

**Sullivan County Adult Care Center**  
Report to the Honorable Legislature of the  
County of Sullivan, New York  
Executive Committee

**KNOW  
GREATER  
VALUE**

December 31, 2019

August 20, 2020



## Agenda & Contents

- Audit Status
- PKF O'Connor Davies, LLP's Responsibilities
- Responsibilities of Management and Those Charged With Governance ("TCWG")
- Audit Scope and Significant Audit Areas
- Financial Statement Highlights
- Exhibit A – Required Communications
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# Audit Status

## AUDIT

- Significant audit areas addressed and substantive audit work completed
- Work performed in accordance with our audit plan
- Unmodified opinion issued on the financial statements

## COST REPORTS

- Medicare Cost Report – due on or before August 31, 2020. This report is in process and we anticipate completing before August 22, 2020.
- RHCF-4 Medicaid cost report – due on or before September 15, 2020. This report is in process and we anticipate completing before August 31, 2020.

## PKF O'Connor Davies' Responsibilities

- Forming and expressing an opinion about whether the financial statements are presented fairly, in all material respects, in conformity with US GAAP
- Planning and performing the audit in accordance with professional standards to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement, whether caused by fraud or error
- Considering internal control for the purpose of determining our audit procedures but not to express an opinion on internal control
- Accumulating misstatements identified during the audit and communicating material corrected and uncorrected misstatements to management and TCWG
- Conducting our audit with professional skepticism
- Evaluating the presentation of the supplemental information in relation to the financial statements and to report on whether it is fairly stated, in all material respects, in relation to the financial statements as a whole

## PKF O'Connor Davies' Responsibilities (continued)

- Communicating significant matters related to the audit that are, in our professional judgment, relevant to the responsibilities of TCWG in overseeing the financial reporting process, including:
  - All significant deficiencies and material weaknesses identified during the audit; however, our audit was not specifically designed to detect significant deficiencies or material weaknesses in internal control over financial reporting (See Exhibit B)
  - Any fraud or illegal acts that were noted during the course of our audit, unless clearly inconsequential; however, our audit cannot be relied upon to identify all instances of fraud or illegal acts
  - The process used by management to formulate particularly sensitive accounting estimates and our conclusions about the reasonableness of such estimates
  - Other matters

## Responsibilities of Management and TCWG

Responsible Party	Responsibilities
Management	<ul style="list-style-type: none"> <li>▪ Selecting and using appropriate accounting policies</li> <li>▪ Fairly presenting the financial statements in accordance with US GAAP</li> <li>▪ Establishing and maintaining effective internal control over financial reporting</li> <li>▪ Complying with laws, regulations, and provisions of contracts and grant agreements</li> <li>▪ Providing all financial records and related information to the auditors</li> </ul>
TCWG	<ul style="list-style-type: none"> <li>▪ Communicating with the auditors and overseeing the financial reporting process</li> </ul>
Management and TCWG	<ul style="list-style-type: none"> <li>▪ Setting the proper tone at the top and maintaining and encouraging a culture of honesty and high ethical standards</li> <li>▪ Designing and implementing policies and internal controls to prevent and detect fraud</li> </ul>

**The audit of the financial statements does not relieve management or TCWG of their responsibilities.**

# Audit Scope and Approach

## Significant audit areas

- Cash and cash equivalents
- Patient accounts receivable and revenue
- Inter-governmental transfers
- Amounts due to/from third party payers
- Capital assets
- Accounts payable and accrued expenses
- Due to County
- Net pension liability
- Other post employment benefit obligations payable
- Payroll and related expenses
- Additional procedures required with a first year audit

## Audit Scope and Approach (continued)

### Other areas of audit focus

- Subsequent events including, but not limited to, the impact of COVID 19
- Related parties
- Fraud and illegal acts
- Audit procedures under *Government Auditing Standards*



## Financial Statements Effects of COVID-19

- COVID-19 is classified for accounting purposes as a Type 2 Subsequent Event, which is a condition that did not exist at the date of the statement of net position (December 31, 2019)
- Financial statement Note 12 discloses the Type 2 event, including the negative adverse effects and the uncertainty regarding the ultimate effect on the future results on operations, cash flow and financial condition.

## Patient Accounts Receivable and Patient Service Revenue

- Patient accounts receivable and patient service revenue balances at year end for the Center have varied as compared to the prior year as illustrated in the following table:

Entity	2019	2018	Change	%
Accounts Receivable, net	\$2,121,775	\$1,801,490	\$320,285	17.7
Days in A/R	81	64	17	***
Allowance for Doubtful Accounts	\$336,374	\$49,296	\$287,078	
Patient Service Revenues	\$9,522,692	\$10,275,749	\$(753,057)	7.32

\*\*\* Note: Significant payments received in 2020 applicable to 2019, bringing the Days in AR closer to 2018 level

## Patient Accounts Receivable and Patient Service Revenue *(continued)*

Procedures for patient accounts receivable, allowance for doubtful accounts and net patient service revenue included:

- Computer assisted audit techniques over net receivable valuations
- Cash to revenue proof
- Analyzed subsequent collections and performed a hind sight analysis
- Tested census data back to the Medicaid remittances and Medicare PS&R reports
- Analyzed net patient service revenue for revenue cutoff
- Performed ratio and fluctuation analysis
- Reconciled the accounts receivable subsidiary ledger to the general ledger
- Performed detailed sample testing on cash receipts
- Review of credit balances

The patient accounts receivable, allowance for doubtful accounts and net patient service revenues appear reasonable based on our test work.

## Patient Accounts Receivable and Resident Revenue *(continued)*

- The increase in the allowance is due to:
  - Allowing for a percentage of 2019 revenues based upon historical collections
  - Allowing for all receivable balances older than 1/1/2019
  - Collecting from certain Managed Long Term Care companies continues to prove challenging (a statewide problem)

## Due to/from Third Party Payers

- The following significant transactions were recorded in due to/from third party payers:
  - The fifth and final Universal Settlement payment was received in the amount of \$169,000
  - The Nursing Home Quality Pool payment/(penalty) results were released for:
    - 2013-2017 \$(265,000) (Ave. score approximates. 41, Forth/Fifth Quintiles)
    - 2018 \$67,000 (Score=61, First Quintile) (accrued, received in 2/20)
    - 2019 not issued yet, but preliminary score is 44
  - The Medicaid 1% Supplemental Payment was received for:
    - 2018 \$141,000
    - 2019 \$141,000 (accrued-received in 2/20)
  - OMIG audit of Medicaid case mix resulted in recoupments for:
    - 7/2015 rate \$(51,000) plus \$(112,000) release of 5% CMI change cap
    - 1/2016 rate \$(21,000)
  - NYS cash assessment reconciliation for
    - 2018 \$11,000 (actual)
    - 2019 \$(50,000) (estimated)
- We agreed the balances recorded in the general ledger to management's estimates and supporting documentation. Amounts due to/from third party payers appear reasonable.

## Other Areas

- Audit procedures under Government Auditing Standards:
  - We worked in conjunction with the County’s auditors for GASB related items
- IT review and HIPAA compliance
  - Our IT specialist performed a review and made recommendations which are noted in a separate draft report. Our IT specialists will meet with management to review their findings before the report is finalized.

# Financial Statement Highlights-Condensed

## Statements of Net Position

	2019	2018	Change
Current assets	\$ 5,903,355	\$ 5,328,347	\$ 575,008
Non-current assets	2,015,074	2,323,433	(308,359)
Deferred outflows of resources	2,654,765	2,580,617	74,148
Total assets and deferred outflows	<u>\$ 10,573,194</u>	<u>\$ 10,232,397</u>	<u>\$ 340,797</u>
Current liabilities	\$ 9,054,656	\$ 6,072,926	\$ 2,981,730
Non-current liabilities	20,078,620	17,498,638	2,579,982
Deferred inflows of resources	3,190,685	4,900,847	(1,710,162)
Total liabilities and deferred inflows	<u>32,323,961</u>	<u>28,472,411</u>	<u>3,851,550</u>
Net investment in capital assets	2,015,074	2,323,433	(308,359)
Restricted for grants	203,704	203,016	688
Unrestricted net position	<u>(23,969,545)</u>	<u>(20,766,463)</u>	<u>(3,203,082)</u>
Total net position	<u>(21,750,767)</u>	<u>(18,240,014)</u>	<u>(3,510,753)</u>
Total liabilities and net position	<u>\$ 10,573,194</u>	<u>\$ 10,232,397</u>	<u>\$ 340,797</u>

## Financial Statement Highlights-Condensed *(Continued)*

### Statements of Revenues and Expenses and Changes in Net Position

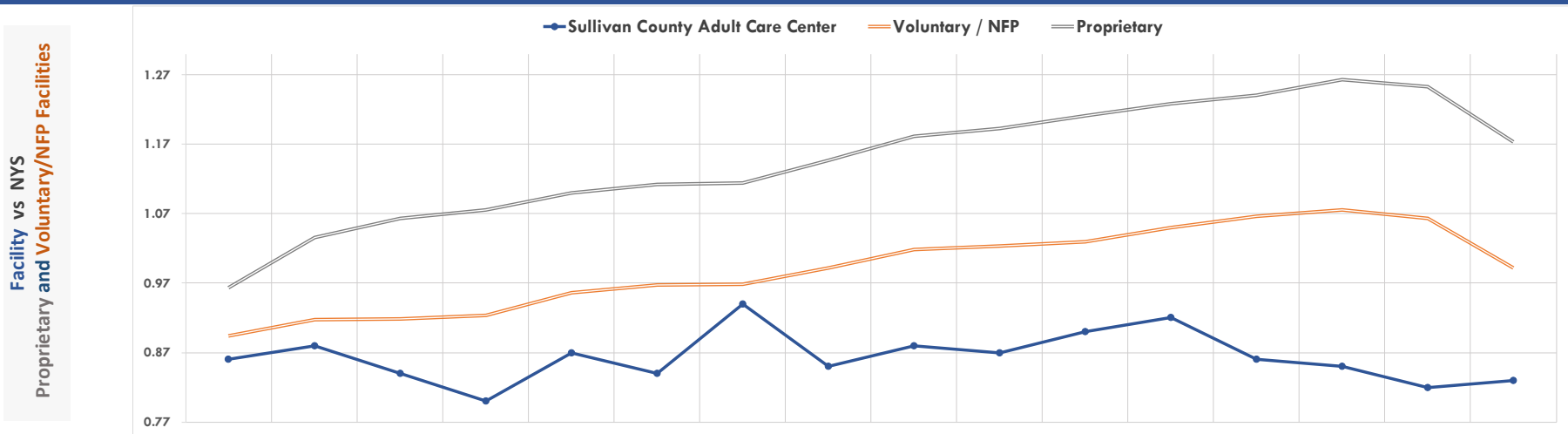
	<u>2019</u>	<u>2018</u>	<u>Change</u>
Operating revenues	\$ 9,903,623	\$ 11,012,523	\$(1,108,900)
Operating expenses	<u>18,920,719</u>	<u>18,862,205</u>	<u>58,514</u>
Operating loss	(9,017,096)	(7,849,682)	(1,167,414)
Non-operating revenue	<u>5,506,343</u>	<u>4,311,056</u>	<u>1,195,287</u>
Change in net position	<u><u>(3,510,753)</u></u>	<u><u>(3,538,626)</u></u>	<u><u>27,873</u></u>



## Nursing Facility Medicaid-Only Case Mix Index Benchmark Overview - New York State\*

Medicaid-Only Case Mix Indices - January 2011 through January 2019

	Jan-11	Jan-12	Jul-12	Jan-13	Jul-13	Jan-14	Jul-14	Jan-15	Jul-15	Jan-16	Jul-16	Jan-17	Jul-17	Jan-18	Jul-18	Jan-19	3 -Yr Avg
<b>Sullivan County Adult Care Center</b>																	
CMI Δ		2.33%	-4.55%	-4.76%	8.75%	-3.45%	11.90%	-9.57%	3.53%	-1.14%	3.45%	2.22%	-6.52%	-1.16%	-4.65%	-2.35%	
	0.86	0.88	0.84	0.80	0.87	0.84	0.94	0.85	0.88	0.87	0.90	0.92	0.86	0.85	0.82	0.83	0.86
<b>New York State</b>																	
CMI Δ		8.33%	1.92%	1.89%	1.85%	0.91%	0.00%	3.60%	2.61%	0.85%	1.68%	1.65%	0.81%	1.61%	-0.79%	-6.40%	
<b>Proprietary Facilities</b>	0.96	1.04	1.06	1.08	1.10	1.11	1.11	1.15	1.18	1.19	1.21	1.23	1.24	1.26	1.25	1.17	1.23
CMI Δ		3.37%	0.00%	0.00%	4.35%	1.04%	0.00%	2.06%	3.03%	0.00%	0.98%	1.94%	1.90%	0.93%	-1.85%	-6.60%	
<b>Voluntary / Not-for-Profit Facilities</b>	0.89	0.92	0.92	0.92	0.96	0.97	0.97	0.99	1.02	1.02	1.03	1.05	1.07	1.08	1.06	0.99	1.05

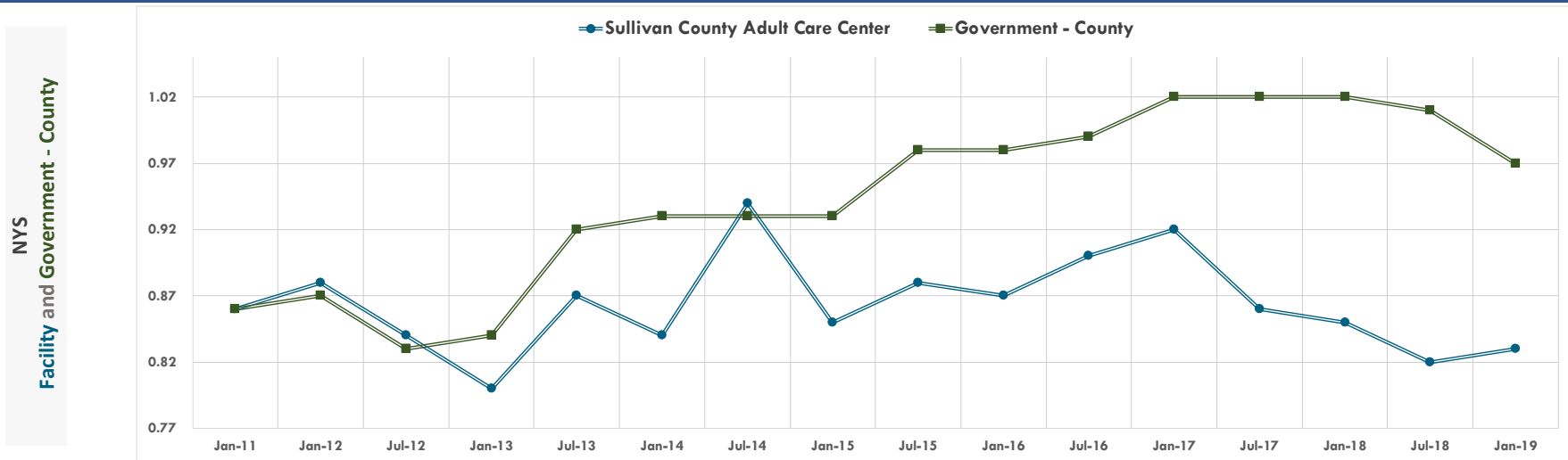


\* Data reflects facility name, county and sponsorship information as of July 2020. Benchmark calculations exclude Facility.

## Nursing Facility Medicaid-Only Case Mix Index Benchmark Overview - Government - County Facilities

Medicaid-Only Case Mix Indices - January 2011 through January 2019

	Jan-11	Jan-12	Jul-12	Jan-13	Jul-13	Jan-14	Jul-14	Jan-15	Jul-15	Jan-16	Jul-16	Jan-17	Jul-17	Jan-18	Jul-18	Jan-19	3 -Yr Avg
<b>CMI Δ</b>		2.33%	-4.55%	-4.76%	8.75%	-3.45%	11.90%	-9.57%	3.53%	-1.14%	3.45%	2.22%	-6.52%	-1.16%	-3.53%	1.22%	
<b>Sullivan County Adult Care Center</b>	0.86	0.88	0.84	0.80	0.87	0.84	0.94	0.85	0.88	0.87	0.90	0.92	0.86	0.85	0.82	0.83	0.86
<b>CMI Δ</b>		1.16%	-4.60%	1.20%	9.52%	1.09%	0.00%	0.00%	5.38%	0.00%	1.02%	3.03%	0.00%	0.00%	-0.98%	-3.96%	
<b>Government - County Facilities</b>	0.86	0.87	0.83	0.84	0.92	0.93	0.93	0.93	0.98	0.98	0.99	1.02	1.02	1.02	1.01	0.97	1.01



\* Data reflects facility name, county and sponsorship information as of July 2020.

## Exhibits

- Exhibit A – Required Communications to TCWG
- Exhibit B – Communication of Internal Control Matters



# Exhibit A

## Required Communications

# Required Communications

Area	Comments
<b>Auditor’s Responsibility Under Professional Standards and Planned Scope and Timing of the Audit</b>	<p>We have communicated such information in our engagement letter to you dated March 6, 2020</p>
<b>Qualitative Aspects of Accounting Practices - <i>Accounting Policies</i></b>	<p>Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Sullivan County Adult Care Center are described in Note 2 to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during the reporting period that had a significant impact on the financial statements.</p> <p>No matters have come to our attention that would require us to inform you about the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.</p>
<b>Qualitative Aspects of Accounting Practices – <i>Significant Unusual Transactions</i></b>	<p>No matters have come to our attention that would require us to inform you about the methods used to account for significant unusual transactions</p>

## Required Communications

Area	Comments
<p><b>Qualitative Aspects of Accounting Practices - <i>Accounting Estimates and Management's Judgment</i></b></p>	<p>Accounting estimates made by management are an integral part of the financial statements and are based on management's knowledge and experience about past and current events and assumptions about future events. Actual results could differ from those estimates.</p> <p>Certain accounting estimates are particularly sensitive because of their significance to financial statements and their susceptibility to change. The most sensitive estimates affecting the financial statements were:</p> <ul style="list-style-type: none"> <li>• Allowance for Doubtful Accounts</li> <li>• Depreciation Expense</li> <li>• Postretirement Health Care Benefit Obligation</li> <li>• Net Pension Liability</li> </ul> <p>Management believes that the estimates used and assumptions made are adequate based on the information currently available. We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements as a whole.</p>

## Required Communications

Area	Comments
<p><b>Qualitative Aspects of Accounting Practices - <i>Financial Statement Disclosures</i></b></p>	<p>Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements are:</p> <p><b>Note 8</b> which details the retirement incentives and other pension obligations</p> <p><b>Note 9</b> which details the other post employment benefit obligations</p> <p><b>Note 12</b> which details commitments and contingencies</p> <p>The financial statement disclosures are consistent and clear.</p>
<p><b>Difficulties Encountered in Performing the Audit</b></p>	<p>We encountered no significant difficulties in dealing with management relating to the performance of the audit. However, the audit did take considerable time to complete as certain account analysis and reconciliations were not performed timely.</p>

## Required Communications

Area	Comments
<b>Disagreements with Management</b>	For purposes of this communication, a disagreement with management is a matter, whether or not resolved to our satisfaction, concerning financial accounting, reporting, or auditing, which could be significant to the financial statements or the auditors' report. No such disagreements arose during the course of the audit.
<b>Management Representations</b>	We have requested certain written representations from management in a separate letter dated June 30, 2020.
<b>Management's Consultations With Other Accountants</b>	In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no such consultations with other accountants.
<b>Significant Issues Discussed With Management Prior to Retention</b>	We generally discuss with management a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting Sullivan County Adult Care Center, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed and our responses thereto were a condition to our retention as auditors.



## Required Communications

Area	Comments
<b>Auditor Independence</b>	We affirm that PKF O'Connor Davies, LLP is independent with respect to Sullivan County Adult Care Center in accordance with relevant professional standards.
<b>Corrected and Uncorrected Misstatements</b>	<p>Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management.</p> <p>There were no uncorrected material misstatements in the financial statements</p>

## Exhibit B

### Communication of Internal Control Matters

## Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Sullivan County Adult Care Center’s (the “Center”) internal control over financial reporting (“internal control”) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Center’s internal control. Accordingly, we express no such opinion.

Professional standards require that we communicate to you, in writing, all significant deficiencies and/or material weaknesses in internal control that we identify in performing our audit.

## Internal Control Over Financial Reporting (continued)

For this purpose, deficiencies in internal control are categorized as follows:

- **Deficiency in internal control** exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.
- **Significant deficiency** is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.
- **Material weakness** is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

## Internal Control Over Financial Reporting (continued)

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified.

We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

We consider the following deficiencies in the Center's internal control to be significant deficiencies:

- General Ledger Maintenance and Account Analysis
  - Opening Balances
  - Resident's Personal Funds
  - Adult Day Care Revenue and Accounts Receivable
  - Nursing Home Revenue and Accounts Receivable
  - Allowance for Doubtful Accounts and Bad Debt Expense
  - New York State Cash Assessment

## Internal Control Over Financial Reporting (continued)

This communication is intended solely for the information and use of management and those charged with governance and is not intended to be and should not be used by anyone other than these specified parties.

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**WHAT THE BOARD NEEDS TO KNOW ABOUT CYBERSECURITY**

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Mark Bednarz, Partner  
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Thomas DeMayo, Principal  
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Let us know what other topics you'd like us to cover. Email Ron DeSoiza at [rdesoiza@pkfod.com](mailto:rdesoiza@pkfod.com)

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