform trustee duties has already been discontinued.

Monthly Statements Not Being Issued to Patients/Patient Representatives

During the period July 1, 2003 through June 30, 2006, monthly statements were not being issued by the hospital to patients and/or their representatives reflecting all activity in their respective resident accounts. Section 108.00 of the West Virginia Division of Health Patient Trust Funds Policy and Procedures Manual states:

“108.00 Monthly Statements

Residents are to be provided with monthly statements of all activity in their respective accounts. The monthly statement must provide sufficient detail to ensure that the resident or an appropriate representative can determine the validity of all transactions.”

Additionally, Section 500.00 of the West Virginia Division of Health Patient Trust Funds Policy and Procedures Manual states:

“500.00 Resident Statements

At the end of each month, after ensuring that all activity has been posted and that all accounts are correct, individual statements are to be printed indicating all activity which occurred during the month. These statements should be produced for both funds held locally and those invested with the State. Copies of both statements are to be given to patients and/or their representatives.”

The hospital is not complying with the aforementioned policies regarding monthly statements established by the Department of Health and Human Resources. According to the Chief Financial Officer, approximately 30% of the patients admitted to the Hospital are in residence at the hospital less than a month and so issuing monthly statements to these type patients is not necessary. Additionally, if a long-term care patient wants to know the balance of their resident account they could go to the Trustee Office and the Trustee Clerk would tell them their balance.

By not providing patients with monthly statements reflecting all activity which occurred in their respective resident accounts, the patients and/or their representatives are not able to validate the receipt and disbursement transactions posted to the patients' accounts during the month. The hospital's practice of not issuing monthly statements to patients also prevents posting errors to patients' accounts from being caught and corrected in a timely manner.

We recommend the Hospital comply with the provisions of Sections 108.00 and 500.00 of the West Virginia Division of Health Patient Trust Funds Policy and Procedures Manual.

Spending Unit's Response

Sharpe Hospital will revise and comply with the provisions of Sections 108.00 and 500.00 of the West Virginia Division of Health Patient Trust Funds Policy and Procedures Manual.

The revision to the Policy will modify and address monthly statements being issued to individuals that are discharged prior to being at the Hospital for an entire month. These individuals will receive a statement upon discharge.

Patient Trustee Fund Disbursements

During our review of transactions, we noted the Trustee Clerk disbursed patient funds during unauthorized periods as promulgated by the "William R. Sharpe, Jr. Hospital's Policy No. 32.116 Disbursements of Patient's Personal Funds" which states in part:

"POLICY STATEMENT:

The Trustee Office staff will perform a disbursement function to meet the financial needs of all patients.

PURPOSE OF POLICY:

The Hospital makes the patients personal funds readily available to the patient upon request.

PROCEDURES:

1. Disbursement of patient money.
 - a. Personal checks are issued every Monday, Wednesday and Friday before 10:00 a.m. for patients requesting funds from their Trustee Account.
 - b. The unit staff submits to the Trustee Office a Patients Funds request/disbursement record form listing patients requesting money.
 - c. The Trustee clerk checks the amount requested with current balance to determine if sufficient funds in the account.
 - d. A check is written from Sharpe Hospital Trustee Account to the Unit staff for the amount requested.
 - e. The check will be cashed in the Trustee Office and the money distributed to the patients.
 - f. The unit staff is responsible for submitting the necessary receipts acquired on shopping trips with patients to the Trustee Office....”

As noted in the above policy, the Hospital has established a 10:00 a.m. cut off time on designated “money” days (Mondays, Wednesdays, and Fridays) for the issuance of personal checks from the Trustee Account for patients’ personal spending. However, while conducting interviews of Trustee Office staff, we observed the Trustee Clerk issuing checks well after the 10:00 a.m. cut off time. Also, a general review of trustee records indicated that checks for patients’ personal spending were issued on Tuesdays and Thursdays in noncompliance with the above policy.

We also noted instances where the hospital service workers’ initials or patient signatures were missing from the “Patient Funds Request/Disbursement Record” forms. The worker’s initials indicate funds were disbursed to the patient by the worker and the patient’s

signature indicates receipt of the funds by the patient. As noted in the above policy, the following procedures are performed for cash disbursements to patients:

- a. The Trustee Clerk prepares a check based upon a patient request noted on the "Patient Funds Request/Disbursement Record" form.
- b. Checks are made payable to hospital service workers (unit staff).
- c. The hospital service worker endorses the check and the Trustee Clerk cashes the check from an imprest fund maintained in the Trustee Office.
- d. The Trustee Clerk gives the cash to the worker.
- e. The worker disburses the cash to the patient and the patient signs the "Patient Funds Request/Disbursement Record" form indicating receipt of the monies and the worker's initials are also required indicating the worker remitted the monies to the patient.

Without worker initials or patient signatures on the forms, we are unable to determine if the patient received the funds. During the study period, trustee account records indicate \$98,202.80 of checks were made payable to hospital service workers for patient's personal spending.

The Trustee Clerk performing additional work of check disbursements on unauthorized days and times may result in transactions being inaccurately posted to the patients' accounts maintained on the Hospital's computer system. Also, such additional check issuances from the Trustee Account during unauthorized periods may allow some patients to accumulate an amount of money which exceeds the maximum \$10.00 limit established by the hospital. Policy #32.121 provides that patients will be allowed a maximum of \$10.00 in cash on their person unless specific authorization from the patient's treatment team is obtained.

We recommend the Hospital comply with the provisions of William R. Sharpe, Jr. Hospital's Policy No. 32.116 Disbursements of Patient's Personal Funds and strengthen internal controls over the disbursement of patient funds from the Trustee Account.

Spending Unit's Response

Sharpe Hospital will revise and comply with the provisions of William R. Sharpe, Jr. Hospital's Policy No. 32.116 Disbursements of Patient's Personal Funds and strengthen internal controls over the disbursement of patient funds from the Trustee Account.

The revision to the Policy will modify the 10:00 a.m. cut-off, which is unrealistic due to the increased patient census at the hospital and will likely read "by the end of the banking day".

Trustee Account Bank Reconciliations

Our review of the Trustee Account Procedures indicates the reconciliations performed between the bank statement and the Trustee Account Ledger (book) balances are ineffective because differences between bank and book balances would not be identified. The Accounting Technician responsible for performing the bank statement reconciliation does not obtain an actual "book" balance for the trustee account from the computerized trustee accounting ledger. The Accounting Technician performs a reconciliation between the bank statement balance and a "calculated" book balance prepared by the Technician. Using a computerized spreadsheet, the Accounting Technician obtains the beginning book balance from the ending balance of the prior month's bank "reconciliation". The Trustee Clerk furnishes the Accounting Technician with the bank statements, the deposit amounts for the month, and carbon copies of checks written. Using the deposit amounts and check copies supplied by the Trustee Clerk, the Accounting Technician calculates an ending book balance and compares the calculated amount to the bank statement balance. We believe the reconciliation process performed by the Accounting

Technician is ineffective because the bank balance is not reconciled to the computerized Trustee Account Ledger balance.

We recommend the Hospital strengthen internal controls over bank statement reconciliations.

Spending Unit's Response

Sharpe Hospital will strengthen internal controls over bank statement reconciliations. The Hospital will review, revise and improve the process as recommended.

Laboratory Services Contract

Effective February 1, 2004, the Hospital entered into a contract with Laboratory Corporation of America (Lab Corp) to provide laboratory services for hospital patients. Among the laboratory services covered by this contract are such tests as cholesterol screening, thyroid profile, and drug abuse screening. Based on the terms and conditions of this written contract, the Hospital entered into a separate verbal agreement with Lab Corp which would allow employees of the hospital to obtain laboratory services at the same discounted contract prices as were negotiated for the hospital's patients. This verbal agreement, which is in noncompliance with State purchasing regulations, applies to both current employees of the hospital and former employees who are retired from working at the hospital. Both employees and retirees of the hospital can have the diagnostic panel portion of their lab work performed free of charge during their birth months; however, family members of employees and retirees are not eligible to benefit from this agreement. As part of this verbal agreement, Lab Corp agreed to bill the hospital separately for any employee lab charges.

Employees are charged contract prices by the hospital for these laboratory services, while patients are billed by the hospital an amount which is usually marked up on average 200%

above the stated contract price for these same laboratory services. Payment made by hospital employees for laboratory services under this verbal agreement is by either cash or check and deposited to the Patient Welfare Fund Account. These monies are being deposited to the Patient Welfare Fund Account even though this account is to be used only for indigent patients. When an invoice is received from Lab Corp for employee lab charges, a check is written on the Patient Welfare Fund Account and mailed to the vendor. However, if an employee fails to make timely payment to the hospital for their lab charges prior to the receipt of this invoice, then Patient Welfare Fund monies are used to make up for any shortfall when the invoice is paid. During the period July 1, 2003 through June 30, 2006, agency records indicate that check disbursements totaling \$7,936.66 were issued to Laboratory Corporation of America to pay for employee lab charges. Agency records also indicate the hospital allowed a non-employee who is currently providing professional medical services to patients of the hospital to receive laboratory services at discounted contract prices.

Subsequent to the end of our study period, the hospital discontinued its use of the Patient Welfare Fund Account to process payments to Lab Corp for employee lab charges and began depositing monies received by employees into the Hospital Services Revenue Fund-Institutional Facilities Operations Account (referred to by Hospital personnel as the "Care and Collections Account"). The Care and Collections Account is a special revenue account maintained with the State Treasury which is used by the hospital to receive payment from hospital patients for their medical care. As a result of this transfer (which occurred on March 20, 2007), monies received from employees for lab charges are to be deposited to the Care and Collections Account and any vendor invoices received from Lab Corp for employee lab charges are to be paid from this account.

Section 8.13 of the West Virginia Purchasing Division Policies and Procedures

Handbook states:

“Professional Services: Professional service contracts provide a mechanism to acquire specific professional expertise. Legal, architectural, medical, dental, engineering, and other consultant services are best suitable for such contracts. These services should provide a direct benefit to the overall operation of the state and the purchase orders are restricted to the use of the originating agency only.

8.13.1 Over \$10,000: Professional services estimated to cost in excess of \$10,000 must be processed through the Purchasing Division to assure adequate distribution, timely notification to the public, and assurance that proper criteria will be used for evaluation and award.

Some professional services are acquired by the Request for Proposal (RFP) method (See Section 7); however, other methods such as a Request for Quotation or Direct Purchase such as an Agreement may be used, if appropriate.

8.13.2 \$10,000 or Less: Professional services \$10,000 or less may be acquired through a variety of methods, including competitive bid (Request for Quotation) or Direct Purchase using an Agreement.

8.13.3 Forms: An agreement for professional or consulting services in any amount requires the **Agreement**, (WV-48). (See Appendix B). This form alleviates the need to create complicated legal forms depending upon the complexity of the project. By utilizing the form, whose content and format have previously been approved, the agency will aid in the prompt processing of the contract.

The **Agreement Questionnaire**, (WV-50), (See Appendix B) is required with the Agreement form when procuring professional services without formal bidding. The purpose of the questionnaire is to document the scope of the project, to explain the selection process and to project the results expected to be attained by forming this agreement.”

Additionally, Section B of William R. Sharpe, Jr. Hospital’s Policy No. 32.120

Receipts and Disbursements of Patients’ Welfare Fund states in part:

- “B. Expenditures
 - 1. Patients’ Welfare funds are to be used for meeting of expenditures of indigent patients....”

Hospital management has allowed the employees of the hospital to obtain laboratory services from Lab Corp at discounted contract prices without going through the competitive bid process. Furthermore, Hospital management has directed that payment by hospital employees for their lab charges be deposited to the Patient Welfare Fund Account.

Circumventing State purchasing regulations to obtain a personal benefit for its employees results in the hospital compromising the integrity of the purchasing process by entering into a verbal contract with a vendor rather than engaging in a competitive bid process through the Division of Purchasing. Additionally, the hospital's practice of depositing the monies collected from its employees for payment of lab charges to the Patient Welfare Fund Account results in patient welfare monies being used to subsidize the payment of vendor invoices received from Lab Corp since hospital personnel are not consistently making timely payment to the hospital for their lab charges.

We recommend the Hospital comply with the provisions of Section 8.13 of the West Virginia Purchasing Division Policies and Procedures Handbook by strengthening internal controls over the competitive bidding of professional service contracts.

Spending Unit's Response

Sharpe Hospital will comply with the provisions of Section 8.13 of the West Virginia Purchasing Division Policies and Procedures Handbook by strengthening internal controls over the competitive bidding of professional service contracts.

It should be noted all lab work performed by the Hospital for employees, staff and retirees has been discontinued.

Patient Welfare Fund Account

While performing a general review of the accounting records supporting the Patient Welfare Fund Account for the period July 1, 2003 through June 30, 2006, we noted the following internal control weaknesses relating to the processing of cash receipt and cash disbursement transactions:

- Between December 2004 and March 2006, the hospital used the funds in this account to issue temporary employee loans representing replacement payroll checks. Agency records indicate temporary employee loans amounting to \$7,143.95 were issued from the Patient Welfare Fund Account during this period. We noted one employee still owes the hospital \$30.53 on a temporary loan of \$525.78 issued to this employee on March 9, 2006.
- The hospital is allowing monies received from various grants to be deposited to the Patient Welfare Fund Account. These funds are being expended for grant purposes rather than on behalf of indigent patients. As of June 30, 2006, we noted there were grant monies totaling \$7,228.81 on deposit in the Patient Welfare Fund Account.
- There are no formal accounting ledgers maintained for this account. The only record of transactions recorded for this account is recorded into a checkbook.
- There is a lack of supervision over the functions performed by the Trustee Clerk for the Patient Welfare Fund Account. The Trustee Clerk is responsible for the following duties pertaining to the operation of the Patient Welfare Fund Account: (1) custody of receipts, (2) receipting of monies received, (3) preparation of deposits, (4) preparation of check disbursements for signature by authorized check signers, and (5) recording of transactions into the checkbook.
- Cash disbursement transactions are not being consistently supported by vendor invoices/receipts.

The Patient Welfare Fund Account is a trustee account. As a trustee account, this account is subject to the special accounting guidelines for trustee accounts as set forth in Chapter 5, Article 25, Section 1 of the West Virginia Code, as amended. This Code section states in part:

“All state institutions including, but not limited to, those institutions under the control of the department of veterans affairs, the department of health, or the department of human services

which provide custodial care for any person for any purpose whatsoever shall establish resident trustee accounts for all persons resident at the institution who request such accounts or who are unable to manage their own funds. The administrator in charge of the institution shall take possession of all money or other valuables on the person of or sent to each resident for whom a trustee account has been established: *Provided*, That this article shall not apply to state institutions under the control of the department of corrections or where there is a legal representative appointed for such person. The administrator shall credit such money and valuables to the resident entitled thereto and shall keep an accurate record of all moneys and valuables received or disbursed. This account is subject to examination by the head of the department which controls the institution. The administrator shall deposit such fiduciary funds received into federally insured account approved by the director of the department except for those funds required to be kept locally. The local funds shall be deposited in one or more responsible banks. The accounts shall be designated "resident trustee account.""

Also, William R. Sharpe, Jr. Hospital's Policy No. 32.120 Receipts and Disbursements of Patients' Welfare Fund states in part:

"...PURPOSE OF POLICY:

To keep accurate records of receipts and disbursements of welfare fund...."

Additionally, Section B of William R. Sharpe, Jr. Hospital's Policy No. 32.120 Receipts and Disbursements of Patients' Welfare Fund states in part:

"B. Expenditures

1. Patients' Welfare funds are to be used for meeting of expenditures of indigent patients.
2. Hospital units and/or departments requesting funds should submit a Patients' Welfare Fund requisition to the Trustee Office. Information required for processing is: vendor's name, department, and description of desired purchase and estimated cost. The requisition must be submitted at least two (2) days prior to the actual date of purchase or event.

3. The Trustee staff checks each requisition for accuracy. Individual patients who are listed on the requisition will be checked against the Trustee Account balances printout to assure he/she does not have personal funds. If patients have personal funds their name will be deleted from the requisition.
4. The staff requesting funds is to take it to the CFO or hospital Administration staff for approval. After approval is granted the requisition is filed in the Trustee Office. The Trustee staff will issue a Patients Welfare Fund check for the amount on the requisition.
5. The receipts and/or invoices to document the purchase should be submitted to the Trustee Office immediately. All unused monies will be returned to the Trustee Office.
6. The Trustee staff will attach the receipt and/or invoice with the original requisition. The check number and date of payment will be written on the requisition and filed chronologically....”

Starting December 2004, the Hospital began the practice under the verbal authorization of the former Chief Financial Officer and at the direction of the payroll department of issuing temporary loans from the Patient Welfare Fund Account to full-time/temporary employees whose paycheck didn't come through on the semi-monthly payroll. According to the Human Resources Director, this practice of issuing temporary loans to employees as replacement payroll checks was discontinued by the current Chief Financial Officer in March 2006.

Occasionally, the hospital will receive research grants from non-profit organizations to conduct research programs involving patients residing at the hospital. When the hospital receives such a grant, the grant monies are deposited to the Patient Welfare Fund Account to be expended as needed. As a result, these monies are being commingled with the patient welfare monies which are designated for the benefit of indigent patients only. According to the

Chief Financial Officer, it would be very difficult administratively to establish separate bank accounts for the different grants administered by the hospital.

Regarding the lack of formal accounting ledgers being maintained for the Patient Welfare Fund Account, the Chief Financial Officer explained the work involved in setting up and maintaining detailed accounting ledgers for the Patient Welfare Fund Account would not be beneficial from an administrative standpoint due to the immaterial amount of money being maintained in this account as well as the small amount of activity occurring within this account.

Using patient welfare monies for unauthorized purposes such as issuing temporary loans to employees reduces the amount of funds available to be used on behalf of indigent patients. Also, the hospital's practice of commingling grant monies with patient welfare monies may result in grants being over expended and patient welfare monies being used to make up the shortfall. Furthermore, both the lack of effective supervision over the Patient Welfare Fund Account as well as the absence of formal accounting ledgers being maintained for this account create the opportunity for the unauthorized use of patient funds by the Trustee Clerk.

We recommend the Hospital comply with the provisions of both Chapter 5, Article 25, Section 1 of the West Virginia Code, as amended, and William R. Sharpe, Jr. Hospital's Policy No. 32.120 Receipts and Disbursements of Patients' Welfare Fund by strengthening internal controls over the record keeping function for the Patient Welfare Fund Account.

Spending Unit's Response

Sharpe Hospital will comply with the provisions of both Chapter 5, Article 25, Section 1 of the West Virginia Code, as amended, and William R. Sharpe, Jr. Hospital's Policy No. 32.120 Receipts and Disbursements of Patients' Welfare Fund by strengthening internal controls over the record keeping function for the Patient Welfare Fund Account.

It should be noted the practice of “temporary employee loans” has been discontinued. In addition, a separate ledger for the local accounts will be maintained.

No Statutory Authorization for Snack Bar Local Account

We were unable to locate statutory authority for the Hospital to use a local bank account for the cash receipt and disbursement transactions of the snack bar. Chapter 12, Article 2, Section 2 of the West Virginia Code, as amended, states in part:

“(a) All officials and employees of the state authorized by statute to accept monies due the state of West Virginia shall keep a daily itemized record of moneys so received for deposit in the state treasury and shall deposit within twenty-four hours with the state treasurer all moneys received or collected by them for or on behalf of the state for any purpose whatsoever....”

Based on our review, hospital employees operate the snack bar and the expenditures for their personal services and employee benefits are made from a State account. However, receipts generated from snack bar sales and disbursements made for snack bar inventory are made from a local bank checking account. Without statutory authority permitting the use of the local account, we believe the snack bar’s receipt and disbursement transactions should be made from a State account in compliance with the above statute.

We recommend the Hospital comply with the provisions of Chapter 12, Article 2, Section 2 of the West Virginia Code, as amended.

Spending Unit’s Response

Sharpe Hospital will comply with the provisions of Chapter 12, Article 2, Section 2 of the West Virginia Code.

Sharpe Hospital will cease use of an outside bank account and utilize a State account for the Snack Bar sales and disbursements as recommended. In addition, separate ledgers will be maintained.

Snack Bar Account

While performing a general review of the accounting records supporting the Snack Bar Account for the period July 1, 2003 through June 30, 2006, we noted the following internal control weaknesses relating to the processing of cash receipt and cash disbursement transactions:

- There are no formal accounting ledgers maintained for this account. The only record of transactions recorded for this account is recorded into a checkbook.
- There are no daily inventory records being maintained for the snack bar.

William R. Sharpe, Jr. Hospital's Policy No. 32.130 Verification of Cash Receipts and Deposits for Snack Bar Receipts states in part:

"POLICY STATEMENT:

Sharpe Hospital Trustee Office shall provide financial management to the Snack Bar.

PURPOSE OF POLICY:

Accountability

PROCEDURES:

A. Snack Bar Receipts

1. The Snack Bar staff will count and verify deposits daily. The original receipt is maintained by the Snack Bar. Staff from the Trustee office will pick up the deposit slip and balances the checkbook and then will return the deposit slip to Snack Bar.
2. Trustee office staff will maintain the checkbook for the Snack Bar along with bank reconciliations. The Trustee office staff will disburse funds for all vendor payments.
3. Security staff will be notified when the deposit is ready to be taken to the bank.

B. Expenditures

1. The Snack Bar sends the invoices from purchases made to the Trustee Office for payment.
2. The check number and date of payment is written on the statement/invoice. The documents are filed chronologically....”

According to the Chief Financial Officer, the work involved in setting up and maintaining detailed accounting ledgers for the Snack Bar Account would not be beneficial from an administrative standpoint due to the immaterial amount of money being maintained in this account. Also, the Snack Bar Supervisor explained that an inventory count of the snack bar inventory is conducted at the end of every month for record keeping purposes; however, this monthly inventory count is not compared to a daily inventory record of items purchased and sold.

By not maintaining detailed accounting ledgers for the Snack Bar Account, the hospital may risk producing inaccurate accounting records supporting the cash receipt and cash disbursement transactions processed through this account. Also, the absence of daily inventory records results in there being no accountability for the inventory items bought and sold. Additionally, the hospital not maintaining daily inventory records for the snack bar creates the opportunity for unauthorized use of snack bar inventory items by snack bar personnel or other employees with access to the snack bar inventory.

We recommend the Hospital comply with the provisions of William R. Sharpe, Jr. Hospital's Policy No. 32.130 Verification of Cash Receipts and Deposits for Snack Bar Receipts by strengthening internal controls over the record keeping for the Snack Bar Account.

Spending Unit's Response

Sharpe Hospital will comply with the provisions of William R. Sharpe, Jr. Hospital's Policy No. 32.130 Verification of Cash Receipts and Deposits for Snack Bar Receipts by strengthening internal controls over the record keeping for the Snack Bar Account.

Employee Meal Tickets

While documenting procedures for the sale of employee meal tickets, we noted the following internal control weaknesses:

- Meal tickets are not numbered and can be easily reproduced.
- A daily inventory is not maintained of meal tickets produced and sold.
- Cash receipts collected from the sale of employee meal tickets are not deposited to the Hospital Services Revenue Fund-Institutional Facilities Operations Account on a daily basis in noncompliance with Chapter 12, Article 2, Section 2 of the West Virginia Code.
- Detailed accounting records are not maintained to account for the sale of employee meal tickets.
- There is a lack of effective supervision over the trustee clerk duties for employee meal tickets. Supervision of the Trustee Clerk is necessary because no segregation of duties exists. The Trustee Clerk is responsible for performing the following duties pertaining to the sale of employee meal tickets: (1) custody of meal tickets; (2) custody of cash receipts collected from sale of meal tickets; (3) receipting of monies received; and (4) preparing receipts for deposit.
- There is no reconciliation process between the employee meal tickets sold by the Trustee Office and the meal tickets redeemed by employees at the cafeteria.

Chapter 12, Article 2, Section 2 of the West Virginia Code, as amended, states in part:

“(a) All officials and employees of the state authorized by statute to accept monies due the state of West Virginia shall keep a daily itemized record of moneys so received for deposit in the state treasury and shall deposit within twenty-four hours with the state treasurer all moneys received or collected by them for or on behalf of the state for any purpose whatsoever...”

Employees of the hospital can purchase meal tickets through the Trustee Office to

use in the hospital cafeteria. The meal tickets are produced by the Copy Center and provided to the Trustee Office for sale to employees. The various types of meal tickets available for sale to employees are reflected in the following table.

<u>Type of Meal Ticket</u>	<u>Color of Meal Ticket</u>	<u>Cost</u>
Full Meal	Blue	\$3.50
Entrees	Pink	\$1.75
Desserts	Green	\$0.75
Side Dishes	Yellow	\$0.45

William R. Sharpe, Jr. Hospital's Policy No. 32.115 Receipts and Deposits states in part:

“...3. Miscellaneous Receipts

- a. The receipts are written in the Sharpe Hospital Collection (Miscellaneous) Cash Receipt Book (ex. Money from employee meal tickets).
- b. The receipt transactions are posted into the FIMS computer. Various computer printouts are generated to verify the patient's accounts....”

The internal control weaknesses noted earlier are the result of Hospital management's failure to implement effective internal controls over the sale of employee meal tickets. The responsibility for the handling of employee meal tickets has essentially been entrusted by management to one employee which has resulted in these internal control weaknesses.

Hospital management's failure to implement a system of internal controls over the sale of employee meal tickets may result in the unauthorized use of the cash receipts collected

from the sale of meal tickets by Trustee Office staff. Also, not maintaining a daily inventory of meal tickets produced and sold may result in the unauthorized production and use of fake meal tickets by agency personnel.

We recommend the Hospital comply with Chapter 12, Article 2, Section 2 of the West Virginia Code, as amended. We further recommend the Hospital comply with the provisions of William R. Sharpe, Jr. Hospital's Policy No. 32.115 Receipts and Deposits by strengthening internal controls over the collection and depositing of cash receipts received from the sale of employee meal tickets.

Spending Unit's Response

Sharpe Hospital will comply with Chapter 12, Article 2, Section 2 of the West Virginia Code. In addition, the Hospital will comply with the provisions of William R. Sharpe, Jr. Hospital's Policy No. 32.115 Receipts and Deposits by strengthening internal controls over the collection and depositing of cash receipts received from the sale of employee meal tickets.

It should be noted Sharpe Hospital is currently looking at alternative means to address the compliance issue including, but not limited to the following:

Monies will be deposited within 24 hours of receipts; and,
Maintenance of tickets including controls numbers; or
The placement of a cash register in the cafeteria; or
The sale of tickets through the snack bar; or
The use of credit/debit cards for the purchase of meals; or
Pre-paid "cards" for employees; or
Other.

STATE OF WEST VIRGINIA

OFFICE OF THE LEGISLATIVE AUDITOR, TO WIT:

I, Thedford L. Shanklin, CPA, Director of the Legislative Post Audit Division, do hereby certify that the report appended hereto was made under my direction and supervision, under the provisions of the West Virginia Code, Chapter 4, Article 2, as amended, and that the same is a true and correct copy of said report.

Given under my hand this 4th day of June 2007.



Thedford L. Shanklin, CPA, Director
Legislative Post Audit Division

Copy forwarded to the Secretary of the Department of Administration to be filed as a public record. Copies forwarded to the Department of Health and Human Resources; William R. Sharpe, Jr. Hospital; Governor; Attorney General; State Auditor; and, Director of Finance Division, Department of Administration.