SC&H

ATTEST SERVICES

Frederick County Government Citizens Care & Rehabilitation Center of Frederick & Montevue Assisted Living Performance Audit

12/19/2019

Report #19-03

Table of Contents

I. Executive Summary

Background

SC&H Attest Services, P.C., a wholly owned affiliate of SC&H Group, Inc. (SC&H) was engaged by the Frederick County Government (FCG, the County) Interagency Internal Audit Authority (IIAA) to conduct a performance audit (audit) of the County's management and oversight of the Management Agreement (the Agreement) between the County and Aurora Holdings VII, LLC (Aurora) for the operation of Citizens Care & Rehabilitation Center (CCRC) and Montevue Assisted Living (Montevue) facilities. CCRC is a 172-bed skilled nursing facility and Montevue is a 75-bed licensed assisted living facility. The audit was performed in two phases; a planning and risk assessment survey phase and a testing phase. The following is a summary of CCRC, Montevue, Aurora, and the Agreement. Additional detailed process information is located in the Detailed Observation section of this report.

Based on a land deed dated September 2, 1828, the County currently owns property "for the use and benefit of the poor of Frederick County[1]." Hospitals and mental health facilities operated on the property through the 1800's. In 1976, the County opened Citizens Nursing Home and in 1987 the County opened Montevue Assisted Living.

In 2009, construction began on new facilities for both CCRC and Montevue and was completed in 2012.

On June 25, 2013, the Frederick Board of County Commissioners voted to sell both facilities to Aurora. The County executed an agreement to sell the facilities to Aurora on May 1, 2014. The sale was executed as an Asset Purchase agreement where Aurora accepted the transfer of the facility assets. The County finalized an agreement with Aurora to buy back the properties on May 12, 2016. Aurora and the County entered into a Management Agreement (Agreement-v1) on September 1, 2016.

Agreement-v1 includes a transition period for Aurora to operate the facilities for 18 months (first term) with a monthly management fee of 4.5% of gross revenue paid by the County. The management fee was scheduled to increase to 5% of gross revenue during the second term. Agreement-v1 also required Aurora to achieve minimum earnings before interest, taxes, depreciation, amortization and rent (EBITDAR) of $2.5 million at the CCRC location. Montevue was not included in the EBITDAR calculation and was not required to achieve a minimum earnings amount. Agreement-v1 was executed with two 12-month renewals (terms) which would have taken Agreement-v1 through mid-November 2019. However, there was an amendment to the original Agreement executed on February 14, 2018 (Agreement-v2) which lowered the minimum required

[1] https://frederickcountymd.gov/DocumentCenter/View/257878/Deed-transcribed?bidId=

EBITDAR to $2.1 million[2]. The initial term of Agreement-v2 was 18 months, ending August 14, 2019, with the renewal option of one additional 18-month periods ending February 28, 2021.

The County assigned the Finance Division to provide financial and operational oversight of Aurora's performance and compliance with the terms of both Agreements. The Director of Finance meets with the owners of Aurora on a bi-weekly basis to discuss performance, budget to actual, and any potential concerns.

Objectives

The following objectives for the testing phase were developed based upon the understanding gained during the audit planning procedures and approved by Internal Audit

A. Verify operating expenses invoiced by Aurora are complete and accurate.
B. Analyze facility and County data to determine:
    1. The number of beds economically feasible for the County to subsidize based upon the profit of CCRC and historical data.
    2. The cost of care and subsidy limits based on resident level of care.

Scope

The audit was initiated in February 2019 and completed in August 2019. The audit focused on the County's management and oversight of the Agreements with Aurora. The Agreement was effective as of September 1, 2016.

Methodology and Approach

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In order to obtain the necessary documentation to appropriately perform and conclude upon the objectives of this audit, SC&H conducted the following procedures.

Audit Plan Creation

Based on the understanding of the processes, risks, and related controls, SC&H developed an audit program to achieve the objectives. This program included detailed steps to address each objective with the goal of verifying compliance with both Agreements, existence of internal controls, and identifying opportunities for improvement.

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[2] Per FCG Management, the EBITDAR reduction occurred because of a change in Medicaid reimbursement rates that were unplanned. The reimbursement rate change occurred when the facility ownership changed from Aurora (for profit) paying property taxes to the County (not for profit), property tax exempt. As a result, the reimbursement rate is less, subsequently reducing revenue and the ability to achieve $2.5 million.

Execution of Audit Program

SC&H executed the audit plan by completing the following tasks:

Objective Area	Attribute Tested	Test Type	Test Description
Operating Expense Verification	Management Fee Verification	Data Analytics	Re-calculated the annual management fee for FY2018 and FY2019 using the applicable income statements and compared the results to the amount invoiced and paid by the County.
	EBITDAR Verification	Data Analytics	Re-calculated the annual EBITDAR to evaluate accuracy and compliance.
	Vendor Expenses	Inspection	Selected a sample of 25 vendor payments and verified the following: a. Invoice pricing reconciled to vendor contracts. b. Invoice appears to have a reasonable business need.
Operating Expense Verification	Payroll Verification	Inspection	Obtained payroll expense detail and selected a sample of nine pay periods to verify the amount billed to the County matched the actual payroll expenses. Further, selected a sample of eight employees to reconcile their hours listed on the reimbursement invoice to the employee's timecard.
	Working Capital Account Review	Data Analytics	Performed data analytics to assess the average balance in the working capital account and the withdrawal/deposit trends. Determine whether the reserve threshold required per the agreement is effective.
Profit and Cost of Care Analysis	Montevue Financial Data Review	Data Analytics	Performed Montevue data analytics on the following: a. For FY2019, identified and determined the severity mix of patients (Level 1-3, private pay, subsidized), measured by patient day. b. Calculated the average cost of care in FY2019. c. Calculated the number of subsidy and private pay beds needed at Montevue for Level 1-3 residents to establish profitability using the current flat rate and actual cost of care rate for each severity level.

Objective Area	Attribute Tested	Test Type	Test Description
			d. Calculated the number of subsidy and private pay beds needed at Montevue for Level 1-3 residents to establish a break-even point using the current flat rate and actual cost of care rate for each severity level. e. Calculated the number of subsidy and private pay beds needed at Montevue for Level 1 and 2 residents to establish profitability using the current flat rate and actual cost of care rate for each severity level. f. Calculated the number and private pay beds needed at Montevue for Level 1 and 2 residents to establish profitability using 1) the current flat rate and 2) actual cost of care rate for each severity level. **NOTE:** The results of these procedures are presented in a separate memorandum to management as they include analytic data rather than audited data.
	Facility Financial and Budget Review	Inquiry	Understand cost allocation methodology for Montevue and CCRC.

Summary of Work

After reviewing the processes in place and evaluating the current control environment, SC&H concludes improvement opportunities exist to mitigate associated risks.

The following section provides detailed observations and recommendations regarding six topics.

We appreciate the assistance and cooperation of the management and staff of the Division of Finance, Aurora, and other members of the County who provided assistance in the performance of this audit. Please contact us if you have any questions or comments regarding any of the information contained in the performance audit report.

SC+H attest Services, P.C.

SC&H Attest Services, P.C.
Sparks, Maryland
December 19, 2019

II. Detailed Observations and Recommendations

Observation 1

During Agreement-v1, Aurora did not achieve the $2.5 million EBITDAR minimum requirement.

Observation Detail

There are two versions of Agreement-v1 where compliance with EBITDAR minimum requirements were evaluated. Agreement-v1 became effective on May 12, 2016. However, Aurora did not become responsible for management of the facilities on behalf of the County until September 1, 2016. Agreement- v1 states that, "If in any twelve (12) month rolling period beginning twelve (12) months after the Closing Date Citizen Care & Rehabilitation Center does not achieve a minimum EBITDAR of Two Million Five Hundred Thousand Dollars ($2,500,000) and the County has given ninety (90) days prior notice of its intention to terminate on this basis," then the County shall have the right to terminate the Agreement. Agreement- v1 was amended and signed on February 14, 2018 (Agreement- v2), lowering the EBITDAR requirement to $2,100,000.

Findings

Agreement – v1 was effective for 18 months beginning September 1, 2016 through February 28, 2018. Due to the rolling month measurement factor, the first 11 months of Agreement – v1 (Sept 2016-July 2017) could not be assessed for compliance. The first month EBITDAR compliance could be assessed was August 2017. For the remaining seven eligible months of compliance, Aurora did not achieve the rolling $2.5 million EBITDAR. Those months included August 2017 – February 2018.

Year	Month	CCRC Total Revenue	CCRC Total Operating Expenses	CCRC Calculated EBITDAR	Rolling 12 Month EBITDAR	EBITDAR Required Minimum	Rolling 12 Month EBITDAR Variance
2016	July	N/A	N/A	N/A	Aurora not responsible for facilities on County's behalf at this time		
2016	August	N/A	N/A	N/A			
2016	September	$1,684,669.44	$1,527,158.92	$157,510.52	Pending full rolling 12 months for evaluation		
2016	October	$1,704,625.13	$1,482,579.69	$222,045.44			
2016	November	$1,623,133.09	$1,488,499.53	$134,633.56			
2016	December	$1,702,706.67	$1,614,817.32	$87,889.35			
2017	January	$1,768,676.65	$1,568,821.37	$199,855.28			
2017	February	$1,630,939.86	$1,428,311.21	$202,628.65			
2017	March	$1,763,473.31	$1,550,321.56	$213,151.75			
2017	April	$1,515,443.73	$1,526,981.70	($11,537.97)			
2017	May	$1,763,669.86	$1,578,379.53	$185,290.33			
2017	June	$1,731,341.82	$1,530,855.48	$200,486.34			
2017	July	$1,827,537.78	$1,607,553.97	$219,983.81			
2017	August	$1,861,439.81	$1,609,675.93	$251,763.88	$2,063,700.94	$2,500,000.00	($436,299.06)
2017	September	$1,745,016.55	$1,618,311.15	$126,705.40	$2,032,895.82	$2,500,000.00	($467,104.18)
2017	October	$1,809,362.45	$1,584,545.17	$224,817.28	$2,035,667.66	$2,500,000.00	($464,332.34)
2017	November	$1,830,814.73	$1,598,384.75	$232,429.98	$2,133,464.08	$2,500,000.00	($366,535.92)
2017	December	$1,846,889.49	$1,710,424.09	$136,465.40	$2,182,040.13	$2,500,000.00	($317,959.87)
2018	January	$1,875,625.84	$1,664,345.81	$211,280.03	$2,193,464.88	$2,500,000.00	($306,535.12)
2018	February	$1,647,327.47	$1,535,251.20	$112,076.27	$2,102,912.50	$2,500,000.00	($397,087.50)

Risks

Agreement- v1 is subject to termination terms. Sudden termination can lead to disrupted business operations resulting in reduced revenue, patient harm, or loss of experienced facility management.

Recommendation 1.1

FCG Management should consider having the right in future contract terms to adjust EBITDAR minimum requirements (up or down) to reflect supported achievable values on a periodic basis or as conditions (e.g. laws, regulations, etc.) change in the healthcare industry.

Management's Action Plan

It was determined that the MD Medicaid rate for CCRC under County ownership was reduced due to the tax-exempt status of CCRC as a County owned entity. This potential MD Medicaid rate reduction was unknown to Aurora at the time the original agreement was executed. Aurora and the County had expected that CCRC as a County owned entity would receive the same MD Medicaid revenue as had been received under Aurora ownership.

Because MD Medicaid is the largest payor source for CCRC, this daily rate reduction equated to $462,702 of annual revenue reduction. The EBITDAR was reduced by the County, recognizing this operational revenue reduction that neither Aurora nor the County was aware would occur, would directly impact the EBITDAR Aurora was expected to achieve.

The County and Aurora agree that the EBITDAR level will be reviewed at least annually, but also when circumstances change that affect the facility's revenue stream, to determine if any decreases or increases should be considered. These circumstances include but are not limited to changes in payor regulations that affect operational revenue, state or federal labor regulation changes that affect labor costs or changes in state or federal tax law. These circumstances will be documented and any decision to increase or decrease the EBITDAR level will be approved by both the County Executive and the senior management of Aurora. The County and Aurora will outline these considerations within a new contract or contract amendment.

Implementation Date

The County and Aurora intend to execute a contract amendment with this provision included in December 2019 for the remaining term of the current contract. Further, this provision will be included in any new management contract effective March 1, 2021.

Observation 2

Management fee payments made by the County to Aurora were not re-calculated or adjusted correctly, resulting in an underpayment to Aurora.

Observation Detail

Agreement-v1 states, "As compensation for the services to be rendered by Manager (Aurora) during the Term of Agreement, the County will pay to Manager a monthly management fee (the "Manager's Fee"). The Manager's Fee shall be equal to four and one half percent (4.5%) of the

Gross Revenue (as defined below[3]) during the Initial Term and the First Renewal Term, and five percent (5%) of the Gross Revenue during the Second Renewal Term. The Manager's Fee shall be paid monthly on an estimated basis and shall be adjusted to comply with the foregoing formula on a year-to-date basis, as actual Gross Revenues are determined for prior periods. The parties shall calculate the estimated Manager's Fee based upon the average Gross Operating Revenues from the statements for the most recent three (3) months preceding the service month, (but not including the month immediately preceding the service month because that month's statement will not have been completed)."

Findings

Re-performing the Manager's Fee calculation using the Point Click Care financial statements provided by the County for FY18 and FY19 there was a net underpayment of $12,863.08.

FY 2018 Management Fee Recalculation				
Month	**Combined CCRC and Montevue Revenue**	**4.5% of Total Revenue**	**Total Management Fee Invoice - CCRC and Montevue**	**Variance**
July	$2,182,725.78	$98,222.66	$100,348.49	$2,125.83
August	$2,213,623.81	$99,613.07	$92,298.82	($7,314.25)
September	$2,088,441.55	$93,979.87	$94,308.66	$328.79
October	$2,166,941.45	$97,512.37	$95,192.23	($2,320.14)
November	$2,175,859.73	$97,913.69	$98,260.05	$346.36
December	$2,197,708.49	$98,896.88	$99,463.35	$566.47
January	$2,220,341.84	$99,915.38	$98,276.41	($1,638.97)
February	$1,959,337.47	$88,170.19	$87,369.15	$($801.04)
March	$2,191,910.20	$98,635.96	$94,411.14	($4,224.82)
April	$2,188,769.05	$98,494.61	$108,887.04	$10,392.43
May	$2,261,957.12	$101,788.07	$111,022.72	$9,234.65
June	$2,175,243.94	$97,885.98	$95,204.68	($2,681.30)
Total	**$26,022,860.43**	**$1,171,028.72**	**$1,175,042.74**	**$4,014.02**

FY 2019 Management Fee Recalculation				
Month	**Combined CCRC and Montevue Revenue**	**4.5% of Total Revenue**	**Total Management Fee Invoice - CCRC and Montevue**	**Variance**
July	$2,269,641.33	$102,133.86	$102,662.24	$528.38
August	$2,251,445.53	$101,315.05	$94,745.45	($6,569.60)
September	$2,172,162.01	$97,747.29	$96,713.29	($1,034.00)

[3] Per Agreement-v1, "Gross Revenue" means the revenue accrued from the operation of the Facility, from whatever source, including, without limitation, room and board, ancillary revenue and any other miscellaneous charges resulting from services rendered to residents of the Facility. Notwithstanding any other provision of this Agreement, Gross Revenue shall exclude (1) insurance proceeds (except for rent loss or business interruption proceeds), (2) condemnation awards, (3) security deposits (unless forfeited), and (4) by verbal agreement grant proceeds are excluded as well.

Month	Combined CCRC and Montevue Revenue	4.5% of Total Revenue	Total Management Fee Invoice - CCRC and Montevue	Variance
October	$2,368,538.12	$106,584.22	$106,315.36	($268.86)
November	$2,188,228.32	$98,470.27	$96,986.80	($1,483.47)
December	$2,458,918.12	$110,651.32	$98,447.83	($12,203.49)
January	$2,339,032.42	$105,256.46	$98,891.70	($6,364.76)
February	$2,115,869.64	$95,214.13	$102,852.66	$7,638.53
March	$2,326,079.93	$104,673.60	$103,378.10	($1,295.50)
April	$2,296,904.90	$103,360.72	$110,930.57	$7,569.85
May	$2,384,277.33	$107,292.48	$107,924.38	$631.90
June	$2,272,182.68	$102,248.22	$98,222.13	($4,026.09)
Total	**$27,443,280.33**	**$1,234,947.61**	**$1,218,070.51**	**($16,877.10)**
			Net (Sum of 2018 and 2019)	**($12,863.08)**

Risks

1. County fee underpayments can result in delayed liabilities and vendor dissatisfaction.
2. County fee overpayments can result in decreased cash levels.

Recommendation 2.1

FCG Management should consider retaining the supporting documentation used to calculate and support management fees paid to Aurora. Further, FCG Management should implement a process to calculate a year-end true up using final income statements to reconcile management fees paid throughout the year. Any over or underpayments should be reviewed and resolved.

Management's Action Plan

Currently Aurora does not submit the supporting documentation used to calculate the monthly management fee with the invoice. The County and Aurora will determine what supporting documentation for the invoice being submitted for payment is sufficient for validation.

The County and Aurora agree that the management fees should be re-calculated after the final monthly financial statements are completed. This will determine if the original monthly invoice submitted by Aurora is accurate or if adjustments are needed and should be reflected on an upcoming invoice. Additionally, the County and Aurora agree that a year-end true up reconciliation will be done to ensure that the management fees paid to Aurora for their services are accurate based upon the final fiscal year income statements.

Implementation Date

The County and Aurora intend to execute a contract amendment with this provision included in December 2019 for the remaining term of the current contract. Further, this provision will be included in any new management contract effective March 1, 2021.

Observation 3

The County does not formally require Aurora to have contracts, price agreements, or quotes for vendors that provide a good or service at CCRC or Montevue.

Observation Detail

Agreement-v1 states the "Manager shall enter into all contracts, leases and agreements required in the ordinary course of business for the operation, maintenance and service of the Facility in the name of County. When beneficial and appropriate (e.g. capital expenditures), County will make its Procurement Division resources available to Manager." While the Procurement Division is noted as a resource to Aurora, going through the County's Procurement process or involving the County in vendor selections or price negotiations is not required. For building maintenance and repairs, the County Division of Public Works (DPW) is involved in the procurement process, sometimes exclusively depending on the procurement need.

Findings

Aurora is not required to use FCG Procurement when engaging a new vendor, and not required to enter into a contract with vendors for regular purchases. Regardless of dollar amount, FCG made the decision to delegate all purchasing authority for non-building maintenance or repairs to Aurora and not be formally involved in the expenditure approval process. Further, Aurora has the ability to engage vendors without approval by FCG personnel. FCG also does not maintain a copy of all vendor contracts engaged with the County through Aurora.

Risks

1. Third party costs are not vetted for due diligence, resulting in excess costs to the County.
2. Fictitious vendors are created and paid.
3. Vendors are selected with an existing conflict of interest, resulting in fraud or kickbacks.
4. Vendors are not accountable for terms and conditions, resulting in underperformance, inaccurate products, inaccurate/incomplete invoices, etc.

Recommendation 3.1

Moving forward, FCG Management should consider requiring to be formally involved in the vendor selection and procurement process prior to execution of a purchase. Involvement can include collecting evidence to ensure due diligence for price checks and conflict of interest considerations have been completed. Possible exceptions that the County should consider include emergent patient care/safety related purchases. Alternatively, the County could establish criteria (e.g. vendor type, anticipated spend thresholds) to focus its involvement in the Procurement process.

Management's Action Plan

The County and Aurora agree that additional County oversight and involvement in the procurement process may be beneficial. The County and Aurora have established a $25,000 spending threshold that will require several quotes to be obtained for needed goods and services to validate that the best pricing and/or value is being obtained.

Implementation Date

The County and Aurora intend to execute a contract amendment with this provision included in December 2019 for the remaining term of the current contract. Further, this provision will be included in any new management contract effective March 1, 2021.

Recommendation 3.2

FCG Management should consider requesting and maintaining a copy of all active vendor contracts and price agreements. For active vendors without a formal price agreement, the County should coordinate with Aurora to obtain formal terms.

Management's Action Plan

The County has access to the Procurement Partners software package in use by Aurora. The formal contracts and price agreements are loaded into the software and as vendor invoices are received, they are validated against the prices in Procurement Partners. The software is able to track items not received or damaged, it reconciles invoices with the contracts, connects with only approved vendors, helps to enforce business rules, shows vendor compliance with the contract terms and conditions, thereby reducing the cost of errors and overcharges. When Procurement Partners is not utilized, the threshold noted in management response to recommendation 3.1 will be used.

The County and Aurora will determine which goods and services are currently under contract and price agreements, including but not limited to pharmaceutical, medical supplies, food, therapy, oxygen, etc. The County will access the Procurement Partners software quarterly to validate that these agreements are in place.

Implementation Date

The County and Aurora intend to execute a contract amendment with this provision included in December 2019 for the remaining term of the current contract. Further, this provision will be included in any new management contract effective March 1, 2021.

Recommendation 3.3

FCG Management should require Aurora to provide price support (contract, price agreement, or vendor quote) for all expenditures (under potential established criteria, e.g. vendor type, cost/dollar value etc.) which impact the County owned facilities.

Management's Action Plan

Many of the bulk contracts, i.e. medical supplies, pharmaceuticals and therapy services, are procured on behalf of the County through the LifeSpan Network group purchasing organization, HPS. https://www.lifespan-network.org/group-purchasing. LifeSpan Network is the largest senior care provider association in the Mid-Atlantic, representing more than 330 senior care providers in Maryland and the District of Columbia. The membership includes both not-for-profit and for-profit facilities, across the continuum of care, including: independent living, assisted living, nursing facilities, continuing care retirement communities, subsidized senior housing, community-based and hospital based programs. CCRC and MAL both hold memberships in LifeSpan Network and will continue to do so to access the bulk purchasing power of the network. When LifeSpan Network is not utilized vendor quotes will be required.

The County and Aurora will determine which goods and services are currently under contract and price agreements, including but not limited to pharmaceutical, medical supplies, food, therapy, oxygen, etc. The County will access the Procurement Partners software quarterly to validate that these agreements are in place.

Implementation Date

The County and Aurora intend to execute a contract amendment with this provision included in December 2019 for the remaining term of the current contract. Further, this provision will be included in any new management contract effective March 1, 2021.

Observation 4

The County does not reconcile Aurora's operating expense reimbursement requests to existing contracts, price agreements, or vendor quotes.

Observation Detail

Agreement-v1 states the "Manager shall promptly pay all invoices and statements for expenses incurred in the operation of the Facility using funds from the Working Capital Account (as that term is defined in Section 6(e) herein), and the County shall be responsible for the timely reimbursement of the Working Capital Account for such expense payments made from it. Five (5) days prior to the date payments are to be made, Manager will provide County with the details of the expense payments to be made via accounts payable checks, ACH or other payment form. County will wire funds in the amounts of the expense payments so made by Manager, no later than two (2) business days after the expense payment date, time being of the essence. To assure the availability of funds to meet payroll and accounts payable expenses, County will fund the Working Capital Account."

FCG Finance receives an e-mail with a funding request from the Director of Accounts Payable at Aurora. The e-mail provides a summary breakdown by facility of the vendors and amounts to be paid. Check-Run reports are attached detailing the total dollar values to be paid by vendor. Copies of the invoice are not provided with the e-mail, but are available to FCG. FCG processes the reimbursement request and deposits the funds into the working capital account.

Findings

A formal process is not in place for the County to review invoices to verify the completeness and accuracy of the funding request. Further, invoices are not reconciled by the County to a vendor contract or price agreement (if applicable) to ensure invoices are accurate per agreed upon contract terms. Specifically, the review of 25 invoices found:

18 of 25 invoices selected were paid to a business/vendor name.

- 18 invoices could not be reconciled completely or at all to a supporting contract with pricing details
  - 12 invoices were not supported by a contract.
  - Six invoices could not be completely reconciled to supporting price information within the contract.
- One invoice was for the replenishment of petty cash in the amount of $545.85, however

two invoices, "Minuteman Press" ($88.25) and "Fitzgerald Auto Malls" ($42.36) were noted as paid through the petty cash process.

Seven of 25 disbursements selected were paid to an individual.

- Two disbursements were for a service that should be supported by a quote or price agreement (band services and music program)
- One disbursement was for a year-end bonus in the amount of $3,000 that the County was not made aware of prior to payment

Risks

1. Operating expenses are not accurately passed through, resulting in unnecessary or inaccurate payments made by the County for work not rendered or inaccurate pricing.
2. Missed items or inaccurate pricing can decrease or impact County cash management and planning.

Recommendation 4.1

FCG Management should consider implementing a formal review process on a sample or periodic basis to review invoices, reconcile to Aurora fund requests, and verify the vendor invoice agrees to contract terms. Discrepancies should be researched and resolved with Aurora and the vendor.

Management's Action Plan

The County and Aurora will discuss how a more formal review process will be implemented to review invoices and reconcile the Aurora funding request for accounts payable reimbursement.

The County and Aurora have agreed that a quarterly review and reconciliation of the working capital account will be performed to ensure that all funding requests have been executed.

Additionally, to reduce the opportunity that Aurora could omit requesting reimbursement for out of sequence check runs, new employee related expenses or charges not evident each month, i.e. American Express charges, a reimbursement "check-list" for Aurora be helpful.

Implementation Date

The County and Aurora intend to execute a contract amendment with this provision included in December 2019 for the remaining term of the current contract. Further, this provision will be included in any new management contract effective March 1, 2021.

Observation 5

The current budget does not include and plan for a capital replacement reserve at each facility.

Observation Detail

The purpose of a capital replacement reserve is to plan for eventual building component replacements. Examples include roof, heating and air conditioning (HVAC) systems, parking lot resurfacing, etc. Replacement reserves typically do not include minor repairs and maintenance.

Minor expenses may be considered routine operating expenses and not irregular capital expenditures.

Agreement-v1 states the "County shall be responsible for capital projects. Capital projects are defined as repairs, replacements or upgrades which maintain or increase the value of the facilities and which meet or exceed a dollar limit of $1,000. The County shall have sole authority to determine what repairs, replacements or upgrades are capital projects."

Findings

In 1976, the County opened Citizens Nursing Home and in 1987 the County opened Montevue Assisted Living. In 2009, construction began on new facilities for both CCRC and Montevue and was completed in 2012. While it was noted that a 20 year capital replacement plan over CCRC and MAL does exist and is managed by DPW, a process is not in place to establish, budget, and maintain a capital replacement reserve to plan and execute the anticipated repairs.

Risks

Inadequate funds to repair and replace infrastructure may result in the suspension of required assisted living and nursing home licenses, potential patient harm, as well as make competing facilities more appealing to potential residents.

Recommendation 5.1

FCG management should consider developing a methodology to implement and maintain a capital reserve replacement factor into the annual budget for each facility.

Management's Action Plan

The County and Aurora recognize that a capital replacement reserve is essential to the long-term sustainability of the facilities. Many repairs, maintenance and capital expenditures are being funded with operating funds as they occur. County staff of the Finance and Public Works Divisions have drafted a capital expenditures plan for the facilities over the next 30 years. This plan shows the anticipated capital expenditures but currently there is no budgeted funding.

The County is in the beginning stages of determining what capital expenditures are appropriate to be funded and executed by the Facilities Services department of DPW and funded by the systems projects funds and what capital expenditures should be executed by Aurora as the facility manager and funded by the enterprise fund. The initial design would have DPW servicing the building and any systems attached to the building, conceptually what would DPW continue to maintain if the facilities ceased their current use as assisted living and skilled nursing facilities. The enterprise fund would maintain and replace all equipment for the mission of the facilities, including but not limited to kitchen, laundry and medical equipment as per the capital replacement plan and utilizing the funds of the enterprise fund.

Implementation Date

The County departments, Finance, Budget and DPW, will have discussions of this capital expenditures plan during the formation of the FY2021 capital plan and the six-year Capital Improvements Program.

Observation 6

The County does not review or reconcile Aurora's payroll expenses prior to processing its reimbursement.

Observation Detail

Each pay period, FCG Finance receives an e-mail with a payroll funding request from the Director of Managerial Accounting at Aurora. The e-mail provides a summary breakdown of the payroll expense to be reimbursed by facility. The payroll support provided by Aurora to the County is a summary attachment that contains check date, facility, hire date, and gross earnings. The payroll reimbursement request does not contain employee level detail such as employee name, employee ID, number of hours, pay codes, or itemized earnings. The payroll support is reviewed at a high level by the County for discrepancies between budget and trends. If there are any discrepancies between budget or unusual trends, the County investigates.

On an annual basis, the County reviews and approves all compensation increases determined and requested by Aurora. The request is submitted as part of Aurora's annual budget.

Findings

A formal process is not in place for the County to review payroll expenses to verify the completeness and accuracy of the funding request. Further, summarized payroll expenses are not reconciled by the County to an employee time card to ensure payments are accurate per time worked.

Our reconciliation procedures between eight Aurora employee time cards and payroll registers identified an error in the categorization of overtime hours for one employee. Evening shift overtime hours for the employee's pay period was overstated by two hours and night shift overtime hours were understated by 1.5 hours, resulting in a net overpayment of 0.5 hours. This error resulted in a $7.31 net overpayment by Aurora and reimbursed by the County.

Risks

Operating expenses are not accurately passed through, resulting in unnecessary or inaccurate payments made by the County for hours not worked or expenses not incurred/overstated.

Recommendation 6.1

FCG Management should consider requiring support for employee level payroll detail at the time of each payroll reimbursement request.

Management's Action Plan

The County and Aurora will determine what support for employee level payroll detail for each payroll reimbursement request would be a useful tool in determining the accuracy of the payroll reimbursement request. However, due to staffing and time constraints the County would be unable to reconcile all the employee data back to the reimbursement request timely. The County can request a sample population of employee data within a payroll request if errors are found to determine if additional sampling would be required. Aurora agrees to provide the support for the employee level payroll detail should the County request it.

Implementation Date
The County and Aurora intend to execute a contract amendment with this provision included in December 2019 for the remaining term of the current contract. Further, this provision will be included in any new management contract effective March 1, 2021.

Recommendation 6.2
FCG Management should consider implementing a formal periodic review process to review payroll expenses, reconcile to employee time cards, and verify the payment per the request reconciles to time card activity. The frequency of the review should be determined by Management. Discrepancies should be researched and resolved with Aurora.

Management's Action Plan
The County and Aurora will determine what support for employee level payroll detail for each payroll reimbursement request would be a useful tool in determining the accuracy of the payroll reimbursement request. However, due to staffing and time constraints the County would be unable to reconcile all the employee data back to the reimbursement request timely. The County can request a sample population of employee data within a payroll request if errors are found to determine if additional sampling would be required. Aurora agrees to provide the support for the employee level payroll detail should the County request it.

Implementation Date
The County and Aurora intend to execute a contract amendment with this provision included in December 2019 for the remaining term of the current contract. Further, this provision will be included in any new management contract effective March 1, 2021.