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

AUDIT REPORT

OF

COUNTY AUDITOR

LAWRENCE COUNTY, INDIANA

January 1, 2010 to December 31, 2010

FILED

09/19/2011

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COUNTY OFFICIALS

Office	Official	Term
Auditor	Billie J. Tumey	01-01-09 to 12-31-12
President of the Board of County Commissioners	William Spreen	01-01-10 to 12-31-10
	David Flinn	01-01-11 to 12-31-11
President of the County Council	Steven Flores	01-01-10 to 12-31-10
	Gene McCracken	01-01-11 to 12-31-11

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TO: THE OFFICIALS OF LAWRENCE COUNTY

We have audited the records of the County Auditor for the period from January 1, 2010 to December 31, 2010, and certify that the records and accountability for cash and other assets are satisfactory to the best of our knowledge and belief, except as stated in the Audit Results and Comments. The financial transactions of this office are reflected in the Annual Report of Lawrence County for the year 2010.

STATE BOARD OF ACCOUNTS

August 8, 2011

CONDITION OF RECORDS

The following deficiencies relating to the record keeping were present during our period of audit.

On June 30, 2010, Lawrence County ("Seller") sold Dunn Memorial Hospital (Hospital) to St. Vincent Dunn Hospital, Inc., ("Buyer"). The Asset Acquisition Agreement stipulated that the Seller would retain cash, cash equivalents, receivables, and the Seller's trade payables. It also indicated the Buyer would use its commercially reasonable efforts to collect Seller's accounts receivable at no cost to the Seller.

County Ordinance 2010-03, Ordinance Dissolving Dunn Memorial Hospital, was passed by the Board of County Commissioners on July 20, 2010. It authorized a Post-Closing Committee "to pay, or otherwise make provisions for the timely payment of, all debts and obligations of the Hospital that the County agreed to pay under the terms of the Sales Agreement."

The Hospital had two checking accounts and a savings account at the time the sale was final. These accounts were used by the Buyer to deposit accounts receivable collections and to disburse payments to vendors. The County Auditor and County Treasurer were both members of the Post-Closing Committee and were reviewing and approving all disbursements from the Hospital bank accounts as well as signing the checks. They were receiving copies of bank reconciliations and a balance sheet from the Buyer each month. However, the Post-Closing Committee has not examined the Hospital's general ledger and information provided by the Buyer indicates the subsidiary ledgers do not reconcile with the general ledger.

The Balance Sheet provided by the Buyer indicates that the cash and investment balance on December 31, 2010, was $5,121,703. However, the reconciliation indicates the cash and investment balance is $5,185,195 for a difference of $63,492.

Since the Auditor and Treasurer have not been able to examine the general ledger, the Hospital's transactions have not been included in the County Auditor's Ledger and they are not included in the County's 2010 Annual Report.

Indiana Code 5-13-6-1(e) states: "All local investment officers shall reconcile at least monthly the balance of public funds, as disclosed by the records of the local officers, with the balance statements provided by the respective depositories."

All financial transactions pertaining to the governmental unit should be recorded in the records of the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for County Auditors of Indiana, Chapter 14)

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for County Auditors of Indiana, Chapter 14)

FINANCIAL REPORT OPINION MODIFICATION

The State Board of Accounts was unable to provide an unqualified opinion on the Independent Auditors' Report for the financial statement due to the following deficiencies:

1. Subsidiary ledgers do not reconcile to the Hospital's general ledger accounts.

2. Some supporting documentation was not available to support general ledger accounts.

3. Financial records did not contain all the financial transaction pertaining to the County.

Accounting records and other public records must be maintained in a manner that will support accurate financial statements. Anything other than an unqualified opinion on the Independent Auditors' Report on the financial statements may have adverse financial consequences with the possibility of an increase in interest rate cost to the taxpayers of the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for County Auditors of Indiana, Chapter 14)

OFFICIAL BONDS

The following officials were not bonded for the proper amounts:

Official	Bond Amount	Required Amount
Auditor	$ 15,000	$ 30,000
Coroner	-	15,000
Surveyor	8,500	15,000
Sheriff	15,000	30,000
Assessor	8,500	15,000

Indiana Code 5-4-1-18 states in part:

"(a) Except as provided in subsection (b), the following city, town, county, or township officers and employees shall file an individual surety bond:

(1) City judges, controllers, clerks, and clerk-treasurers.

(2) Town judges and clerk-treasurers.

(3) Auditors, treasurers, recorders, surveyors, sheriffs, coroners, assessors, and clerks.

(4) Township trustees.

(5) Those employees directed to file an individual bond by the fiscal body of a city, town, or county.

(6) Township assessors (if any).

(b) The fiscal body of a city, town, county, or township may by ordinance authorize the purchase of a blanket bond or a crime insurance policy endorsed to include faithful performance to cover the faithful performance of all employees, commission members, and persons acting on behalf of the local government unit, including those officers described in subsection (a).

(c) Except as provided in subsections (h) and (i), the fiscal bodies of the respective units shall fix the amount of the bond of city controllers, city clerk-treasurers, town clerk-treasurers, Barrett Law fund custodians, county treasurers, county sheriffs, circuit court clerks, township trustees, and conservancy district financial clerks as follows:

(1) The amount must equal thirty thousand dollars ($30,000) for each one million dollars ($1,000,000) of receipts of the officer's office during the last complete fiscal year before the purchase of the bond, subject to subdivision (2).

(2) The amount may not be less than thirty thousand dollars ($30,000) nor more than three hundred thousand dollars ($300,000) unless the fiscal body approves a greater amount for the officer or employee. County auditors shall file bonds in amounts of not less than thirty thousand dollars ($30,000), as fixed by the fiscal body of the county. The amount of the bond of any other person required to file an individual bond shall be fixed by the fiscal body of the unit at not less than fifteen thousand dollars ($15,000) . . ."

COUNTY AUDITOR
LAWRENCE COUNTY
EXIT CONFERENCE

The contents of this report were discussed on August 8, 2011, with Billie J. Tumey, Auditor; David Flinn, President of the Board of County Commissioners; and Gene McCracken, President of the County Council. The Official Response has been made a part of this report and may be found on pages 8 through 10.

LIMESTONE CAPITAL OF THE WORLD

OFFICE OF
AUDITOR OF LAWRENCE COUNTY
BILLIE TUMEY
916 15TH STREET, SUITE 28
BEDFORD, INDIANA 47421

August 12, 2011

RESPONSE TO FINDINGS REGARDING DUNN MEMORIAL HOSPITAL

Lawrence County acknowledges that prior to July 1, 2010, Dunn Memorial Hospital was a component unit of the County. On June 16, 2010, Lawrence County, by and through the Lawrence County Commissioners, entered into an Asset Acquisition Agreement with St. Vincent Dunn, Inc. whereby the Court would sell to St. Vincent Dunn the bulk of Dunn Memorial Hospital's assets and operations. The agreement had an effective date of July 1, 2010.

Article II of the Asset Acquisition Agreement described these assets being transferred to St. Vincent Dunn as well as those assets excluded from transfer to St. Vincent Dunn. Section 2.2 of the Agreement provides that the Seller's minute books and business, corporate, fiscal, or tax records "were part of the excluded assets (See §2.2(a)). Also Section 2.2 of the Agreement provides that the "accounts receivable, commissions, premium receivable, commissions receivable, and other right to receive payments from customers or patients of Seller . . ." were part of the excluded assets. (See §2.2 (d)). Thus, the county is supposed to be the owner of the records referred to by the State Board of Accounts in its comment about Dunn Memorial Hospital.

However, the County believes that the comment does not take into account other relevant provisions of the Agreement which make it beyond the control of the County to comply with the request of the State Board of Accounts. Section 6.20 of the Agreement provides in pertinent part that Dunn shall leave on the premises for use of the Buyer all of its records. This includes all the patient billing records needed for verification of the general ledger and other subsidiary ledgers that should be the property of the County. The Post Closing Committee has requested a substantial amount of financial data from St. Vincent Dunn since closing. Some of the data was provided and some of the data was not provided. Notwithstanding, <u>all</u> of the data sought by the State Board of Accounts is still maintained and controlled by St. Vincent Dunn.

Also, the County believes that the comment fails to take into account portions of the Agreement affecting accounts receivables and bank balances. Section 6.21 of the Agreement calls for St. Vincent Dunn to use commercially reasonable efforts to collect Seller's accounts receivable at no costs to Seller until the first anniversary of the closing date. In order to coordinate and facilitate both collection of accounts receivable and payment of claims attributable to Dunn Memorial, St. Vincent Dunn maintained control over the accounts receivables and the accounts payable until July 1, 2011. This included the bank accounts for purposes of depositing payments and issuing payments. As a control device, checks issued by Dunn Memorial Hospital could only be signed by the Post Closing Committee. But St. Vincent Dunn oversaw the data and accounts.

The members of the Lawrence County Post Closing Committee were the Lawrence County Auditor, the Lawrence County Treasurer, and an independent member of the public. The 3 member committee was appointed by the Board of Governors of Dunn Memorial Hospital and the Lawrence County Commissioners prior to notification of the 3 above named individuals. Following their appointment, the Post Closing Committee, by and through the Auditor and Treasurer, attempted to schedule and attend monthly meetings with hospital staff assigned to the transaction. Issues were regularly identified and raised during the monthly meetings on items that were needed or were outstanding and required resolution. The Post Closing Committee reported that at times numerous requests had to be made to obtain action from hospital staff. In many instances, the Post Closing Committee found that they received slow response or no response to requests for data. Reports from the hospital's independent auditors provided to the Post Closing Committee indicated that only a nominal effort was made by hospital staff to collect the accounts receivable owned by the County. Post Closing Committee members requested that all County owned accounts receivable be sent to Allied Collections early in the year 2011. Hospital staff questioned the Post Closing Committee decision in this regard and substantially delayed the transfer of the accounts for more aggressive efforts at collection.

Only with the benefit of hindsight and audit is the County now able to determine that the Hospital's records and accounts are not in balance. Further, the Post Closing Committee representing the County was selected only after the Agreement was negotiated and executed. No input into the Agreement was called for by the Post Closing Committee. Clearly, the Asset Acquisition Agreement should have provided for an inventory or accounting of beginning balances in all major financial categories and also should have more specifically set out the rights of the Seller to obtain, oversee and access the information sought by the State Board of Accounts during the term of the transition. Unfortunately, the Agreement had no specific provisions made in these regards.

David Flinn
President Lawrence County Commissioner

Eugene K. McCracken

Eugene McCracken
President Lawrence County Council

Billie Tumey

Billie Tumey
Lawrence County Auditor