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INDEPENDENT AUDITORS' REPORT

Erie County Care Facility
3916 Perkins Avenue
Huron, Ohio 44839

We conducted a special audit of the Erie County Care Facility¹ ("ECCF") by performing the procedures enumerated in the attached Supplement to the Special Audit Report for the period October 1, 2010 through September 30, 2013 (the Period) solely to:

- Determine whether ECCF receipts were properly recorded, posted, and deposited intact.
- Determine whether ECCF resident trust account deposits were credited to proper resident accounts, and whether expenditures and other withdrawals were supported by documentation and incurred for resident purposes.

This engagement was conducted in accordance with the Quality Standards for Inspection and Evaluation established by the Council of the Inspectors General on Integrity and Efficiency (January 2012). The procedures and associated findings are detailed in the attached Supplement to the Special Audit Report. A summary of our procedures and significant results is as follows:

1. We examined ECCF detailed receipts and related deposits for certain months during the Period to determine whether amounts collected were properly recorded, posted, and deposited intact.

Significant Results – The ECCF did not maintain any intact duplicate receipt books documenting revenues received. Only a limited number of unorganized, individual receipts were maintained. As such, we were unable to ensure completeness of revenues received. For the limited number of receipts available, those funds were accurately recorded, posted, and deposited intact.

During the Period, former ECCF Fiscal Officer Lynn Langston cashed personal checks using cash funds received at ECCF.

We issued two management recommendations regarding cashing of personal checks using cash receipts and to use and retain consistent documentation for all monies accepted at the facility.

¹ In October 2013, the Erie County Care Facility officially changed its name to The Meadows at Osborn Park.

2. We examined Resident Trust Account activity for the Period and reperformed monthly bank reconciliations to determine whether deposits, withdrawals and expenditures were supported by documentation and incurred for resident purposes.

We also reviewed documentation for residents that passed away during the Period to determine whether balances remaining in the Resident Trust Account at the time of death were appropriately disbursed to the residents' families, estates, or to the Ohio Department of Jobs and Family Services.

Significant Results – During the Period, the ECCF did not properly reconcile each month, but instead forced the accounts to balance. Unrecorded adjustments, deposits and expenditures for resident trust accounts resulted in variances totaling \$16,537 as of September 30, 2013. When these unrecorded transactions and adjustments were taken into account, the variance was reduced to an insignificant amount.

Ms. Langston issued five checks totaling \$7,950 payable to cash for which ECCF did not provide documentation supporting the nature or purpose of the disbursements. Additionally, Ms. Langston paid the balances of three residents' accounts upon their death at inflated amounts totaling \$757 as a result of her failure to record all disbursement transactions affecting the accounts. We issued Findings for Recovery against Ms. Langston totaling \$8,707.

We issued seven management recommendations regarding preparation and review of monthly bank reconciliations, maintenance of documentation for withdrawals and expenditures, communication of account adjustments, segregation of duties, overpayments and timely payouts of resident trust accounts, and petty cash procedures.

3. On November 5, 2014, we held an exit conference with the following individuals representing the ECCF:

Bill Monaghan, Commissioner
Patrick Shenigo, Commissioner
Tom Ferrell, Commissioner
Sue Kane, Deputy Auditor
Pete Daniel, County Administrator
Lori Opfer, Administrator, The Meadows at Osborn Park/Continuing Healthcare Solutions

The attendees were provided an opportunity to respond to this special audit report. A response was received. The response was evaluated and changes were made to this report as we deemed necessary.



Dave Yost
Auditor of State

July 9, 2014

Supplement to the Special Audit Report

Background

On September 5, 2013, the Auditor of State's Office was contacted by Pete Daniel, Erie County Administrator, regarding a potential theft of funds at the ECCF, the county's nursing home. Mr. Daniel indicated a local private accounting firm had been retained to review internal controls at the ECCF. During the course of this review, it appeared monthly reconciliations of total resident account balances to balances recorded at the County, in the bank, and on hand at the ECCF were manipulated, resulting in an unexplained variance of approximately \$12,000.

The variance was believed to be the result of funds being removed from residents' trust accounts² by the fiscal officer of the ECCF, Lynn Langston. Ms. Langston was interviewed by Erie County Sheriff Chief Deputy Jared Oliver and admitted to borrowing \$264 from one resident. Ms. Langston stated she had repaid the borrowed funds; however, there was no documentation to support either the borrowing or the repayment. On September 16, 2013, Ms. Langston was terminated as fiscal officer of the ECCF.

Ms. Langston had primary authority of the residents' trust accounts. She was employed at the ECCF for approximately three years. A preliminary investigation conducted by the County revealed Ms. Langston deposited multiple personal checks into the County bank account and issued checks to cash.

From September 16, 2013 through November 25, 2013, we conducted a preliminary examination of the County's records and the internal control review performed by the private accounting firm. This information was considered by the Special Audit Task Force and on November 25, 2013, the Auditor of State initiated a special audit of the ECCF.

² Residents' trust accounts represent monies maintained for specific individuals at the ECCF to be used for various personal needs of the resident. Funds in the residents' trust accounts originated from deposits of residents' personal funds and/or stipends paid for residents receiving Medicaid assistance. These funds are recorded in an agency fund on the County's financial statements. Funds received for residents' room and board charges are recorded within the County's enterprise fund.

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Objective No. 1 - ECCF Deposits

Procedures

We obtained receipt documentation, ledger postings, deposit slips, and County pay in documentation for ECCF receipts collected during the Period.

We compared amounts collected per ECCF receipt source documentation with amounts reported to the County, posted to County ledgers, and deposited into the bank, to determine whether amounts collected were properly recorded, posted, and deposited intact.

We scheduled all ECCF deposits in detail. We totaled the cash and check amounts and compared them to the amounts on the validated deposit slips. We also determined whether the deposits were for resident trust accounts or for the ECCF operating fund.

Results

We examined all receipts for the months of October, November, and December 2010. The majority of these receipts were comprised of Medicaid payments, Social Security payments, private insurance payments, and other resident payments. These payments were mainly received by check or direct deposit representing a reduced risk of theft or misappropriation. While we noted a general lack of supporting documentation for the receipts, we noted no findings for recovery for the three months examined. We further examined receipts for resident trust accounts in Objective 2 by reperforming monthly reconciliations. Based on the results here and in Objective 2, we determined testing all the receipts for the remainder of the Period was not warranted.

The ECCF did not maintain complete intact receipt books. Only individual receipts attached to various receipt documents were maintained, and funds received were not all supported by duplicate receipts.

The posting of the receipts to the County system was done at the ECCF and printouts of the posting details were maintained as part of the monthly deposit information, along with a copy of the ECCF Cash Receipt Report and the deposit slip, which was also faxed to the County.

Management Recommendations

Deposit Records

The ECCF did not consistently maintain documentation supporting the monies it received and deposited to the County's bank account. This documentation should contain copies of checks received, receipts for all monies received, validated deposit slips, documents supporting electronic funds transactions (EFT), and records to support the posting of the funds to the ECCF system. During detailed deposit testing, we noted the following conditions:

- Eight instances of receipts not being issued for cash received;
- Certain receipt numbers were not accounted for; however, we were unable to determine the total number of missing receipts since ECCF did not keep an inventory or copy of all receipts;
- The ECCF discontinued the use of pre-numbered receipts;
- Three instances of deposits not having copies of checks and/or receipts to support the deposited amount;
- Two instances of a validated deposit slip not being attached to documentation.

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Failure to maintain complete documentation supporting all deposited amounts limits management's ability to ensure accuracy and increases the risk of asset misappropriation.

We recommend the ECCF use pre-numbered triplicate receipts for all funds accepted at the facility, with one copy of the receipt be maintained in the receipt book, one attached to the deposit information, and one issued to the person making the payment. The receipt should include the name of the individual making payment, resident account, date, amount, purpose of payment, and the individual accepting the payment. We also recommend ECCF establish a policy for required documents to be maintained supporting ECCF deposits such as copies of checks, receipts, deposit slips EFT documentation with breakdown of resident account amounts, and support for adjustments.

Cashing Personal Checks

ECCF deposits should include all monies received for operations or resident trust accounts. During the Period, the former fiscal officer periodically cashed her own personal checks using cash collected from ECCF residents and other sources.

By cashing personal checks, the ECCF increases its exposure to loss due to returned insufficient funds checks and related fees or charges. Additionally, failure to deposit monies as received intact limits management's ability to ensure accurate accountability and deposit of amounts received. By cashing personal checks, and by accepting assignment of checks not originally issued to the ECCF, it could be construed that the ECCF is lending credit, in much the same manner as a banking institution.

To avoid potential insufficient funds fees related to personal checks, we recommend the ECCF implement a policy prohibiting the cashing of personal checks with operating receipts. The ECCF should deposit intact all monies, including cash and checks, for operations or resident trust accounts.

Supplement to the Special Audit Report

Objective No. 2 – Resident Trust Account Activity

Procedures

We obtained all resident trust account activity during the Period, including deposits, withdrawals, and resident account balances for each resident at the ECCF.

Using the deposit ticket, EFT documents and the ECCF Cash Receipt Report for each deposit transaction, we scheduled out all postings to resident trust accounts and determined the individual resident account for whom the posting was intended.

For October 2010 through June 2012, we sorted monthly postings by resident names. We traced the monthly receipt amount for each resident to the ECCF Resident Trust Aging Report, which shows beginning balance, total receipts, total disbursements, and ending balance for each resident. We also compared monthly deposit totals to the monthly totals posted to the agency fund at the County.

For July 2012 through September 2013, we compared the monthly total deposits into the Resident Trust Account agency fund at the County to the total amount on the month end Resident Trust Aging Report.

For checks issued from individual resident trust accounts, we examined documentation supporting the nature and purpose of the disbursements for resident purposes. For cash and other account withdrawals (e.g., direct debit or EFT transactions), we examined receipts signed by the resident or their representative.

For cash withdrawn from the Resident Trust Account bank account to be maintained on hand, we reviewed all such withdrawals to determine whether amounts were appropriately accounted for on the manual ledger of cash on hand.

We reviewed monthly reconciliations to determine whether all resident trust account activity was properly accounted for and balanced, noting any variances or inaccuracies.

For residents that passed away during the Period, we reviewed documentation to determine whether balances remaining in the resident trust account at the time of death were disbursed to the residents' families, estates, or to the Ohio Department of Jobs and Family Services.

Results

At September 30, 2013, the ECCF had cumulative unexplained variances totaling \$16,537 in the resident trust accounts and on its monthly account reconciliations. Our examination noted the variances were due to the following conditions:

- Unposted adjustments to the ECCF Resident Trust Account system or County ledgers³;
- Expenditures made but not posted to a resident's account;
- Expenditures posted to resident accounts, but there was no check or cash withdrawal related to the posted expenditure;
- Overpayment or payment errors of resident bills;

³ For ECCF resident trust accounts, amounts collected by the ECCF are deposited by ECCF employees into a County operated bank account and posted to the County ledgers within a fiduciary agency fund. These amounts are subsequently paid from the County to the ECCF, upon ECCF request, for use in resident trust accounts.

Supplement to the Special Audit Report

- Bank debits for check order costs paid out of Resident Trust Account Fifth Third Bank account but not posted to ECCF records;
- Deposits made into the County bank account and posted to the County agency fund, but not posted to the ECCF resident trust account records;
- Deposits posted to the ECCF resident trust account records but no corresponding deposits posted to the County agency fund.

When we recalculated the monthly reconciliations taking these items into account the variances were reduced to an insignificant amount.

We obtained Resident Trust Account bank statements for the Period. We scheduled the checks issued and other withdrawals for the time periods October 2010 through December 2010 and March 2013 through May 2013, identifying the date, amount, vendor, and, as determinable, to which resident account the payment related. While we noted findings for recovery in certain instances, the overall results for the six months examined did not warrant examining all individual transactions for the remainder of the Period. Instances for which findings for recovery were identified, such as checks made payable to cash and overpayments of resident balances due to unrecorded expenditures, were examined for the entire Period. We examined documentation supporting the nature and purpose of the checks and withdrawals for resident purposes and examined receipts signed by residents or their representatives.

Finding for Recovery

As fiscal officer, Lynn Langston was responsible for preparing and issuing checks from the Resident Trust bank account to pay for residents' personal expenses.

Ms. Langston issued three checks totaling \$757 to pay for residents' expenses but failed to post the expenses to the residents' trust accounts resulting in their account balances being inflated. These residents subsequently passed away and their resident trust account balances were distributed at the inflated amounts. The ECCF cannot recover the money since there are no funds available at the ECCF.

Additionally, Ms. Langston issued and endorsed five checks made payable to "cash" totaling \$7,950 that were not deposited in the petty cash fund. No invoices or other documentation supported the nature or purpose for any of these checks.

In accordance with the foregoing facts and pursuant to Ohio Revised Code Section 117.28, a finding for recovery for public monies illegally expended is hereby issued in the amount of \$8,707 against Lynn Langston and in favor of the Erie County Care Facility Resident Trust Account.

Management Recommendations

Preparation and Review of Monthly Bank Reconciliations

During the Period, the former fiscal officer for the ECCF completed monthly bank reconciliations which included a supervisor's acknowledgement by the ECCF Administrator⁴. However, the Administrator's initials signified only that the reconciliation occurred and was not a testament to the accuracy of the reconciliation.

Bank reconciliations did not accurately reflect the month end balance of the ECCF Agency Fund maintained on the financial ledgers of Erie County. Instead, this fund balance was forced to make the balances reconcile. Additionally, the former fiscal officer omitted the "cash on hand" balances as part of the reconciliation effectively precluding the account from ever reconciling. Accumulated unexplained variances totaled \$16,537 as of September 30, 2013.

⁴ There were multiple Administrators at ECCF during the Period.

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Failure to include accurate and complete bank and book balances on bank reconciliations limits management's ability to ensure accountability over all deposits and withdrawals processed at the ECCF. Additionally, forced amounts conceal otherwise unreconciled balances and eliminates the ability to identify and correct reconciliation errors.

We recommend the ECCF complete monthly bank reconciliations that include accurate bank and book balances, including cash on hand and the month end fund balance of the ECCF agency fund maintained on the Erie County financial ledgers. Additionally, we recommend the ECCF implement a review process that not only ensures the reconciliations occur but also include validation of various amounts included.

We further recommend the person performing the daily reconciliation document it on a standard form with their signature to provide evidence of this action. As a matter of internal control, one party should perform and sign-off on the reconciliation, and a second party should review the reconciliation to gain additional assurance over the cash balancing. The secondary party review should include some re-performance of the reconciliation process. Each party should sign the reconciliation form, and those forms should be retained.

Accountability and Maintenance of Documentation for Withdrawals and Expenditures

During the Period, the ECCF did not consistently maintain documentation such as receipts and invoices supporting all withdrawals and expenditures from resident trust accounts. Additionally, documentation maintained was not clearly organized and readily determinable as to which piece of documentation pertained to which cash or check withdrawal. For instance we noted the following conditions:

- There were 45 instances where residents did not sign the withdrawal receipt;
- Pre-numbered receipts documenting cash withdrawals were not always used;
- There were 518 instances where the ECCF personnel preparing the withdrawal receipt did not sign the receipt;
- There were 61 instances where we could not agree the check amount to specific invoices. This was due to lack of documentation maintained for the check, missing invoices, and partial payments of invoice amounts not being noted on the invoices;
- Expenditures totaling \$4,661 were not posted to residents' accounts. In three instances totaling \$757, the residents subsequently passed away and the ECCF paid out the overstated resident balance;
- Three instances where Ms. Langston made unexplained cash withdrawals using a counter cash withdrawal slip and the same amount was deposited back into the bank account within minutes. The amounts were \$160, \$783, and \$115, respectively.

Failure to maintain complete documentation supporting all withdrawals from resident trust accounts limits management's ability to ensure accurate accountability over such expenditures and other withdrawals. Additionally, this increases the likelihood of withdrawals from resident trust accounts being used for purposes other than resident activities.

We recommend the ECCF ensure each withdrawal or expenditure made from resident trust accounts is appropriately supported by documentation. We further recommend the ECCF use pre-numbered receipts to support cash withdrawals from resident trust accounts. These pre-numbered receipts should be completed at the time of withdrawal, clearly documenting the date, amount, purpose, and requesting resident for the withdrawal. Additionally, these receipts should be signed by the resident or resident's representative as well as two officials of the ECCF. Finally, we recommend the ECCF maintain supporting voucher packets for all checks issued, including identification of the check number related to each supporting document.

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Petty Cash Procedures

During the Period, the ECCF maintained petty cash accounts, including cash on hand for resident trust accounts and miscellaneous resident activities. However, the ECCF did not maintain complete ledgers of petty cash activity occurring throughout the Period. Additionally, the ECCF did not maintain receipts to support petty cash usage and replenishments. In many instances, periodic cash deposits of inconsistent amount were made to the petty cash accounts. The ECCF also did not have a formal policy governing the use of petty cash accounts

Failure to maintain accurate and complete ledgers accounting for all petty cash activity reduces accountability over such funds. Additionally, without receipts to support the use of petty cash funds, ECCF management cannot ensure funds are used for proper public purposes.

We recommend the ECCF maintain complete ledgers documenting the deposit and withdrawal activity for all petty cash accounts maintained at the ECCF. We further recommend the ECCF implement a formal policy establishing required procedures for all petty cash accounts, including but not limited to, balances to be maintained, approval for access to funds, allowable purposes, maintenance of documentation, and petty cash replenishment.

Accountability and Communication of Account Adjustments

During the Period, the ECCF and the County Auditor's Office did not communicate various adjustments each made affecting resident trust accounts financial records of the other. These uncommunicated account adjustments were a contributing factor to the ECCF's accumulated unreconciled balances for the Period.

Failure to communicate and account for resident trust account adjustments increases the likelihood of errors and omissions within ECCF and County financial records and directly contributed to the ECCF's unreconciled balances during the Period.

We recommend the ECCF and the County communicate adjustments made to ensure complete and accurate resident trust account financial information. The ECCF should establish guidelines for when adjustments are permitted and required supervisory review of adjustments made.

Overpayments of Resident Trust Accounts

The ECCF failed to record certain expenditures to the respective resident trust accounts creating overstated balances. Upon discharge or death, the ECCF paid the overstated balance to the resident or his/her representative.

Failure to accurately and completely post all expenditures to resident trust accounts increases the risk ECCF will pay overstated amounts to residents or their representatives.

We recommend the ECCF record all resident activities, including resident expenditures and withdrawals, to the respective resident trust accounts at the time of withdrawal. Additionally, we recommend the ECCF conduct a review or audit of the resident trust account prior to disbursement of the remaining balance to ensure its accuracy.

Segregation of Duties

An adequate segregation of duties should be established for the individuals responsible for collecting monies, recording receipts, making deposits, and reconciling accounts. The former fiscal officer's responsibilities included collecting ECCF receipts, entering receipt information into the computer system, depositing collections, making adjustments to the computer system, and reconciling the bank statements to the accounting system.

The lack of segregation of duties over these procedures increases the risk errors and irregularities may occur and not be detected by management.

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We recommend the ECCF establish adequate segregation of duties to reduce the opportunity for any one person to have exclusive oversight of conflicting tasks. In certain circumstances, it is not always possible to have enough staff to properly segregate duties. Understanding this, the ECCF management should take an active role in monitoring transactions when proper segregation of duties cannot be achieved.

Timely Payout of Resident Trust Account Balances

The ECCF was not issuing payouts of deceased residents' trust account balances in a timely manner. Ohio Revised Code Section 5162.22 states, in part, "the owner or operator of a home or residential facility shall transfer to the department of Medicaid the money in the personal needs allowance account of a resident of the home or facility who was a Medicaid recipient no earlier than sixty days but not later than ninety days after the resident dies."

During the Period, there were six instances where the payout of a deceased Medicaid resident's trust account balance was distributed greater than 90 days after his or her death. For instance, one ECCF resident passed away in May 2013, and as of September 30, 2013, the resident's remaining balance of \$2,161 had not yet been distributed to the appropriate parties. This balance was subsequently paid out in March 2014.

The lack of timely payment of these funds could result in the ECCF failing to remit balances to individuals, representatives, or appropriate agencies. Additionally, the lack of timely payouts combined with other documented weaknesses noted throughout this report led to untimely and incorrect account closings.

We recommend the ECCF review the payout regulations/guidelines and establish policies and procedures to ensure all balance payouts are timely processed and issued in compliance with Ohio Rev. Code Section 5162.22.



Dave Yost • Auditor of State

ERIE COUNTY CARE FACILITY

ERIE COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
DECEMBER 4, 2014**