

STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

REVIEW REPORT
OF
LARUE D. CARTER MEMORIAL HOSPITAL
STATE OF INDIANA
November 1 2007 to March 31, 2012



FILED
07/20/2012

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AGENCY OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Secretary of Family and Social Services Administration	Mitch Robb	01-10-05 to 01-11-09
	Michael A. Gargano	01-12-09 to 01-13-13
Superintendent	Todd Graybill (Interim)	12-08-06 to 07-06-09
	Lawrence D. Lisak	07-07-09 to 06-30-12



STATE OF INDIANA
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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE LARUE D. CARTER MEMORIAL HOSPITAL

We have reviewed the activities related to the receipts, disbursements, and assets of the Larue D. Carter Memorial Hospital for the period of November 1, 2007 to March 31, 2012. The Larue D. Carter Memorial Hospital's management is responsible for the receipts, disbursements, and assets.

Our review was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. A review is substantially less in scope than an examination, the objective of which is the expression of an opinion on the receipts, disbursements, and assets. Accordingly, we do not express such an opinion.

Financial transactions of this office are included in the scope of our audits of the State of Indiana as reflected in the Indiana Comprehensive Annual Financial Reports. Federal programs are included in the scope of our statewide single audits as reflected in the Statewide Single Audit Reports.

Based on our review, nothing came to our attention that caused us to believe that the activities related to the receipts, disbursements, and assets of the Larue D. Carter Memorial Hospital are not in all material respects in conformity with the criteria set forth in the Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, and applicable laws and regulations except as stated in the review comments.

The Larue D. Carter Memorial Hospital's response to the Review Comments identified in our review is described in the accompanying section of the report entitled Official Response. We did not review the Larue D. Carter Memorial Hospital's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Larue D. Carter Memorial Hospital's management, Family and Social Services Administration, and others within the entity and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office reviewed.

STATE BOARD OF ACCOUNTS

April 16, 2012

LARUE D. CARTER MEMORIAL HOSPITAL
REVIEW COMMENTS
March 31, 2012

EMPLOYEE vs. INDEPENDENT CONTRACTOR

During our review of the Larue D. Carter Memorial Hospital (LCMH), we found that LCMH entered into a contract with a worker who performs accounting duties for the business office which includes preparing monthly journal entries, financial statements and reports. The worker also prepares internal financial reporting and internal control monitoring areas, including trust and maintenance fund reconciliations along with bank reconciliations.

Upon review of the criteria, we question whether this worker qualifies as an employee rather than an independent contractor. The LCMH should evaluate the business relationship with this individual using the Internal Revenue Service (IRS) Publication 15-A, Employer's Supplemental Tax Guide, for the criteria to determine the employer-employee or independent contractor relationship.

According to IRS Publication 15-A, the employer consequences of treating an employee as an independent contractor could result in additional employment tax liabilities.

Each agency, quasi, department, institution, or office is responsible for compliance with applicable statutes, regulations, contract provisions, state policies, and federal requirements. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Organizational Overview, Summary of Agency Accounting Responsibilities)

LATE PAYMENT PENALTY

Auditor of State accounting records reflect late payment penalties paid to vendors and charged to accounts of the Larue D Carter Memorial Hospital as a result of untimely payment of claims. Total penalties for the fiscal year 2011 were \$4,102.59 and for the current fiscal year through April 30 penalties were \$1,448.58. These penalties are an unnecessary use of public funds.

Indiana Code 5-17-5 requires a state agency to ". . . pay a late payment penalty at a rate of one percent (1%) per month on amounts due on written contracts for public works, personal services, goods and services, equipment, and travel whenever the state agency . . . fails to make timely payment."

Payment of penalties and interest due to late payments to vendors may be the obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines for State and Quasi Agencies, 6.4.7.4)

Each agency, department, quasi, institution, or office is responsible for compliance with applicable statutes, regulations, contract provisions, state policies, and federal requirements. (Accounting and Uniform Compliance Guidelines for State and Quasi Agencies, Organizational Overview – General Guidelines and Policy, IV. Summary of Agency Accounting Responsibilities)

CAPITAL ASSET INVENTORY

As stated in our prior Report B32159, the capital asset inventory of the Larue D. Carter Memorial Hospital is not complete. We noted assets that were disposed of were not listed within ENCOMPASS as disposed. Additionally, an annual physical inventory of assets owned has not been conducted.

Agency personnel are responsible for accountability for all assets under their control, including capital assets. Adequate asset management staff should be assigned to recording and maintaining, on the ENCOMPASS financial system, all capital assets with a cost greater than \$500. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, 8.3)

LARUE D. CARTER MEMORIAL HOSPITAL
REVIEW COMMENTS
March 31, 2012
(Continued)

Controls should be in effect to assure that additions, disposals, and transfers to other departments or agencies are recorded timely. Inventories of these assets should be performed each year in each department and compared to the ENCOMPASS listing. Results of inventories should be retained for audit purposes. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, 8.3)

ACCOUNTABILITY OF MEAL TICKETS

As stated in our prior Reports B27732 and B32159, during our analysis of Larue D. Carter Memorial Hospital meal ticket sales, we again found significant discrepancies between the number of meal tickets sold through the Business Office and meals served in the hospital cafeteria as counted by cafeteria personnel.

Cafeteria personnel should ensure that all employees present meal tickets before being served. Tickets should be collected and defaced and/or deposited directly into a lock box at the cafeteria entrance to aid in preventing the reuse of these meal tickets. Tickets should also be returned to the Business Office daily for count reconciliation.

Controls over the receipting recording, and accounting for financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements, and incorrect decision making. An Agency's control environment consists of the overall attitude, awareness and actions of management and the governing board or commission. This would include establishing and monitoring policies for developing and modifying accounting systems and control procedures. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Organizational Overview, Summary of Agency Accounting Responsibilities)

UNCLAIMED PROPERTY

As stated in our prior three reports, most recently B32159, Larue D. Carter Memorial Hospital Trust Fund had inactive patient accounts over one year old. During our current review we found five inactive patient accounts over one year old.

Indiana Code 32-34-1-20 provides that property becomes abandoned if held by the State or other government, governmental subdivision or agency, or public corporation or other public authority one (1) year after the property becomes distributable.

Indiana Codes 32-34-1-26 and 27 require a holder of property presumed abandoned and subject to custody as unclaimed property to report in writing and pay or deliver the property to the Attorney General.

APPROVAL OF FORMS

As stated in our prior two Reports B27732 and B32159, we noted that Larue D. Carter Memorial Hospital used forms which support the financial activity of the Trust, Recreation, and Maintenance Fund that have not been approved by the State Board of Accounts.

Indiana Code 5-11-1-2 states in part: "The state board of accounts shall formulate or approve all statements and reports necessary for the internal administration of the office to which they pertain."

LARUE D. CARTER MEMORIAL HOSPITAL
EXIT CONFERENCE

The contents of this report were discussed on June 6, 2012, with Lawrence Lisak, Superintendent and Michael Logar, Assistant Superintendent. The Official Response has been made a part of this report and may be found on pages 7 and 8.



"People
helping people
help
themselves"

Mitchell E. Daniels, Jr., Governor
State of Indiana

Larue D. Carter Memorial Hospital
Division of Mental Health and Addiction
2601 COLD SPRING ROAD
INDIANAPOLIS, IN 46222-2202

June 14, 2012

State Board of Accounts
302 West Washington Street
Room #418
Indianapolis, IN 46204-2738

RE: Official Response to Audit

WORKER MISCLASSIFICATION

The contract in question will be cancelled effective June 30, 2012.

LATE PAYMENT PENALTY

This issue is predominately due to the multiple levels of required approvals most of which involve agencies external to our agency over which we have no control. At our level, we do take the necessary steps to expedite the processing of claims to ensure payments occur on a timely basis so that penalties and interest fees will not be imposed. We believe most of our late payments involve the Department of Public Works which like most other State agencies has probably experienced severe reductions in manpower and other resources making the timely processing of claims impossible.

FIXED ASSET INVENTORY

New procedures are in progress to strengthen the controls over our fixed asset area. An inventory of fixed assets is currently underway. Once completed, the inventory will be reconciled to our ENCOMPASS inventory database. Our intended completion date is July 15, 2012. In the future, Fixed Asset inventories will be conducted on an annual basis.

ACCOUNTABILITY OF MEAL TICKETS

We have been unable to perform the reconciliation due to inadequate staffing levels in our Dietary and Financial Management Departments. Since our Food Service department has been taken over by Aramark, the number of employee meal tickets





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being sold has declined dramatically, down to only \$58 in the entire month of May, 2012. If current trends continue, we won't need to perform any accounting in relation to employee meals.

UNCLAIMED PROPERTY

The error was caused by timing differences that occurred as a result of the cutoff date Larue D Carter Memorial Hospital was using for determining what balances qualify for transfer to the Attorney General's Unclaimed Property. As indicated in the Auditor's finding, we had only 5 cases of inactive patient accounts compared to 55 such cases in the prior audit. In the future, the cutoff date will be changed to ensure all balances are properly remitted.

APPROVAL OF FORMS

Subject forms will be submitted for approval by June 30, 2012.

Sincerely,

Lawrence Lisak
Superintendent

