

**STATE OF NEW HAMPSHIRE
DEPARTMENT OF HEALTH AND HUMAN SERVICES
OFFICE OF FAMILY SERVICES
DIVISION OF BEHAVIORAL HEALTH**

GLENCLIFF HOME FOR THE ELDERLY

**AUDIT REPORT
FOR THE NINE MONTHS ENDED
MARCH 31, 1997**

**STATE OF NEW HAMPSHIRE
DEPARTMENT OF HEALTH AND HUMAN SERVICES
OFFICE OF FAMILY SERVICES
DIVISION OF BEHAVIORAL HEALTH**

GLENCLIFF HOME FOR THE ELDERLY

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Legend for Table of Contents, Audit Comments

- * General State Operations Audit Comment
- ◆ Trust Agency Funds Audit Comment
- *◆ Has components of Both General State Operations and Trust and Agency Funds

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**STATE OF NEW HAMPSHIRE
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GLENCLIFF HOME FOR THE ELDERLY

INTRODUCTION

BACKGROUND AND ORGANIZATION

The New Hampshire Home For The Elderly was created in 1970 by the passage of RSA 138-A. The name was changed to the Glencliff Home For The Elderly (Home) in 1977. The Home is located at the site of the former State Sanatorium, a facility which treated tuberculosis patients. The tuberculosis patients were transferred to alternate facilities upon the creation of the New Hampshire Home For The Elderly. The Home currently provides nursing home services to a geriatric resident population with psychiatric and/or developmental disability involvements. The capacity of the Home during the nine month audit period was 130 residents and the resident census averaged 102.

The Home, located in Benton, New Hampshire, approximately 70 miles north of Concord, is an organization within the New Hampshire Department of Health and Human Services (HHS), Office of Family Services, Division of Behavioral Health. The Home operates under the direction of the superintendent, an unclassified employee. Prior to June 1997, the commissioner of HHS nominated the superintendent for appointment by the governor and council to a four-year term. Since June 1997, the superintendent serves at the pleasure of the commissioner of HHS. During the audit period, in addition to the superintendent, the Home employed approximately 180 classified employees.

FUNDING

The Home is funded primarily by appropriations from the General and Capital Projects Funds. The financial activity of the Home, as reported in the General and Capital Projects Funds for the nine months ended March 31, 1997, is summarized in the following table.

Nine Months Ended March 31, 1997			
(in thousands)	General Fund	Capital Fund	Total
Unrestricted Revenues	\$2,417	\$-	\$2,417
Restricted Revenues	15	-	15
Total Revenues	\$2,432	\$-	\$2,432
 Expenditures	 \$5,387	 \$604	 \$5,991

INTRODUCTION (Continued)

The Home's General Fund unrestricted revenues and General and Capital Projects Fund expenditures are presented graphically on page 4 for the nine months ended March 31, 1997.

In addition to the financial activity of the Home accounted for in the State's General and Capital Projects Funds, the Home maintains several trust and agency funds. Activity in the Home's Trust and Agency Funds for the same period is presented graphically on page 5. Assets received by the Home as an agent or trustee are accounted for in the funds as described below.

Agency Funds

Agency funds (accounts) are used to account for fiduciary relationships involving only custodial or modest management responsibilities. Agency funds report assets received for, and disbursed to, other governmental units, private sector organizations, groups, or individuals. The Home operates and is responsible for the following two agency funds.

Patient Deposit Account: Receipts to this account represent personal income of the residents of the Home. A majority of the income is from Social Security and Supplemental Security Income. Each resident retains a minimum of \$40 from their monthly income. The remainder is generally applied to their room and board.

Doctor's Account: This account is a holding account for depositing fees for medical services which are subsequently paid to the administering physician. The Home bills Medicaid and Medicare for medical services performed, deposits the money from the billings into the Doctor's Account, and subsequently issues a check in the same amount to the physician.

Expendable Trust Funds

Expendable trust funds are used to account for fiduciary relationships in which both the trust principal and earnings thereon may be expended by the trustee for the purposes of the trust. The Home operates and is responsible for the following four expendable trust funds.

Mary Manning Fund: The purpose of the Mary Manning Fund is to make funds available to residents, on an emergency basis, where residents' personal funds are insufficient for their personal needs. This fund is supported through private donations and fundraising activities.

Patient Welfare Fund: Disbursements from the Patient Welfare Fund are for items or activities that are for the benefit of the resident population as a whole. This fund is also supported through private donations and fundraising activities.

INTRODUCTION (Continued)

Canteen Fund: The Home operates a canteen store for the benefit of the residents. Snack foods and tobacco products are available at the canteen and soda is available from vending machines operated by the canteen. The purchase and sales activity of the canteen and vending machines is recorded in the Canteen Fund.

Letitia Cross Trust Fund: This fund was established through a donation from the estate of Letitia M. Cross in 1933. The State Treasurer is authorized to act as custodian of the fund. The fund was originally created to benefit the tuberculosis patients of the New Hampshire State Sanatorium. The Sanatorium was closed and the tuberculosis patients transferred to general hospital and nursing home care and treatment in 1970. Because the original purpose of the trust no longer exists, the Home is in the process of having this trust fund dissolved and the proceeds deposited into the Patient Welfare Fund.

PRIOR AUDIT

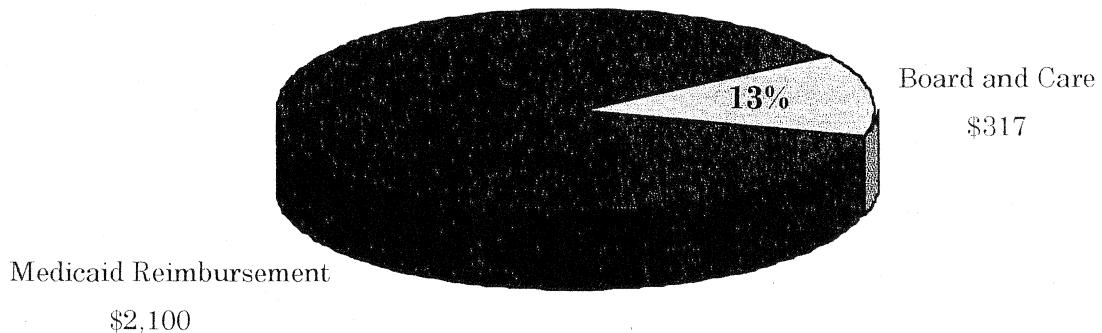
The most recent prior financial and compliance audit of the Glencliff Home For The Elderly was for the ten months ended April 30, 1985. Appendix A on page 53 of this report contains a summary of the current status of the observations contained in that prior audit report.

Copies of the prior audit report can be obtained from the Office of Legislative Budget Assistant, Audit Division, 107 North Main Street, State House Room 102, Concord, NH 03301-4906.

INTRODUCTION (Continued)

**General Fund Unrestricted Revenues
For the Nine Months Ended March 31, 1997**

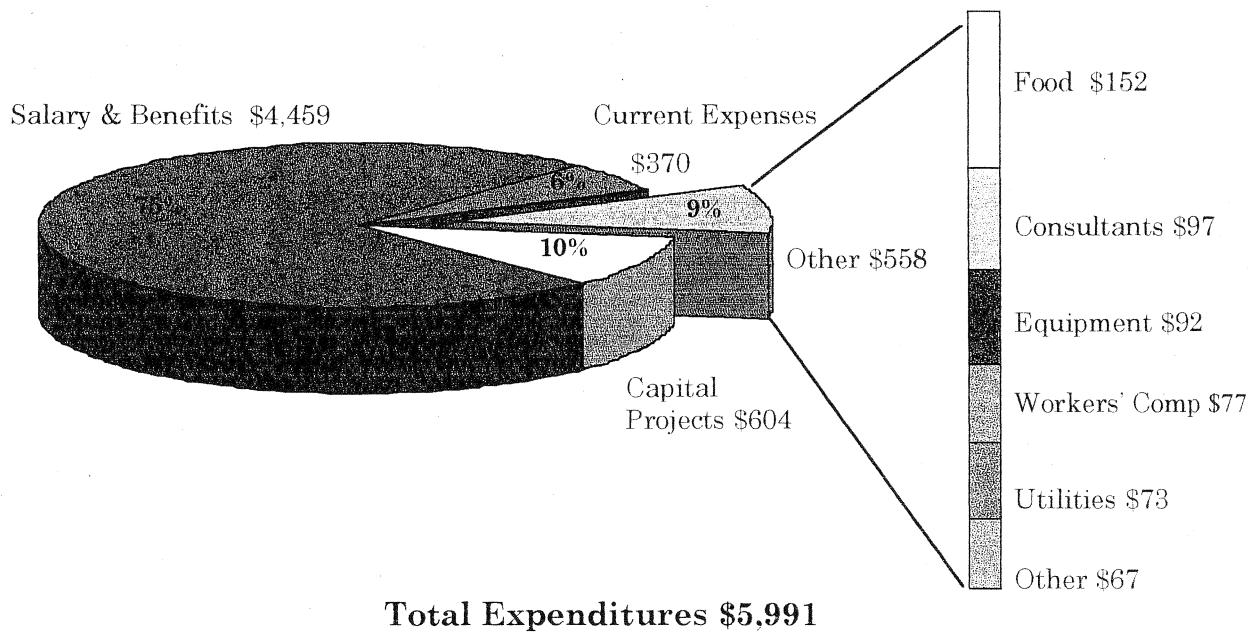
(Amounts shown in Thousands)



Total Unrestricted Revenues \$2,417

**General and Capital Projects Fund Expenditures
For the Nine Months Ended March 31, 1997**

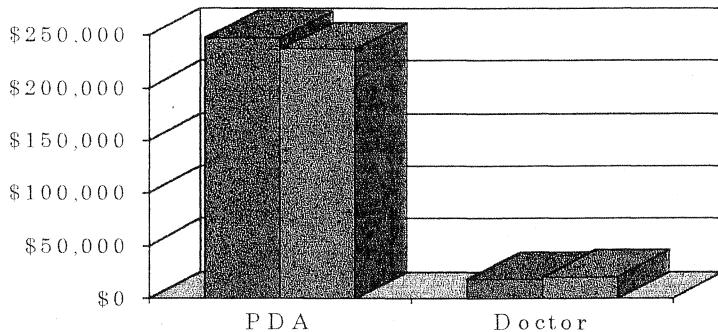
(Amounts shown in Thousands)



INTRODUCTION (Continued)

Agency Funds Additions and Deductions

For the Nine Months Ended March 31, 1997

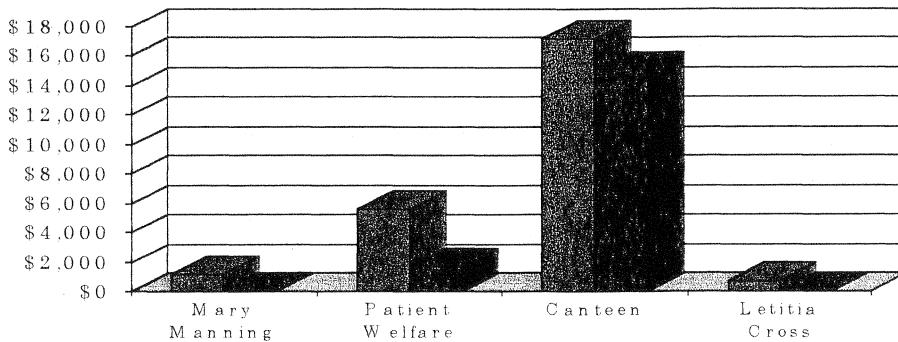


	Additions	Deductions
Patient Deposit Account	\$ 220,152	\$ 209,289
Doctor's Account	19,147	20,806
Totals	\$ 239,299	\$ 230,095

Expendable Trust Funds

Revenues and Expenditures

For the Nine Months Ended March 31, 1997



	Revenues	Expenditures
Mary Manning	\$ 1,200	\$ 55
Patient Welfare	5,106	1,701
Canteen	17,177	15,102
Letitia Cross	740	-
Totals	\$ 24,223	\$ 16,858

STATE OF NEW HAMPSHIRE
DEPARTMENT OF HEALTH AND HUMAN SERVICES
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DIVISION OF BEHAVIORAL HEALTH

GLENCLIFF HOME FOR THE ELDERLY

AUDIT OBJECTIVES AND SCOPE

The primary objective of our audit is to express an opinion on the fairness of the presentation of the financial statements. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we considered the effectiveness of the internal control structure in place at the Glencliff Home For The Elderly and tested the Home's compliance with certain provisions of applicable state and federal laws and regulations. Major accounts or areas subject to our examination included, but were not limited to the following:

- Internal control structure
- Revenues and appropriations
- Expenditures and encumbrances
- Property and equipment
- Inventory
- State and federal compliance
- Cash
- Trust and agency funds.

Our reports on the internal control structure, state and federal compliance, and management issues, the related observations and recommendations, our independent auditor's report, and the financial statements are contained in the report that follows.

AUDITOR'S REPORT ON THE INTERNAL CONTROL STRUCTURE

TO THE FISCAL COMMITTEE OF THE GENERAL COURT:

We have audited the accompanying financial statements of the Glencliff Home For The Elderly, an organization within the New Hampshire Department of Health and Human Services, Office of Family Services, Division of Behavioral Health, as of and for the nine months ended March 31, 1997, and have issued our qualified report thereon dated May 20, 1997, which was qualified with respect to the lack of presentation of the financial position of the Glencliff Home For The Elderly in the General and Capital Projects Funds and the accounting for general fixed assets.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of the Glencliff Home For The Elderly is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the financial statements of the Glencliff Home For The Elderly as of and for the nine months ended March 31, 1997, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Those matters that we consider to be reportable conditions are described on the following pages.

REPORTABLE CONDITIONS

OBSERVATION NO. 1: CONTROLS OVER REVENUE PROCESSING

OBSERVATION:

The Glencliff Home For The Elderly (Home) processed over two million dollars in General Fund revenues during the nine months ended March 31, 1997. Most of the Home's revenue during the period consisted of Medicaid reimbursement and board and care payments received through the mail in the form of checks. Effective internal controls over revenue processing include procedures to ensure that cash and checks received by an agency are promptly recorded and safeguarded through the receipt and deposit process. This generally includes an initial recording of the receipt by the individual who first received the cash or checks. Restrictive endorsement of the checks received should also be performed by this individual at the time of the initial recording. We noted the following issues related to the Home's revenue processing procedures.

- Medicaid reimbursement checks are not recorded or restrictively endorsed upon initial receipt. These checks are regularly passed among as many as three employees prior to being recorded and as many as four employees prior to being restrictively endorsed. We noted one instance where a \$273,525 check was received and placed in a desk drawer and not initially recorded or restrictively endorsed until the following day.
- Board and care checks are recorded upon initial receipt. However, the checks are passed to a second employee for restrictive endorsement.

RECOMMENDATION:

To protect against the loss or unauthorized use of checks, the Home should modify its current revenue processing procedures to include both the recording and endorsing of checks immediately upon receipt.

AUDITEE RESPONSE:

We concur and we are complying with this recommendation. We have initiated a policy whereby checks are received, endorsed and recorded on Form A-15 upon receipt by one employee. This will be passed on in a timely manner to another employee to prepare the cash receipt, Form A-17.

OBSERVATION NO. 2: ACCOUNTING FOR CONSUMABLE INVENTORY

OBSERVATION:

The Glencliff Home For The Elderly (Home) maintains a warehouse for the storage of consumable inventory items such as hospital, housekeeping, office, and food service supplies and nonperishable food. As prescribed by the Department of Administrative Services' Manual of Procedures (MOP) N.H. Admin. Rules, Adm 307.03 (expired), the Home uses inventory control cards to maintain records of receipts, issues, inventory quantity balances, unit costs, and total dollar value for items stored in the warehouse. According to MOP section Adm 307.05 (expired), state agencies are required to compute total inventory value and unit cost using the weighted-average method. Also, good internal control practices require all items of a consumable nature be accounted for, inventoried, and safeguarded, including limiting the number of employees having access to the inventory. We noted the following issues related to the Home's consumable inventory.

- Not all categories of consumable inventory at the Home are controlled through the warehouse process. At March 31, 1997, the Home had consumable inventory items, including dietary, building, automotive, paint, and plumbing supplies with an estimated value of \$127,800 located outside the warehouse's control. There were no inventory records maintained for these categories of items. Historically, these categories of consumable inventory have not been accounted for in an inventory system or included in the Home's annual reports of consumable inventory. These categories of consumable inventory are included in the March 31, 1997 inventory balance reported in Note 5 of the financial statements.
- The consumable inventory at the Home's warehouse was not effectively secured. Essentially any employee could obtain items from the warehouse inventory. The warehouse did not have sufficient controls to limit access to the inventory and to ensure that each issuance of inventory was properly approved and recorded.
- Inventory received and issued by the warehouse on the same day was not recorded on the inventory control cards. The lack of recording these simultaneous receipt and issue transactions may result in a misstatement of the unit cost and the total value of the inventory item under the weighted-average method of inventory costing.

RECOMMENDATIONS:

- The Home should develop and implement a centralized inventory system which accounts for all consumable inventory items. Consideration should be given to automating the system used in the warehouse and extending the scope of the system to encompass the inventory activity at the multiple sites where consumable inventory is maintained.
- The Home should properly safeguard all consumable inventory items. Controls should be enhanced to ensure that only a limited number of employees have access to the

OBSERVATION NO. 2: ACCOUNTING FOR CONSUMABLE INVENTORY **(Continued)**

RECOMMENDATIONS (Continued):

inventory and that inventory cannot be issued without proper approval and documentation of the issuance.

- All inventory activity should be recorded, even when the inventory is simultaneously received and issued by the warehouse. Complete inventory records will promote the accuracy of the reported inventory values.

AUDITEE RESPONSE:

We concur with this recommendation. Developing a centralized inventory system appears to have merit, however, to formally receive and issue every item into Glencliff Home for the Elderly would be labor intensive, site impossible, and cost prohibitive in a one person department—working 7 a.m. - 3 p.m. Monday through Friday. Development of a centralized inventory policy appropriate for the Home has been initiated.

We currently are looking at available software for maintaining consumable inventory to include items stored in our central warehouse and some items external to the warehouse. A new Administration Department procedure has been written and instituted, which includes supervisory permission to solicit items from the warehouse and documentation of the issuance. A policy is being developed which will only allow certain employees access to the main warehouse, as well as ancillary storage areas.

OBSERVATION NO. 3: CONTROLS OVER BANK ACCOUNT RECONCILIATIONS

OBSERVATION:

The Glencliff Home For The Elderly (Home) maintains seven checking accounts and one savings account for its trust and agency funds and State revenue account. These accounts are held at two local banks. The Home performs reconciliations of the banks' account statements and the Home's records on a regular basis. Reconciliations help to ensure that the cash transactions in each account are correctly recorded by the Home and the bank. During a review of the reconciliation process, the following issue was noted.

- The individual responsible for the bank account reconciliations also signed the checks drawn on each checking account. Performing the account reconciliations and also signing the related checks are incompatible functions when performed by the same individual as they serve to weaken controls over the reconciliation process.

OBSERVATION NO. 3: CONTROLS OVER BANK ACCOUNT RECONCILIATIONS
(Continued)

RECOMMENDATION:

The Home should segregate the duties of check signing and reconciling the bank accounts. Segregation will promote the timely detection of errors or irregularities related to the recording of cash transactions.

AUDITEE RESPONSE:

We concur and we are complying with this recommendation by assigning separate persons to manage the deposit and disbursements vs: the reconciliation of the bank statements for each account.

OBSERVATION NO. 4: SEGREGATION OF DUTIES OVER PAYROLL PROCEDURES

OBSERVATION:

During the audit period the Glencliff Home For The Elderly (Home) employed approximately 180 people. The Home is staffed on a three-shift, twenty-four hour a day basis. The following was noted regarding controls over the Home's payroll practices during the nine months ended March 31, 1997.

- Two employees were responsible for both the input into the State payroll system of each employee's hours worked and leave time taken and the verification of that input. The biweekly payroll data input into the State system was not reviewed/approved by anyone independent of the payroll process. Not segregating the duties of payroll input and input verification increases the risk that errors or irregularities will not be detected in a timely manner.
- Payroll checks are distributed by the same employees who are responsible for payroll processing. Home employees have to sign a log in order to receive their checks. Requiring employees to sign for their checks strengthens controls over check distribution. However, the Home had no policy for unclaimed checks. According to agency personnel, unclaimed checks were not an issue.

OBSERVATION NO. 4: SEGREGATION OF DUTIES OVER PAYROLL PROCEDURES (Continued)

RECOMMENDATIONS:

- The Home should segregate the duties of payroll data input and verification. The biweekly payrolls should be reviewed and approved by someone independent of the payroll process. Segregating payroll duties and adding a review/approval process should strengthen controls over the payroll process.
- The Home should also develop policies and procedures for the custody and disposition of unclaimed payroll checks. The policies and procedures should require that the responsibility for unclaimed payroll checks be properly segregated from other payroll duties.

AUDITEE RESPONSE:

We concur with this recommendation. One employee will handle the payroll data input and the other employee in the department will verify the input. In the rare event that one of the two employees in this department is out for an extended period, the other employee in payroll will have to do the input and verification, due to the fact we do not have the trained staff to pick this up. A designee of the Superintendent, who is independent of direct payroll duties, will review and approve the payroll on a bi-weekly basis.

We will develop a policy to handle the unclaimed payroll checks which will include assuring the security of the checks and the appropriate disposition.

OBSERVATION NO. 5: CONTROLS OVER EQUIPMENT

According to the State's Fixed Asset Policies and Procedures Manual, equipment is defined as an item with a cost of \$100 or more and a useful life of more than one year. Equipment is to be recorded at historical cost, or if donated, at the fair market value at the time of donation. If historical cost or fair market value is not known, an estimated cost or value should be recorded. Equipment additions and disposals are reported monthly to the Department of Administrative Services' (DAS) Bureau of Purchase and Property. Transfers of equipment between State agencies are to be reported to DAS on an Equipment Transfer form (Form P-17). A listing of all equipment is to be reported at the end of each fiscal year.

OBSERVATION:

During our testing of the Glencliff Home For The Elderly's (Home) equipment records, we noted or were informed of equipment at the Home that was not included in the Home's equipment records.

OBSERVATION NO. 5: CONTROLS OVER EQUIPMENT (Continued)

OBSERVATION (Continued):

- Some equipment items which were donated, built in-house, or whose origins date back prior to 1970 were not included in the equipment inventory. Examples of these items include a piano and an organ that reportedly were donated to the Home, cabinets built on-site, and bookcases that, according to agency personnel, existed at the time the site was a tuberculosis sanatorium.
- Office furniture transferred to the Home from the New Hampshire Hospital (NHH) during the 1980s was also not included in the equipment inventory. The equipment was tagged with NHH equipment inventory control numbers. According to agency personnel, no cost information was received with the equipment.

RECOMMENDATION:

The Home should conduct and report a complete inventory of all equipment at the Home. As part of that inventory, the Home should consider the following.

- The Home should evaluate those items which were donated, built on-site, or whose origins date back prior to 1970 to determine whether the items meet the State's definition of equipment. All items that meet the State's definition of equipment should be included in the Home's equipment records.
- The Home should determine whether the NHH includes in its records the equipment on site at the Home. If the NHH does record this equipment in its inventory, the Home should initiate a formal transfer of the equipment by preparing a Form P-17. If the NHH does not include this equipment in its inventory, the Home should consult with its Department and its DAS business supervisor regarding the appropriate procedures to add this equipment to its inventory.

AUDITEE RESPONSE:

We concur with this recommendation. We have done an initial survey to identify items not currently on inventory and will develop a system to add them to our inventory.

When we develop a system for inventorying donated items, and old items that have increased in value, these will be added to our inventory, at an estimated fair market value at the time of donation.

OBSERVATION NO. 5: CONTROLS OVER EQUIPMENT (Continued)

AUDITEE RESPONSE (Continued):

We have talked to the Business Administrator at N.H. Hospital about the equipment transfer in the 1980's. He assured us they were taken off their records at the time. These items will be added to our inventory. In the future, any transfer of equipment from one state facility to ours will be accompanied by a Form P-17.

OBSERVATION NO. 6: CONTROLS OVER EXPENDITURES

OBSERVATION:

The Glencliff Home For The Elderly's (Home) internal control procedures related to expenditures were reviewed and the following issues were noted where controls over expenditures could be improved.

Nonpayroll Expenditures

Receiving and Inspection Reports

The preparation of receiving and inspection reports upon the receipt of goods provides a record of the quantity of goods received and functions as supporting documentation for the payment of the related invoice. In order to function as an effective control over the expenditure process, receiving and inspection reports should list in sufficient detail the item description and quantities received based upon the preparer's personal inspection of the delivery. The reports should be signed and dated by the receiver to evidence the receipt of the goods.

- Of the 32 expenditure items tested, 22 were for the receipt of goods. The supporting documentation for two of these 22 sample items (9%) did not include a receiving and inspection report.
- One of the 20 receiving reports observed (5%) did not contain the quantity received but rather referenced the invoice number and the total dollar amount of the invoice. The control provided by receiving and inspection reports is lessened when the quantity received is not determined independently of invoices or shipping documents and is not recorded on the report.
- The receiving and inspection reports that were observed were not signed and dated by the receiver. Rather, the name of the receiver was typed on the form. A signature and date would provide better evidence of who prepared the report.

OBSERVATION NO. 6: CONTROLS OVER EXPENDITURES (Continued)

OBSERVATION (Continued):

Invoice Payments for Psychiatric Services

The Home has a contract with a vendor for the provision of psychiatric services. The vendor submits invoices to the Home which include the dates of service. According to personnel at the Home involved in the payment process, the service dates listed on the invoices are not routinely compared to the record of service dates maintained by the Home's medical records personnel. Controls over these payments could be enhanced by comparing the service dates on the invoice to the Home's internal records of services received.

Disposition of Signed Checks

Checks generated by the State's accounting system are either mailed directly from the Treasury to the payee or forwarded to the Home in accordance with the Home's request. Checks forwarded to the Home are typically routed to the same employee who originally prepared the payment voucher that initiated the generation of the check. This employee is responsible for remitting the payments to the vendors.

Effective internal control practices dictate that signed checks be handled in such a way that they are unavailable to persons involved in the payment voucher process. Allowing checks to be returned to the payment voucher preparer weakens controls over disbursements.

Payroll Expenditures

Time Keeping

During the nine months ended March 31, 1997, the Home had approximately 180 employees. While a number of these employees worked regular forty-hour work weeks, many Home employees worked irregular work weeks, as is common in direct-care facilities.

- Daily sign-in sheets are manually prepared by the department heads or shift supervisors to record the hours each employee worked. These sign-in sheets are completed by day, shift, and department. The employees responsible for payroll processing use the sign-in sheets to manually record each employee's hours on individual employee time cards. The time cards are used to input the employees' hours into the State's automated payroll system. As described, the timekeeping process used by the Home is a completely manual system that does not appear efficient as it requires multiple posting of the same information.

OBSERVATION NO. 6: CONTROLS OVER EXPENDITURES (Continued)

OBSERVATION (Continued):

- During payroll testing we noted that the sign-in sheets were not consistently signed by the department heads or shift supervisors who prepared the sheets. According to the Home's payroll personnel, the department heads or shift supervisors are not required to sign the sign-in sheets if the sheets are prepared in the presence of payroll personnel.

RECOMMENDATIONS:

Nonpayroll Expenditures

- Receiving and inspection reports, based on an inspection and count of the goods at the time of receipt, should be prepared for all goods received by the Home. Receiving and inspection reports should include detail of the quantity received, a description of the goods, and should be signed and dated by the preparer.
- The Home should ensure that all invoices are supported by the Home's records prior to payment. The Home should compare the psychiatric service provided per the invoice to the service received as recorded in the Home's medical records.
- The payment voucher cycle, including the preparation, approval, and recording functions, should be segregated from check handling responsibilities. Segregation of these duties strengthens controls over disbursements and promotes the timely detection of errors or irregularities. Where possible, checks forwarded to the Home prior to remittance should be handled by individuals who are otherwise independent of the check request process.

Payroll Expenditures

- The Home's current time-keeping system, prior to the input of the payroll data into the State's automated payroll system, is an entirely manual system that appears labor intensive and inefficient. The Home should reevaluate its current system to determine whether its manual procedures could be modified and automated to enhance efficiency.
- In order to ensure that the supervisor's approval of the employee's time is an effective payroll control feature, the Home should require that all sign-in sheets be signed by the responsible department head/shift supervisor regardless of whether the preparation of the sign-in sheet is observed by the payroll personnel.

OBSERVATION NO. 6: CONTROLS OVER EXPENDITURES (Continued)

AUDITEE RESPONSE:

We agree with these recommendations.

- We agree with the recommendation to have receiving and inspection reports for all goods delivered to the Home. We will work to improve compliance with the Home's policy for signed receiving and inspection reports.
- We agree that all invoices for services should be supported by Home records and they are. However, we have implemented a comparison/check system to review dates of service as suggested.
- We concur and have changed our practice in handling of checks forwarded back to Glencliff Home for dispersal. These checks will now go to another employee in Administration for remittance of payment to the vendor.
- The Home has looked into a computerized time-keeping system that would partially integrate with the payroll system; however, its cost is currently prohibitive. It would have to be budgeted separately in another biennium.
- We agree that each Department Head should authorize their employees' time by signing the daily sign-in sheets and have implemented the system.

OBSERVATION NO. 7: CONTROLS OVER THE PATIENT DEPOSIT ACCOUNT

OBSERVATION:

The Glencliff Home For The Elderly (Home) maintains the Patient Deposit Account (PDA), an agency fund, to account for residents' personal-needs money. The financial activity in the PDA is accounted for on the Gencare computer system. During the nine months ended March 31, 1997, \$220,152 of receipts were deposited to the PDA and \$209,289 of disbursements were made from the account. Disbursements are made at the direction of the residents.

- There is no independent review performed by the Home of the financial activity reported in each resident's account in the PDA. An independent review would help ensure that the resident's balance and financial activity reported in the Gencare system are accurate and reasonable. This control is especially important considering the general lack of financial sophistication of the Home's residents.

OBSERVATION NO. 7: CONTROLS OVER THE PATIENT DEPOSIT ACCOUNT
(Continued)

RECOMMENDATION:

The Home should enhance its control over the Patient Deposit Account (PDA). An individual independent of the data entry function, and otherwise independent of the entire PDA operation and control process, should periodically review the reported financial balances and activity in the resident accounts. This review should include a check of the accuracy of the information reported and should also include consideration of the apparent appropriateness of the reported activity, based on the resident's physical and financial condition.

AUDITEE RESPONSE:

We concur with this recommendation. However, it will be very difficult to implement successfully. The Resident Service Director, or a designee of the Superintendent, will periodically review the reported financial balances and activities in the resident accounts and will report to the Superintendent any areas of concern.

OBSERVATION NO. 8: CONTROLS OVER THE CANTEEN FUND

OBSERVATION:

The Glencliff Home For The Elderly (Home) has a canteen for the benefit of the residents. Snack foods and tobacco products are sold at the canteen and soda is sold in vending machines operated by the canteen.

The financial activities of the canteen and the vending machines at the Home are reported in the Canteen Fund, an expendable trust fund. Products sold by the canteen are priced to return a minimal profit. The profit at fiscal year end is transferred to the Patient Welfare Fund, another expendable trust fund maintained by the Home. During the nine months ended March 31, 1997, \$17,177 were deposited as canteen sales and \$15,102 were expended for canteen-related inventory.

The following issues were noted during the evaluation of the internal control procedures related to the Home's canteen and vending machine operations.

OBSERVATION NO. 8: CONTROLS OVER THE CANTEEN FUND (Continued)

OBSERVATION (Continued):

Inventory

- The Home purchases the canteen and vending inventory from three vendors. Inventory orders are placed by telephone. The Home does not maintain documentation of the items ordered or the approval to place the order. Incomplete documentation of the ordering process weakens controls over inventory purchases.
- The Home performs an annual physical inventory of its saleable canteen inventory. The Home does not maintain a perpetual inventory system for its canteen inventory. Perpetual records would provide the Home with a mechanism to periodically compare, during the course of the year, sales dollars to product sold to determine whether there were inconsistencies between the amount of product sold and the revenue deposited into the Canteen Fund. Effective use of a perpetual inventory system would promote early detection and timely correction of problems in the canteen operation.

Disbursements

- Checks issued from the Canteen Fund checking account to pay for inventory purchases are prepared by an employee in the business office. The checks are signed by an employee with signatory authority and returned to the employee who prepared the checks. Effective internal control practices dictate that signed checks be handled in such a way that they are unavailable to persons involved in the check generation process. Allowing checks to be returned to the check preparer weakens controls over disbursements.

Revenue

- The Home has established internal control procedures over the cash collected at the canteen. These procedures require a register tape to be run and a cash-out slip to be prepared after the close of the canteen each day. The register tape and cash-out slip document the total cash collected for the day. The canteen employee responsible for the cash out signs the slip and delivers the register tape, cash-out slip, and cash to the administrative building for deposit preparation. The cash-out slip is also signed by the administrative staff responsible for the deposit preparation to evidence that the amount recorded on the cash-out slip was received. Cash collected from canteen sales is deposited into the Canteen Fund checking account.

During our testing of canteen revenue, we tested a sample of 15 deposit dates with 57 corresponding daily cash outs. Our testing revealed the following instances where the controls the Home had developed were not operating as intended.

OBSERVATION NO. 8: CONTROLS OVER THE CANTEEN FUND (Continued)

OBSERVATION (Continued):

- For two days included in the sample of 57 (4%), the cash-out slip was not signed by the administrative person responsible for receiving the cash from the canteen employee.
- For five days included in the sample of 57 (9%), a cash-out slip was not prepared, however the register tape was submitted.
- For one day included in the sample of 57 (2%), neither a cash-out slip nor a register tape was submitted. The amount collected was noted on an unsigned piece of paper.

RECOMMENDATIONS:

Inventory

- The Home should maintain documentation of orders placed for canteen inventory and the approval of those orders. Maintaining documentation to support purchases will strengthen controls over the inventory process.
- The Home should consider maintaining perpetual inventory records for the more costly products sold by its canteen operation.

Disbursements

- As a matter of general policy, signed checks should not be returned to the check preparer for disposition. In cases where it is necessary for signed checks to be returned to the preparer, the Canteen Fund checking account reconciliation process should include a review of the returned checks to determine whether any checks were altered or exhibited any unusual features such as an unusual or unexpected endorsement. As noted in Observation No. 3, the individual who performs the reconciliation should be independent of the Canteen Fund receipt and disbursement processes.

Revenue

- The Home should take steps to ensure that its control procedures over canteen revenue are consistently complied with. Employees involved in these control procedures should notify management when the effective use of the control procedures is not evidenced in the accounting documentation.

AUDITEE RESPONSE:

We concur with this recommendation. We are initiating new policies to update the canteen fund internal control structure.

OBSERVATION NO. 8: CONTROLS OVER THE CANTEEN FUND (Continued)

AUDITEE RESPONSE (Continued):

Inventory

Canteen orders will be written on an internal requisition, approved and signed by the Department Head and maintained in department files.

Starting July 1, 1997 the canteen register will be keyed for cash received for items from the existing three vendors plus a miscellaneous one (Profile Sales, Hershey Ice Cream, T.B.I. and Misc.). This will allow for spot checking of purchases vs: sales for all of these areas by the Business Administrator. Canteen personnel will do a semi-annual physical inventory of all items.

Disbursements

Signed checks will not be available to the check preparer, they will be mailed out by the employee with signatory authority.

Revenue

Canteen and Administration personnel will tighten up their policies in handling of the canteen revenue. Canteen personnel will deliver a signed cash-out slip, register slip, and the cash to Administration on Monday through Friday on days when the canteen is open. Administration personnel will count and verify the cash, sign the cash-out slip, and prepare the deposit on bank days. Soda money is collected twice a week and will be rung up on the register and entered on a signed cash-out slip. Management will spot check and verify that these procedures are followed.

OBSERVATION NO. 9: DOCUMENTATION OF AUTHORIZATION FOR ADDITIONAL PERSONAL-NEEDS ALLOWANCE

OBSERVATION:

In accordance with RSA 167:27-a, residents are entitled to retain a minimum of \$40 per month from their income as a personal-needs spending allowance. Personal spending includes residents' special clothing and food items, spending in the community, and other personal needs. If recommended by a social worker at the Glencliff Home For The Elderly (Home) and authorized by the Department of Health and Human Services' Office of Reimbursements, a resident may retain an amount in addition to the standard \$40 per month as an additional personal-needs allowance. Amounts retained for a resident's personal needs are deposited to the resident's credit in the Patient Deposit Account, an agency fund maintained by the Home.

**OBSERVATION NO. 9: DOCUMENTATION OF AUTHORIZATION FOR
ADDITIONAL PERSONAL-NEEDS ALLOWANCE
(Continued)**

OBSERVATION (Continued):

During revenue testing, we reviewed the personal-needs allowances for 30 residents. We noted that two residents (7%) in the sample were receiving additional personal-needs allowances for which there was no documentation available to evidence that the additional personal-needs allowances had been authorized by the Office of Reimbursements.

RECOMMENDATION:

The Home should review its procedures for ensuring that additional personal-needs allowances are properly reviewed, approved, and documented prior to crediting those amounts to residents' accounts.

AUDITEE RESPONSE:

We concur with this recommendation. Additional personal needs allowances will be reviewed by the Social Service Department twice a year. Changes will be reviewed and approved by the resident and/or the resident's financial guardian. When a variance from the amount authorized by the Office of Reimbursements, via the approved recommendation is required, a request will be submitted to the Office of Reimbursement with documentation of the need and will be changed when the proper authorization has been granted by the Office of Reimbursement.

**OBSERVATION NO. 10: CONTROLS OVER THE MARY MANNING AND
PATIENT WELFARE FUNDS**

OBSERVATION:

The Glencliff Home For The Elderly (Home) maintains two trust funds for the general benefit of the residents; the Mary Manning Fund and the Patient Welfare Fund. These trust funds are supported through private donations and fundraising activities. The purpose of the Mary Manning Fund is to make funds available to residents, on an emergency basis, when residents' personal funds are insufficient for their personal needs. Disbursements from the Patient Welfare Fund are for items or activities that are for the benefit of the resident population as a whole. The Home maintains a separate bank account for each fund.

During our evaluation of the internal control structure, we noted the following areas where controls over the Mary Manning and Patient Welfare Funds could be enhanced.

OBSERVATION NO. 10: CONTROLS OVER THE MARY MANNING AND PATIENT WELFARE FUNDS (Continued)

OBSERVATION (Continued):

- *Incomplete Documentation of Receipts:* As noted above, both funds receive donations. Donations typically are received in the form of checks. The Home does not maintain documentation which evidences the date the donation was received. Recording donations as they are received, at the point of receipt, would strengthen controls over revenue processing in these two funds.

Fundraising activities are held on the grounds of the Home and are open to staff and residents of the Home. Fundraising activities include bake and craft sales and are generally on a cash basis. The fundraising proceeds are delivered to the employee responsible for preparing the deposits. No documentation of the amount of cash collected at the point of sale is maintained. Recording cash as it is received strengthens controls over the cash collection process.

- *Incomplete Documentation of Disbursements:* Disbursements from the Mary Manning and Patient Welfare Funds are made by check. Invoices typically are not received from service providers which results in a lack of documentation for the disbursements made from these funds.

RECOMMENDATIONS:

- The Home should maintain complete documentation of the Mary Manning Fund and Patient Welfare Fund receipts. Cash and checks should be recorded upon initial receipt including the date received, amount, and source. Complete documentation of receipts to these funds would strengthen controls over the funds, promote the timely detection of errors or irregularities, and also be a source for management information related to the operation of these funds.
- The Home should require invoices or similar documentation from the service providers and other vendors to the Mary Manning and Patient Welfare Funds. All disbursements from these funds should be adequately documented.

AUDITEE RESPONSE:

We concur and have changed our practices for documentation of cash and checks to include: source of funds, date received, amount, and received by signature. All donations will be handled by a designee of the Superintendent, which will be a person other than the one who handles the deposits and disbursements.

We will request and maintain invoices for all purchases and service providers for our Trust Fund Accounts.

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe none of the reportable conditions described on the preceding pages is a material weakness.

This report is intended for the information of the management of the Glencliff Home For The Elderly and the Fiscal Committee of the General Court. However, this report is a matter of public record upon acceptance by the Fiscal Committee and its distribution is not limited.

Office of Legislative Budget Assistant
OFFICE OF LEGISLATIVE BUDGET ASSISTANT

May 20, 1997

AUDITOR'S REPORT ON STATE AND FEDERAL COMPLIANCE

TO THE FISCAL COMMITTEE OF THE GENERAL COURT:

We have audited the accompanying financial statements of the Glencliff Home For The Elderly, an organization within the New Hampshire Department of Health and Human Services, Office of Family Services, Division of Behavioral Health, as of and for the nine months ended March 31, 1997, and have issued our qualified report thereon dated May 20, 1997, which was qualified with respect to the lack of presentation of the financial position of the Glencliff Home For The Elderly in the General and Capital Projects Funds and the accounting for general fixed assets.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with state and federal laws, regulations, contracts, and grants applicable to the Glencliff Home For The Elderly is the responsibility of the Home's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Home's compliance with certain provisions of laws and regulations. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards*. However, we have noted on pages 27 through 29 instances of noncompliance with state statutes and policies, while not material to the financial statements, we believe to be worthy of report mention.

This report is intended for the information of the management of the Glencliff Home For The Elderly and the Fiscal Committee of the General Court. However, this report is a matter of public record upon acceptance by the Fiscal Committee and its distribution is not limited.

Office of Legislative Budget Assistant
OFFICE OF LEGISLATIVE BUDGET ASSISTANT

May 20, 1997

STATE COMPLIANCE

OBSERVATION NO. 11: VALUATION OF LAND AND BUILDINGS

OBSERVATION:

The Glencliff Home For The Elderly (Home) is located at the site of the former New Hampshire State Sanatorium. The Home utilizes part of the land and several of the buildings that were originally obtained and constructed during the early 1900s.

As required by the State's Fixed Asset Policies and Procedures Manual, the Home reports the value of its land and buildings at fiscal year end to the Department of Administrative Services (DAS). At June 30, 1996, the Home reported that its land and buildings were valued at \$8,165,369, based on a 1987 fair value appraisal performed by the Department of Revenue Administration plus actual costs from 1987 to June 30, 1996. The Home does not report the value of its land and buildings at historical cost as required by the Fixed Asset Policies and Procedures Manual.

RECOMMENDATION:

According to the State's Fixed Asset Policies and Procedures Manual, land and buildings are to be valued at historical cost. In cases where historical cost records are not available, an estimation of historical cost should be made. The Home should work with its Department and with its DAS business supervisor to develop an estimation method which will enable it to report its land and buildings to the DAS at an appropriate estimated historical cost.

AUDITEE RESPONSE:

We agree with this recommendation. We will work with the Department of Administrative Services to accomplish this.

OBSERVATION NO. 12: SUBMISSION OF CAPITAL BUDGET PROJECT STATUS REPORTS

OBSERVATION:

The Glencliff Home For The Elderly (Home) had capital budget projects in process during the nine month audit period. RSA 17-J:4 requires each state agency with capital budget projects to submit a status report every 60 days to the Capital Budget Overview Committee. During the audit period, the Home did not submit any capital budget status reports to the Capital Budget Overview Committee.

OBSERVATION NO. 12: SUBMISSION OF CAPITAL BUDGET PROJECT STATUS REPORTS (Continued)

RECOMMENDATION:

The Home should implement the procedures necessary to ensure timely submission of capital budget project status reports in accordance with RSA 17-J:4.

AUDITEE RESPONSE:

We partially concur with this recommendation. Since there is an RSA that is still on the books, we would agree that it should be done. However, it was the Department's understanding that the report was no longer required. The last report we did was in 1986 and no one has ever requested this report since then.

In most instances, the Department of Transportation, Division of Public Works, is responsible for the design, advertising, selection, negotiation, contracting, and monitoring of capital projects and thus in a far better position to report on the status of each project as required by law every sixty days. The Division/Department has a role as the advocate during the budget process and as the user once the project is completed, in between it really is DOT/DPW that has the detailed knowledge of the projects.

We feel more information is needed to comply with the law and provide legislators with substantiative information.

OBSERVATION NO. 13: DOCTOR'S ACCOUNT NOT APPROVED OR REPORTED TO THE DEPARTMENT OF ADMINISTRATIVE SERVICES

OBSERVATION:

The contract with one of the physicians providing medical services to the residents of the Home requires the Home to bill Medicaid and Medicare for medical services performed.

The Home deposits the money from the Medicaid and Medicare billings into the Doctor's Account, an agency account maintained by the Home, and subsequently issues a check in the same amount as the deposit to pay the physician for services rendered.

**OBSERVATION NO. 13: DOCTOR'S ACCOUNT NOT APPROVED OR REPORTED
TO THE DEPARTMENT OF ADMINISTRATIVE
SERVICES (Continued)**

OBSERVATION (Continued):

The Doctor's Account is an agency account of the Home because the money that is deposited into and paid out of the account does not belong to the Home, yet the Home has accepted responsibility for processing and temporarily holding the money.

The Manual of Procedures, N.H. Admin. Rules, Adm 311.03 (a) (2) (expired) states, "Whenever possible, the deposit of such [agency] funds shall be made with the state treasurer subject to prior approval by the governor and council. When such action is not possible, governor and council shall approve the bank of deposit." N.H. Admin. Rules, Adm 311.03 (a) (4) (expired) requires, "A yearly submission of a detailed operating statement of each fund shall be submitted not later than September 1." The Home has not received approval for this account and historically has not submitted the required annual operating statements for this agency account.

RECOMMENDATION:

The Home should obtain governor and council approval for the bank of deposit for the Doctor's Account and submit the required annual operating statement of the Doctor's Account to the Department of Administrative Services as required by N.H. Admin. Rules, Adm 311.03.

AUDITEE RESPONSE:

We concur with this recommendation. This account was opened in 1982 as a pass-thru account for deposits and payments to our medical doctors who accepted Third Party Reimbursement from Medicare and Medicaid. We will work with our Business Supervisor to comply with this.

AUDITOR'S REPORT ON MANAGEMENT ISSUES

TO THE FISCAL COMMITTEE OF THE GENERAL COURT:

We have audited the accompanying financial statements of the Glencliff Home For The Elderly, an organization within the New Hampshire Department of Health and Human Services, Office of Family Services, Division of Behavioral Health, as of and for the nine months ended March 31, 1997, and have issued our qualified report thereon dated May 20, 1997, which was qualified with respect to the lack of presentation of the financial position of the Glencliff Home For The Elderly in the General and Capital Projects Funds and the accounting for general fixed assets.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

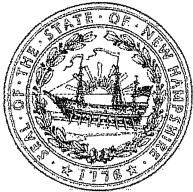
In planning and performing our audit of the financial statements of the Glencliff Home For The Elderly as of and for the nine months ended March 31, 1997, we noted certain issues related to the operation of the Home that merit management consideration but do not meet the definition of a reportable condition as defined by the American Institute of Certified Public Accountants, and were not issues of noncompliance with laws, rules or regulations.

Those issues that we believe are worthy of management consideration but do not meet the criteria of reportable conditions or noncompliance are included on pages 31 through 33.

This report is intended for the information of the management of the Glencliff Home For The Elderly and the Fiscal Committee of the General Court. This restriction is not intended to limit the distribution of this report, which upon its acceptance by the Fiscal Committee, is a matter of public record.

Office of Legislative Budget Assistant
OFFICE OF LEGISLATIVE BUDGET ASSISTANT

May 20, 1997



STATE OF NEW HAMPSHIRE
DEPARTMENT OF HEALTH AND HUMAN SERVICES
OFFICE OF FAMILY SERVICES

BEHAVIORAL HEALTH

Terry L. Morton
Commissioner

Sandra H. Knapp
C.N.H.A. Superintendent

GLENCLIFF HOME FOR ELDERLY
PO BOX 77, HIGH ST. GLENCLIFF, NH 03238
603-989-3111 FAX: 603-989-3040 TDD Access: 1-800-735-2964

August 18, 1997

State of New Hampshire
Office of Legislative Budget Assistant
Audit Division
Ms. Catherine A. Provencher, CPA
State House, Room 102
Concord, NH 03301

Dear Ms. Provencher,

I would like to thank you for the opportunity to respond to the Legislative Budget Assistant Report and audit findings, concerning Glencliff Home For The Elderly, and it's management by the Department of Health and Human Services, Office of Family Services, Behavioral Health.

Foremost, the department would like to recognize the Legislative Budget Assistant for the many hours invested in reviewing the operation and management of Glencliff Home For The Elderly. Through the audit process, the Legislative Budget Assistant has identified many opportunities for strengthening and enhancing our internal control structure. Along with state and federal compliance and management issues, which support our commitment to provide quality care for our residents.

Glencliff Home For The Elderly is certified as a Nursing Care Facility, which provides care for geriatric psychiatric and/or developmental disabled residents of the State of New Hampshire. These resident's have been in the Mental Health or Developmental Services system from a few years, to as many as 60 years.

1. Strengthening our Internal Controls --

A) We have initiated or are in the process of initiating procedure policies in the following areas:

- Revenue processing procedures
- Supervisor permission to solicit items from the warehouse
- Limiting access to the warehouse
- Unclaimed checks
- Update canteen fund internal structure

B) We have implemented new procedures to cover:

- A comparison and check system, to review dates of services on invoices for Psychiatric services with Medical Records
- Authorization by Department Heads of daily time sheets
- Review of Additional Personal needs allowance for our resident's
- Review of financial balances in the resident account's and activities
- Spot checks performed by management, to see that new procedures and policies are followed

C) Separation and Delegation of Duties

- Separated account reconciliation and signing of checks
- Changed handling of checks forwarded back to GHE for dispersal
- Signed checks will not be available to the check originator
- Documentation of cash or check donations to trust funds, separate from the person who does the deposits and disbursements.
- Segregated the duties that cover payroll procedures

D) Technology

- We will look for software to computerize our inventory system and computerized time keeping system that will integrate with the state payroll system. These items will need be budgeted separately in another biennium.

2. State and Federal Compliance

A) State -- Valuation of land and building

- In August of 1987, the Department of Revenue Administration, conducted an appraisal of our facilities' land and buildings, which we have maintained and updated. The current LBA audit recommends the buildings be valued at historical cost. We partially agree with this recommendation, but feel the State of New Hampshire needs to set up guidelines.

B) Capital Budget Project Status Reports

- Our department management discontinued these reports back in 1992. We feel this is a department wide issue and should be addressed at that level for implementation procedures.

C) Doctor's Account not approved or reported to Administrative Services

- This account originated as a pass through account for deposits and payments to our medical doctors who accepted third party reimbursement for their services. We will work with our business supervisor to get this account approved by Governor and Council and reported as a Trust Fund to Administrative Services yearly.

3. Management Issues

- We are reviewing electronic transfers of fund to the State Treasury for Board and Care revenue and will work with our bank and the State Treasurer's Office to expedite deposits.
- We have asked the office of Public Guardian to request the court to approve guardian fee's for their current resident's. QPG informed us this is in the process and will be retroactively effective to July 1, 1997.

We reduced our Patient Deposit Account Petty Cash from \$1,200.00 to \$600.00 which was in effect as of July 18, 1997. By not replenishing the petty cash of \$310.86 on 7/4/97 and replenishing only \$139.78 (check #5453) of the \$428.92 spent for week ending July 17, 1997. This amount has proved to be sufficient.

I would like to thank the Legislative Budget Assistant for their assistance and partnership in the effort to improve services for our residents. In particular I would like to thank Team Leader Pamela Veeder, CPA and her staff for their professionalism and their recognition of our need to continue with the day to day workings of our department.

Further, I want to thank the Joint Fiscal Committee for the opportunity to review and respond to the presentation of the financial statements of Glencliff Home For The Elderly.

Sincerely,



Sandra H. Knapp, C.N.H.A.
Superintendent

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