

**LIMITED REVIEW OF THE
OBION COUNTY NURSING HOME
OBION COUNTY, TENNESSEE**

FOR THE PERIOD JULY 1, 2000, THROUGH MARCH 31, 2003

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November 13, 2003

To the Obion County Nursing Home
Board of Directors and the Obion County Mayor
and Board of County Commissioners
Obion County, Tennessee

On March 5, 2003, the Obion County mayor asked to meet with us concerning the way the Obion County Nursing Home administrator was administering bonuses to nursing home employees, payments to the administrator's husband, and the administrator's yearly compensation from all sources. Based on these concerns and other irregularities noted in our preliminary review, our office decided to conduct a limited review of the Obion County Nursing Home for the period July 1, 2000, through March 31, 2003.

The report on the results of our limited review is attached. Once we began our review of the Obion County Nursing Home, we noted irregularities involving the distribution of bonuses, overpayment of board-approved bonuses, purchasing, travel reimbursements, individuals not employed by the nursing home and employees of the nursing home receiving gifts paid with nursing home monies, retirement contributions paid on behalf of the administrator in violation of state statutes, gasoline purchases made by the administrator with her personal credit card, payroll transactions, and use of the nursing home van. The report presents 13 findings and recommendations pertaining to these areas. We have reviewed these findings with Marietta Hardy, nursing home administrator; the nursing home board of directors; the county mayor; and the district attorney general. The written responses of the nursing home board of directors are included in this report. The nursing home administrator addressed her responses to the board, and those responses are included in this report.

Sincerely,

Richard V. Norment
Assistant to the Comptroller

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**LIMITED REVIEW OF THE
OBION COUNTY NURSING HOME
OBION COUNTY, TENNESSEE
FOR THE PERIOD JULY 1, 2000, THROUGH MARCH 31, 2003**

This report presents findings and recommendations resulting from our limited review of Obion County Nursing Home operations. Our examination focused on the areas of purchasing, travel reimbursements, bonuses and salaries paid to employees, vacation pay, time and attendance records, use of administrator's personal credit cards, gasoline purchases, and gifts given to employees and individuals not employed by the nursing home. Findings and recommendations as a result of our limited review are presented below.

FINDINGS AND RECOMMENDATIONS

FINDING 1 DEFICIENCIES WERE NOTED IN THE PAYMENT OF SALARIES AND BONUSES

A review of salaries and bonuses paid to the nursing home administrator and employees disclosed the following deficiencies:

- A. Each year the nursing home board authorizes the administrator to give year-end and Christmas bonuses to all nursing home employees. Board members informed us that they were not aware of how the bonuses were calculated or how much each employee would receive. The administrator had the sole discretion of deciding the bonus amounts that she and each employee would receive, and she never presented to the board a worksheet explaining how she calculated the bonuses. When we requested the bonus worksheets and payroll transmittals, the administrator informed us that she had disposed of all of them except the ones prepared for the December 2002 Christmas bonus. We were able to determine from the payroll journals the amount that each employee received for year-end and Christmas bonuses during the period of our review. We found that in the two year-end bonuses, the five salaried employees averaged receiving 46.7 percent of the total bonus, while approximately 42 hourly employees received 53.3 percent of the total bonus. In the three Christmas bonuses, the five salaried employees averaged receiving 35.4 percent of the total bonus, and approximately 42 hourly employees received 64.6 percent of the total bonus.

- B. On May 10, 2001, the nursing home board authorized the nursing home administrator to give year-end bonuses totaling \$80,000.00. On June 29, 2001, the administrator paid bonuses totaling \$89,897.44 to herself and the employees, an amount that was \$9,897.44 more than the board authorized.

The following table reflects amounts paid, as noted in sections A. and B.:

Salaried Employees	Christmas Bonus	Christmas Bonus	Christmas Bonus	Percent of Christmas Bonus	Year-End Bonus	Year-End Bonus	Percent of Year-End Bonus
	12/18/00	12/17/01	12/20/02		6/29/01	6/27/02	
Marietta Hardy	\$ 10,529.40	\$ 12,995.58	\$ 13,306.64	15.44%	\$ 16,897.50	\$ 19,278.02	19.61%
Sherry Ferguson	5,590.26	6,671.12	6,822.44	8.00	9,386.54	10,205.10	10.62

Amounts Paid:				Average			Average
	Christmas	Christmas	Christmas	Percent of	Year-End	Year-End	Percent of
Salaried	Bonus	Bonus	Bonus	Christmas	Bonus	Bonus	Year-End
Employees	12/18/00	12/17/01	12/20/02	Bonus	6/29/01	6/27/02	Bonus
Martha Seaton	\$ 3,403.29	\$ 4,116.01	\$ 4,319.98	4.96%	\$ 5,709.95	\$ 6,419.23	6.58%
Sheila Clayton	2,964.00	2,790.36	3,040.12	3.70	4,825.06	5,462.44	5.58
Susan Williams	2,427.79	2,566.70	2,884.28	3.30	3,661.25	4,284.72	4.31
	<u>\$ 24,914.74</u>	<u>\$ 29,139.77</u>	<u>\$ 30,373.46</u>	<u>35.40%</u>	<u>\$ 40,480.30</u>	<u>\$ 45,649.51</u>	<u>46.70%</u>
Hourly							
Employees	\$ 49,135.80	\$ 52,412.04	\$ 52,535.02	64.60%	\$ 49,417.14	\$ 48,899.44	53.30%
Total Paid	<u>\$ 74,050.54</u>	<u>\$ 81,551.81</u>	<u>\$ 82,908.48</u>	<u>100.00%</u>	<u>\$ 89,897.44</u>	<u>\$ 94,548.95</u>	<u>100.00%</u>

- C. During our examination of payroll records and transmittal reports, we discovered that the nursing home administrator, Marietta Hardy; the dietary supervisor, Sheila Clayton; and the social services director, Susan Williams; were paid for unused vacation hours. The nursing home's policies and procedures manual, adopted by the Board of Directors, only allows for payment of unused vacation hours if an employee has been laid off or quits after giving required notice. Furthermore, vacation hours cannot be accumulated past an employee's anniversary date each year. The administrator, dietary supervisor, and social services director neither have been laid off nor quit. Therefore, the payments listed below have been paid in violation of board policy. According to the records maintained at the nursing home, Ms. Hardy did not take a single day of vacation during the 33-month period of our review. The maximum leave, based on the number of years of service that Ms. Hardy can accumulate in one year, is 120 hours. The following table reflects the number of vacation hours and payment that each of the above received for their unused vacation days:

Paid To	Period of Examination	Amount	Number of Unused Vacation Hours Paid
Administrator	July 1, 2000, through June 30, 2001	\$ 5,064.00	120
Dietary Supervisor	July 1, 2000, through June 30, 2001	576.00	40
Administrator	July 1, 2001, through June 30, 2002	5,121.60	120
Social Services Director	July 1, 2001, through June 30, 2002	564.00	48

In addition to these payments and subsequent to our review period, the administrator was paid \$4,944.00 for another 120 unused vacation hours on April 12, 2003. Not only was this payment not authorized by the board, it was paid to the administrator two and one-half months prior to the end of the period that it represented.

- D. The board minutes reflected that beginning July 1, 2000, the board authorized the administrator to be paid an additional \$3.00 per hour as "premium pay." The minutes of February 27, 2003, reflected that Ms. Hardy would no longer be compensated the \$3.00 per hour as "premium pay." At the time of this reduction, the minutes reflected that Ms. Hardy's husband (Ralph Hardy) would be hired as a part-time employee at the rate of \$7.50 per hour for "coffee duty" and \$15.00 per hour for maintenance work. When Ms. Hardy was asked about this reduction in her pay, she stated the \$3.00 per hour "premium pay" was actually intended to compensate Mr. Hardy for work he did at the nursing home. She stated that the board authorized her to be paid the monies instead of Mr. Hardy because he was drawing disability pay from another job and did not want to

reflect that he was earning any compensation. Prior to February 27, 2003, the nursing home minutes did not reflect that Mr. Hardy was an employee of the nursing home. When the board discovered this arrangement was not proper, Ms. Hardy ceased including Mr. Hardy's salary with hers. Additionally, Mr. Hardy's salary that he earned, yet was paid to his wife, was reported to the Tennessee Consolidated Retirement System (TCRS) as salary that she earned, a violation of TCRS policies. During the time Ms. Hardy was receiving the \$3.00 per hour "premium pay," she paid Mr. Hardy \$30.00 per hour for six hours of labor and \$240.00 to rent a powerwasher to unclog a sewer line. When the administrator was asked why she had paid Mr. Hardy \$180, she stated her reason was to supplement the low wages he was earning. However, Mrs. Hardy reimbursed the nursing home \$180 on June 30, 2003, by depositing personal funds to the office bank account.

- E. The nursing home's policies and procedures manual adopted by the Board of Directors allows for the payment of quarterly attendance bonuses for hourly employees. The policy states that an hourly employee will receive one day's pay for each month of the quarter in which the employee had perfect attendance. However, Ms. Hardy had chosen to pay a "premium" in addition to the quarterly attendance bonus to those qualifying for an attendance bonus who had worked overtime. Per Ms. Hardy, this "premium" is an additional percentage that she determines is warranted because the employee worked overtime hours during the quarter. This additional amount was paid in violation of the nursing home's policy. Also, of the nine quarterly attendance bonuses paid during our period of review, only three of these bonus payrolls had worksheets and payroll transmittals available for our review. Ms. Hardy stated that she had disposed of the worksheets and payroll transmittals for the remaining six payrolls.
- F. Certain employees of the nursing home received salary payments on vendor checks rather than checks processed through the payroll system. According to Ms. Hardy, when employees are hired, they are not put on the payroll system until she decides whether she will keep them on staff. Therefore, payments for salaries to employees not processed through the payroll system in fiscal years 2001 and 2002 totaled \$9,467.76 and \$5,533.96, respectively. It should be noted that applicable payroll taxes were not withheld from these amounts. Ms. Hardy's grandson was one of these employees and was paid \$2,419.05 for fiscal year 2001 and \$566.44 for fiscal year 2002. The nursing home did file Form 1099-Miscellaneous with the federal government for these payments.
- G. The nursing home pays an employee of the Obion County Board of Education to process the payroll every two weeks. We noted that the payroll software had been loaded on a computer owned by the Obion County Board of Education. Payroll journals were examined, and it appears that the Board of Education employee is processing the nursing home payroll during normal working hours at the School Department. Therefore, Board of Education equipment and personnel are being used for a non-school purpose. The nursing home paid the School Department employee \$1,537.50 for fiscal year 2001 and \$1,700.00 for fiscal year 2002. These salary payments were made by vendor checks and were not processed through the payroll system. A Form 1099-Miscellaneous was filed for these payments.
- H. The nursing home Board of Directors had not formally approved the amount of payments Ms. Hardy received for her Christmas bonuses, year-end bonuses, sick leave pay, vacation pay, and holiday pay. Therefore, we have listed in the table below the total amount of Ms. Hardy's compensation for each period reviewed.

Period of Examination	Base Salary	Performance Bonus	Husband's Pay	Christmas Bonus	June/ Year-End Bonus	Cash Out Sick Leave	Cash Out Vacation Leave	Cash Out Holiday Pay	TOTAL
7/1/2000 - 6/30/2001	\$ 66,678.06	\$ 13,153.94	\$ 6,240.00	\$ 10,529.40	\$ 16,897.50	\$ 1,956.00	\$ 5,064.00	\$ 1,988.00	\$ 122,506.90
7/1/2001 - 6/30/2002	66,535.22	15,384.78	6,240.00	12,995.58	19,278.02	2,025.60	5,121.60	2,048.64	129,629.44
7/1/2002 - 3/31/2003*	48,747.99	12,010.41	4,080.00	13,306.64	0.00	2,058.24	0.00	0.00	80,203.28

*Represents a nine-month period

RECOMMENDATION

These deficiencies should be corrected by doing the following:

- A. The nursing home board should discontinue the practice of allowing the administrator sole discretion in determining the allocation of the bonuses to be paid to herself and each employee. The board should review the method of determining the individual bonuses and approve the distribution of the bonuses. Furthermore, all payroll transmittals and worksheets should be maintained as part of the office records and should be made available for auditors' review.
- B. The nursing home administrator should not pay bonuses that exceed the amount authorized by the nursing home board.
- C. The administrator, dietary supervisor, and social services director should reimburse the nursing home the amount of unused vacation days paid to them in violation of the nursing home's adopted policies. The board should also take steps to determine if payments were made in violation of board policy to full-time employees for any unused vacation days in years prior to our period of examination. If payments were made, reimbursements to the nursing home should be made on those amounts as well. All future payments for unused vacation leave should be made in compliance with board policies.
- D. The nursing home board should notify TCRS concerning Mr. Hardy's salary being included with Ms. Hardy's salary for retirement purposes to determine what action should be taken. Before any additional compensation is paid to a nursing home employee, the administrator should consult the board for its approval or disapproval.
- E. The nursing home administrator should not pay bonuses in violation of the nursing home's policies. Also, payroll transmittals and worksheets should be maintained as part of the office records.
- F. All salary payments to nursing home personnel should be made by payroll check, should be processed through the payroll system, and should have applicable payroll taxes withheld.
- G. Payments for processing the nursing home payroll should be made directly to the Obion County Board of Education.
- H. Since the nursing home administrator is the person in charge of the day-to-day operations of the nursing home, all compensation paid to the nursing home administrator should be

approved by the Board of Directors and reflected in the nursing home board minutes and annual budget.

MANAGEMENT'S RESPONSE - OBION COUNTY NURSING HOME BOARD OF DIRECTORS

The Board of Directors stated the following:

- A. The Board of Directors will assume oversight responsibility for setting salaries and paying bonuses. A line item has been set in the budget for all salaries and bonuses. Bonuses will be distributed according to the terms of a policy to be set by the Board of Directors. All employees, including salaried employees, will be asked to enter their attendance at work on time cards. This will enable us to calculate with precision the attendance of any employee and will make it possible to calculate vacation days earned and spent. Payroll records will be kept for an extended period of time.
- B. No response noted.
- C. The board respectfully disagrees with the findings of the review insofar as it relates to the payment of vacation time not used. We believe that payment of unused vacation time is expressly authorized as set out in the Policies of the Nursing Home.
- D. Ralph Hardy is no longer an employee of the nursing home. The Tennessee Consolidated Retirement System has been notified of this situation, and appropriate steps will be taken to correct the contribution account of Mrs. Hardy.
- E. No response noted.
- F. No payments to employees shall be made in the future from any account except the payroll account and will be on payroll checks. In the future, all federal and state payroll taxes will be appropriately withheld and reported.
- G. The handling of the payroll by an employee of the School Board is a historical anomaly. Originally, all county payrolls were to be handled through the school board, but only the nursing home payroll was ultimately handled this way. An outside contractor will be hired to handle payroll.
- H. No response noted.

REBUTTAL

We rebut the following:

- C. We do not believe that the Obion County Nursing Home's Policy and Procedures manual expressly authorizes the payment of vacation time not used. The manual states that "vacation time will not be accumulated." It further states that the employees' "vacation must be taken between the second week of January and the second week of November.... Earned vacation will be paid to an employee who quits ..." and who is laid off prior to taking earned vacation. The policy does not provide for employees to sell their earned vacation back to the nursing home. During our 33-month review period, Ms. Hardy did not take a single day of vacation. However, she did pay herself for accumulated hours of vacation in violation of the nursing home's vacation policy. Therefore, it is our position

that Ms. Hardy, the dietary supervisor, and social services director should reimburse the nursing home \$15,129, \$576, and \$564, respectively, for unused vacation days that were paid to them in violation of the nursing home's adopted policies pertaining to vacation.

MANAGEMENT'S RESPONSE - MARIETTA B. HARDY, NURSING HOME ADMINISTRATOR

The administrator stated the following:

- A. The nursing home board will review and approve individual bonuses. Worksheets will be made part of board records.
- B. The board will authorize bonus amounts, and the administrator will not exceed that amount.
- C. Facility policy was not violated in the payment of vacation pay to employees and should not be reimbursed.
- E. The policy for attendance bonus will be reviewed by the board for possible revision to include the August 11, 1997, memo.
- F. The office manager will add new employees to payroll.
- G. Beginning October 1, 2003, payroll will be done in-house.
- H. The board will approve all compensation paid to the administrator and will make it plain if and when she is to be treated differently than other salaried employees.

REBUTTAL

We rebut the following:

- C. The Obion County Nursing Home's Policy and Procedures manual states that "vacation time will not be accumulated." It further states that the employees' "vacation must be taken between the second week of January and the second week of November ... Earned vacation will be paid to an employee who quits ..." and who is laid off prior to taking earned vacation. The policy does not provide for employees to sell their earned vacation back to the nursing home. During our 33-month review period, Ms. Hardy did not take a single day of vacation. However, she did pay herself for accumulated hours of vacation in violation of the nursing home's vacation policy. Therefore, it is our position that Ms. Hardy, the dietary supervisor, and social services director should reimburse the nursing home \$15,129, \$576, and \$564, respectively, for unused vacation days that were paid to them in violation of the nursing home's adopted policies pertaining to vacation.
 - E. In her response Ms. Hardy refers to an undated memo she sent to employees that provided for a premium to be paid in addition to the quarterly attendance bonus if an employee worked an extra shift or a partial shift. However, the language of this memo had never been adopted by the board as policy.
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FINDING 2 THE NURSING HOME HAD DEFICIENCIES IN INTERNAL CONTROLS OVER THE PURCHASING PROCESS

Our examination disclosed the following deficiencies in internal controls over purchasing:

- A. The administrator made numerous purchases by cash or personal credit card purportedly for the nursing home. During the period reviewed, she was reimbursed \$25,164 for items purchased. The nursing home's policy requires that both the administrator and the office manager sign checks. However, we noted that in most instances (26 of 31), reimbursement checks paid to Ms. Hardy were only signed by Ms. Hardy.
- B. Reimbursements made to Ms. Hardy referred to in item A. were paid without documentation that goods had been received by the nursing home; therefore, we were unable to determine that the goods had been received by or were made on behalf of the nursing home. A large portion of the items purchased by Ms. Hardy were purportedly for the cafeteria. Many of these items purchased for the cafeteria were large numbers of boneless beef shoulder roasts, pork shoulders, and pork loins. Most of these items were purchased at a local store. The dietary supervisor informed us that Ms. Hardy did purchase meat items for the nursing home; however, they did not maintain an inventory of food items and/or supplies; therefore, she could not determine the quantity of meat items Ms. Hardy purchased. Examples of other items that Ms. Hardy was reimbursed for and for which we could not determine the propriety included Tylenol, Zicam nose spray, cookies, cake mix, two pints of Ben and Jerry's ice cream, a chocolate milkshake, pickles, lettuce, a dozen eggs, and bologna.
- C. Purchasing policies adopted by the nursing home Board of Directors require that "expenditures in excess of \$1,000 for non-budgeted items shall have prior board approval and bids shall be solicited on all purchases in excess of \$2,500."
 1. On August 26, 2000, the nursing home administrator went to Hendersonville, Tennessee, and purchased two patio tables, eight patio chairs, two umbrellas, and two umbrella stands for \$4,341.90. The board did not approve this purchase until after the purchase had been made. Also, bids were not solicited for this purchase, as required by the board's policies and procedures.
 2. On July 17, 2002, the administrator purchased a 2002 Chrysler Town and Country van. Ms. Hardy received a trade-in allowance of \$9,000 for the nursing home's 1999 Chrysler Town and Country van and paid a difference of \$25,094.75. The Board of Directors did not approve this purchase until after the purchase had been made, and bids were not solicited for this purchase, as required by the board's policies and procedures.
 3. In one instance, the administrator purchased 144 40-pound bags of charcoal on November 28, 2000, at a cost of \$1,650 from a business in Memphis. Ms. Hardy stated the charcoal was used to barbecue meat for the nursing home and further stated that the charcoal was stored on the property of Jackie Ivy, an individual who does barbecuing for the nursing home. Mr. Ivy told us the charcoal was stored at his home because the nursing home did not have the facilities to store this large amount of charcoal. We went to Mr. Ivy's home on June 12, 2003, and found approximately 50 bags of charcoal that he said belonged to the nursing home. Ms. Hardy stated the reason she purchased so many bags of charcoal was because it was a good buy and she couldn't purchase this type and quality of natural wood charcoal locally. The nursing

home board minutes did not reflect that the nursing home board had approved this purchase.

RECOMMENDATION

These deficiencies should be corrected by doing the following:

- A. The board should monitor all purchases to ensure they are approved, documented, and made for the benefit of the nursing home. All checks should have two signatures, as required by board policy. If a check is made payable to an individual, that individual's signature should not be one of the two signatures.
- B. The nursing home board should improve purchasing procedures by requiring documentation that goods have been received before invoices are paid. Also, a perpetual inventory should be maintained for all food items and supplies.
- C. All non-budgeted purchases exceeding \$1,000 should be made with the approval of the nursing home board. Also, bids should be solicited on all purchases exceeding \$2,500, as required by board policy. Supplies owned by the nursing home should not be stored on private property.

MANAGEMENT'S RESPONSE - OBION COUNTY NURSING HOME BOARD OF DIRECTORS

In the future, all purchases for the benefit of the nursing home will be handled through existing accounts, or on the authorized nursing home credit card. No purchases will be allowed on personal credit cards. Two authorized individuals will sign all checks. An inventory process will be established so that purchases can be accounted for. We have reviewed the purchases made by Ms. Hardy and are satisfied that the items purchased by her for which she was reimbursed were used in the nursing home. The purchases of furniture and the nursing home van, although not made strictly in accordance with policy, were made with the approval and knowledge of the board. In the future, purchases of this kind will be made according to state policy. The board is willing to accept the present method of storing charcoal as is. The charcoal is in the custody of an individual who has accounted for it appropriately.

REBUTTAL

In regard to the management's response that "we have reviewed the purchases made by Ms. Hardy and are satisfied that the items purchased by her for which she was reimbursed were used in the nursing home," it is our position that it is unlikely that the items were for the nursing home due to the time of day and places that Ms. Hardy made many of these purchases.

The practice of storing consumable assets, such as charcoal, on private property weakens control over these assets and increases the risk of inventory loss.

MANAGEMENT'S RESPONSE - MARIETTA B. HARDY, NURSING HOME ADMINISTRATOR

The administrator stated the following:

- A. Check-write will be reinstated and presented at board meeting. Board may ask to view individual invoices if questions arise. All checks will have two signatures. No employee will sign a check made to herself.
- B. All purchases will be checked in by a department employee and the invoice signed or initialed by that employee.
- C. All non-budgeted purchases exceeding \$1,000 will be approved by the board. Bids will be secured on all purchases over \$5,000, as required by revised board policy. Charcoal may be moved to a rented storage area, or sold. No other supplies are stored on private property.

FINDING 3 **DEFICIENCIES WERE NOTED IN PURCHASES MADE FROM WAL-MART AND SAM'S CLUB**

We noted the following deficiencies from our review of purchases made by the nursing home administrator at Wal-Mart and Sam's Club:

- A. In numerous instances, the administrator took blank checks with her to Sam's Club to pay for purchases. In some instances, these blank checks were pre-signed by the business manager, allowing for weaknesses in internal controls over the purchasing process. However, after the opening of a Sam's Club purchasing card charge account in August 2002, this practice ceased. Documentation was not on file to support that the goods purchased at Sam's Club had been received by the nursing home.
- B. The administrator used Wal-Mart and Sam's Club purchasing cards to purchase many items for the nursing home. A review of the purchase card invoices revealed that these invoices were paid without documentation that the goods had been received. Therefore, we were unable to determine that these goods had been received by the nursing home.
- C. Some of the purchases made by Ms. Hardy using the Wal-Mart and Sam's Club purchasing cards appeared to have been made for personal use. Some of these purchases were for such things as baby gifts, sunless tanning lotion, pantyhose, bath crystals, queen-size bed linens, milk, sugar, shrimp, towels, telephone cards, shopping/gift cards, cappuccino, salad, a flight bag and luggage tag, etc.
- D. The Board of Directors had not adopted a formal policy for the use of Wal-Mart and Sam's Club purchasing cards. Without specific guidelines, there are no limitations placed on the use of these cards; therefore, public funds could be misused.

RECOMMENDATION

The nursing home should improve purchasing procedures by obtaining documentation to ensure that goods have been received before paying invoices. The nursing home board should adopt written guidelines for the use of credit purchasing cards that should address who has authority to use the credit purchasing cards and what can be purchased with them. Under no circumstances should these cards be used to make personal purchases. The nursing home board should monitor all credit card purchases closely to ensure that all purchases are approved, documented, and made for the benefit of the nursing home.

MANAGEMENT'S RESPONSE - OBION COUNTY NURSING HOME BOARD OF DIRECTORS

In the future, all purchases for the benefit of the nursing home will be handled through existing accounts or on the authorized nursing home credit card. An inventory process will be established so that purchases can be accounted for. We have reviewed the purchases made by Ms. Hardy and are satisfied that the items purchased by her for which she was reimbursed were used in the nursing home.

REBUTTAL

In regard to the management's response that "we have reviewed the purchases made by Ms. Hardy and are satisfied that the items purchased by her for which she was reimbursed were used in the nursing home," we question this statement due to the personal nature of the purchases she made. Some examples of the purchases Ms. Hardy made from Wal-Mart and Sam's Club are sunless tanning lotion, bath crystals, baby gifts, queen-size bed linens, a flight bag, and luggage tag.

MANAGEMENT'S RESPONSE - MARIETTA B. HARDY, NURSING HOME ADMINISTRATOR

All credit card purchases will be checked in and the invoice signed by a department employee. The administrator will be instructed as to board policy regarding gifts to employees, special baking for residents, and employee parties.

FINDING 4 **DEFICIENCIES WERE NOTED IN TRAVEL DISBURSEMENTS**

We noted the following deficiencies in the payment of travel expenses:

- A. The nursing home board had not adopted a formal travel policy for the administrator and employees. Without a formal travel policy, the administrator and employees have no limitations placed on the reimbursement of their lodging and meal expenses.
- B. During our review period, Ms. Hardy attended conferences in Boston, Massachusetts; New Orleans, Louisiana; and Nashville, Tennessee. From our examination of expenses reimbursed to Ms. Hardy for these trips, we noted that her husband accompanied her to these conferences. While attending these conferences, the nursing home paid for Mr. Hardy's meals, registration fees, and entrance fees to tourist attractions. The state attorney general has opined (Opinion 90-12, dated 02-06-90) that the expenditure of public

funds to pay the travel expense for spouses of public officials and employees does not appear to be a valid county expense. This opinion further states that it was constitutionally suspect under Article 2, Section 29 of the Tennessee Constitution.

- C. We examined invoices submitted by Ms. Hardy to the nursing home for payment when returning from out-of-town trips to places such as Jackson, Madison, Nashville, Goodlettsville, and Martin, Tennessee; and Paducah, Fulton, Cadiz, Kuttawa, and Wickliffe, Kentucky; Boston, Massachusetts; and New Orleans, Louisiana. From these invoices, we determined that she reimbursed herself for numerous personal items. Some of these personal items were ice, spring water, film, maps, tickets for tourist attractions, Pepto Bismol, soft drinks, Alka Seltzer, coffee, newspapers, cold medicine, and cough drops. Ms. Hardy told us that she felt that she should be reimbursed for all expenses, including personal expenses, while traveling on nursing home business.

Ms. Hardy reimbursed the nursing home \$998.06 for meals, gasoline, mileage, and miscellaneous expenses paid to her from nursing home funds. This money was deposited from personal funds on June 30, 2003, to the office bank account.

RECOMMENDATION

These deficiencies should be corrected by doing the following:

- A. The nursing home board should adopt formal policies and procedures for payment of travel expenses. These policies and procedures should establish maximum limits and specific guidelines for the reimbursement of mileage, lodging, and meals.
- B. The nursing home board should discontinue paying expenses of an employee's spouse to attend nursing home conferences.
- C. The board should discontinue allowing the administrator to reimburse herself for personal items.

MANAGEMENT'S RESPONSE - OBION COUNTY NURSING HOME BOARD OF DIRECTORS

A new travel policy will be established setting out daily reimbursement rates for expenses.

MANAGEMENT'S RESPONSE - MARIETTA B. HARDY, NURSING HOME ADMINISTRATOR

The Administrator stated the following:

- A. Policies and procedures for payment of travel expenses will be formulated.
 - B. Only employee expenses will be paid.
 - C. All personal items have been reimbursed. The administrator will get approval from the board on any questionable item before submitting for payment.
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FINDING 5 **INDIVIDUALS NOT EMPLOYED BY THE NURSING HOME AND EMPLOYEES OF THE NURSING HOME RECEIVED BENEFITS IMPROPERLY**

Individuals not employed by the nursing home and employees of the nursing home were given gifts and employee awards by Ms. Hardy, the nursing home administrator, without the approval of the nursing home board. Ms. Hardy purchased some of these items using nursing home Wal-Mart purchasing cards and submitted invoices to the business manager for payment. Other items were paid for in cash or charged to her personal credit card and submitted for reimbursement. In some instances, the invoice described the gift and stated to whom the gift was given, and other invoices only indicated that it was a gift or an employee award. Listed below are some examples of these purchases:

Gifts	Employee Awards and Birthdays	Christmas Gifts
•Towels, hand towels, washcloths and giftwrap noted as "office gift"	•Waterglobe from The Christmas Place in Pigeon Forge noted as "employee award"	•One indoor grill noted as "Martha's Christmas gift"
•Unidentified gift from Bath & Body Works noted as "gift for Julie"	•Two unidentified gifts from Lindz's Christmas Store in Pigeon Forge noted as "employee award"	•Unidentified gifts from Ginger's Hallmark noted as "Christmas gifts for Kay and Laura"
•Two indoor grills noted as "Valentine's Day Prizes"	•Unidentified gift from Cracker Barrel noted as "gift for sick employee"	•Unidentified gift from Calla Lily noted as "Christmas gift for Martha"
•Antique crescent stove noted as "gift for Sheila"	•Flowers and stuffed animals noted as "gift for employee - death of brother"	•Ribeye slabs noted as "board Christmas gifts"
•Two house robes noted as "gifts for Martha and Ms. Burchard"	•Unidentified gift from Party Life Gifts noted as "gift for Julie and Jennifer"	•A George Foreman Grill noted as "gift for Joyce - Christmas Swap"
•Unidentified meat items noted as "board gifts"	•Numerous cakes and cake-baking items noted as "employee birthday"	
•Queen-size sheets and pillowcases noted as "gift"	•Numerous gift cards noted as "employee awards"	
•One box of gourmet candies noted as "gift for Kay"	•Numerous telephone cards noted as "employee awards"	
•Baby items noted as "Nicole's baby gift"	•Numerous gift certificates to restaurants noted as "employee awards"	
•A gown noted as "gift for Martha"		
•An angel noted as "Cooper Service"		
•Fleece lounge noted as "gift for Julie"		

Additionally, we determined from our interview with the dietary supervisor that the administrator provided many other "gift certificates" to employees. These "gift certificates" could be redeemed for various meat items in the nursing home kitchen. If a meat item that an employee wanted was not in stock, it would be ordered for the employee by the dietary supervisor upon instructions given by Ms. Hardy. We were told by the dietary supervisor that the amount of the "gift certificate" was determined based upon the employee's age. For example, an employee having a 30th birthday would receive a \$30 "gift certificate" to redeem for a \$30 meat item from

the nursing home kitchen. These gifts were not approved by the nursing home board, which had not adopted any written guidelines governing the practice of giving gifts to its employees.

RECOMMENDATION

If the nursing home board chooses to give gifts to its employees, it should establish a formal policy governing this practice. These guidelines should establish the purpose and type of gifts, and should set limits on the cost. Gifts and/or prizes should not be given to individuals not employed by the nursing home.

MANAGEMENT'S RESPONSE - OBION COUNTY NURSING HOME BOARD OF DIRECTORS

A separate line item for the budget will be established for motivational gifts.

MANAGEMENT'S RESPONSE - MARIETTA B. HARDY, NURSING HOME ADMINISTRATOR

Formal policy addressing employee gifts will be formulated, and a line item in the budget will be set. Gifts to non-employees will no longer be given.

FINDING 6 RETIREMENT CONTRIBUTIONS WERE PAID FOR THE NURSING HOME ADMINISTRATOR IN VIOLATION OF STATE STATUTES

On April 9, 2002, the nursing home board approved paying three percent of the administrator's salary to the Tennessee Consolidated Retirement System (TCRS), and again on February 14, 2003, the nursing home board approved paying an additional two percent, bringing the total amount to five percent. For calendar year 2002, the retirement contributions totaled \$3,309.80, and for the three months of examination in calendar year 2003, the retirement contributions were \$815.13, bringing total contributions to \$4,124.93, for our period of examination. Section 8-34-206(d), Tennessee Code Annotated (TCA), provides that the chief legislative body (Obion County Commission) may pay up to five percent of an employee's compensation to TCRS. However, the Obion County Commission has not voted to pay five percent of the county employees' retirement; thus, the board is paying the administrator's retirement contribution in violation of state statute. Also, these retirement contributions paid for the nursing home administrator in 2002 were not reported to the IRS on the administrator's W-2 form. Mrs. Hardy reimbursed the nursing home \$4,124.93, plus an additional \$543.70 for payment made from nursing home funds on her behalf to TCRS subsequent to the period of examination. The \$4,668.63 was deposited from her personal funds to the office bank account on September 26, 2003.

RECOMMENDATION

The retirement contribution of five percent should be withheld from the administrator's salary only in compliance with actions taken by the Obion County Commission.

MANAGEMENT'S RESPONSE - OBION COUNTY NURSING HOME BOARD OF DIRECTORS

The TCRS has been contacted regarding this issue. Mrs. Hardy has reimbursed the nursing home for these overpayments.

MANAGEMENT'S RESPONSE - MARIETTA B. HARDY, NURSING HOME ADMINISTRATOR

Although approved by the board as part of her benefit package, the administrator has reimbursed the facility for payments made on her behalf to the retirement fund, which are determined to be a violation of state statute.

FINDING 7 A DEFICIENCY WAS NOTED IN REIMBURSING GASOLINE PURCHASES TO THE NURSING HOME ADMINISTRATOR

The nursing home administrator purchased gasoline for the nursing home van with her personal credit card and submitted the charge slips for reimbursement on approximately a monthly basis. The nursing home reimbursed the administrator by making the checks payable directly to the administrator's credit card company. The administrator filed for reimbursement 33 times during the period under examination. As previously noted, checks should be signed by both the administrator and the office manager. In 19 of the 33 reimbursements, the administrator was the only person to sign the checks. Also, there were no controls in place to ensure that the gasoline purchased was placed in the nursing home van.

RECOMMENDATION

The nursing home should not make payments directly to the administrator's credit card company. Controls over the purchase of fuel should be implemented, such as maintaining a vehicle log showing date, odometer mileage, and gallons purchased. Furthermore, two signatures need to be on all checks, and the individual a check is made payable to or on behalf of should never be one of the signatures.

MANAGEMENT'S RESPONSE - OBION COUNTY NURSING HOME BOARD OF DIRECTORS

In the future, the nursing home administrator will keep a log of gasoline purchases and mileage on the van.

MANAGEMENT'S RESPONSE - MARIETTA B. HARDY, NURSING HOME ADMINISTRATOR

The facility now has a credit card from Rogers Oil, which will be used exclusively, unless out of town on a trip and needing gas to get back home. In that event, the receipt will be turned in with other travel expenses. Two signatures will appear on all checks, and if made to an employee, that employee will not be one of the signers.

FINDING 8 THE NURSING HOME ADMINISTRATOR AUTHORIZED THE USE OF PREPAID CARDS FOR LONG DISTANCE TELEPHONE SERVICE

During our examination of invoices, we noted that the nursing home administrator had purchased numerous prepaid telephone cards. When asked about these cards, Ms. Hardy stated that it was cheaper to fund long distance telephone calls with prepaid cards rather than paying a long distance provider on the regular monthly telephone bill. Prior to the use of the prepaid cards, the nursing home maintained telephone logs for all long distance calls, and when an employee made a personal call, that employee would reimburse the nursing home for the cost of the call. However, beginning with the use of the prepaid telephone cards, a log of long distance calls was no longer maintained to determine if employees made personal long distance calls. Minutes totaling 12,680 were purchased at a cost of \$1,996.52 during the period examined. According to the administrator, some cards were "sold" to employees so they could have them available for their personal use.

RECOMMENDATION

The board should adopt a policy that states the prepaid telephone cards purchased with nursing home funds are for official use only. Employees should use their own prepaid telephone cards to make personal long distance calls. Moreover, the administrator should stop selling prepaid cards to employees.

MANAGEMENT'S RESPONSE - OBION COUNTY NURSING HOME BOARD OF DIRECTORS

The nursing home will no longer sell prepaid phone cards to the employees. Outstanding cards will be accounted for. A new telephone policy is being put into place.

MANAGEMENT'S RESPONSE - MARIETTA B. HARDY, NURSING HOME ADMINISTRATOR

Prepaid telephone cards are the preferred method for providing long distance telephone service, and those purchased by the facility are for official use only. Telephone cards will no longer be purchased by the facility for resale to employees. A telephone log will be placed at all locations so that a record of calls can be kept.

FINDING 9 DEFICIENCIES WERE NOTED IN PAYROLL RECORDS

Our review of the nursing home's payroll records for salaried employees revealed the following deficiencies:

- A. Records of the five salaried employees did not reflect the dates and times actually worked. Also, these records were not signed by the employee and management.
- B. On July 11, 2000, the administrator paid herself an additional \$300 for working on a holiday. Again, on May 26, 2001, the administrator paid herself \$1,688 for working five holidays, and on June 8, 2002, paid herself \$2,049 for working six holidays. Because of the deficiencies noted in the payroll records and/or other documentation, we were unable to determine if Ms. Hardy had actually worked these holidays. Also, board minutes did not

reflect that the nursing home board had knowledge of Ms. Hardy's working on these holidays and receiving compensation.

RECOMMENDATION

Time and attendance records should be maintained for salaried employees and signed by management indicating their review and approval of the records. Time cards should have, at a minimum, the dates and times worked, and signatures of the employee and supervisor. Furthermore, the board should approve all compensation that Ms. Hardy receives.

MANAGEMENT'S RESPONSE - MARIETTA B. HARDY, NURSING HOME ADMINISTRATOR

The administrator stated the following:

- A. Time and attendance records will be maintained for salaried employees, as directed by the Board of Directors.
- B. The board will approve the administrator's salary and benefits.

FINDING 10 THE NURSING HOME HAD INTERNAL CONTROL WEAKNESSES OVER SEGREGATION OF DUTIES AND CHECK SIGNING

The following internal control weaknesses were noted during our examination:

- A. Duties were not segregated adequately among employees at the nursing home. The office manager responsible for maintaining the accounting records was also involved in receipting, depositing, and disbursing funds. The nursing home administrator reconciled the bank statements and occasionally made deposits.
- B. Nursing home board policies require the signature of the office manager and the administrator on all checks. In numerous instances, checks made payable to the nursing home administrator had only the signature of the administrator on the check. It should be noted that checks used by the nursing home have only one line for a signature and not two lines, as necessary per the policy.
- C. The office manager stated that she pre-signed checks at the instruction of the administrator. This practice renders the requirement of having two signatures on a check useless.

RECOMMENDATION

Duties should be segregated adequately among employees. The administrator should discontinue the practice of having the office manager pre-sign checks. Also, checks should be designed so that two individuals can sign the checks, as required by board policy. To strengthen internal controls over check signing, the board should amend its policy to allow for three people as authorized check signers, and if any reimbursements are made to any of those three people, their signatures will not appear on the check.

MANAGEMENT'S RESPONSE - MARIETTA B. HARDY, NURSING HOME ADMINISTRATOR

Duties are segregated as much as possible. Neither the office manager nor administrator will pre-sign checks. New checks are printed with two signature lines. Board policy will be amended to state that three people are authorized to sign checks: the administrator, office manager, and social services director. Also, policy will state that no check will be signed by the recipient of the check.

FINDING 11 FUNDS WERE NOT DEPOSITED WITHIN THREE DAYS OF RECEIPT

Throughout the period we examined, monies were not deposited to the nursing home bank account within three days of collection, as required by Section 5-8-207, Tennessee Code Annotated. This statute requires county officials to deposit all public funds to the office bank account within three days of collection. In numerous instances throughout the period we examined, collections were held in the nursing home office up to eight days before being deposited.

RECOMMENDATION

The nursing home administrator should ensure that all funds are deposited to the office bank account within three days of collection, as required by state statute.

MANAGEMENT'S RESPONSE - OBION COUNTY NURSING HOME BOARD OF DIRECTORS

This will be addressed and all funds deposited within three days of receipt.

MANAGEMENT'S RESPONSE - MARIETTA B. HARDY, NURSING HOME ADMINISTRATOR

The administrator will monitor to ensure that deposits continue to be made within three days of collection.

FINDING 12 THE ADMINISTRATOR USED THE NURSING HOME VAN INAPPROPRIATELY

The board provided the administrator with a van to commute to and from work. However, the administrator used the nursing home's vehicle for personal travel other than commuting to and from work. After making numerous personal trips outside the county, the administrator submitted gasoline receipts and was reimbursed by the nursing home for gasoline used in the trips. We determined from records that the van was driven an average of 2,850 miles a month. Furthermore, the personal benefit Ms. Hardy received from use of the van was not calculated and reported to the federal government, as required by Internal Revenue Service (IRS) regulations.

RECOMMENDATION

If it is the board's intent that the administrator use the vehicle for personal travel, it should formally approve the practice and require that the economic benefit derived from using the vehicle be calculated and reported to the federal government in compliance with IRS regulations. If the board determines that the administrator was not authorized to use the vehicle for personal travel, Ms. Hardy should reimburse the board for her personal use of the vehicle.

MANAGEMENT'S RESPONSE - OBION COUNTY NURSING HOME BOARD OF DIRECTORS

A policy is being enacted that will outline the use of the van.

MANAGEMENT'S RESPONSE - MARIETTA B. HARDY, NURSING HOME ADMINISTRATOR

The administrator acted in good faith relative to use of the company van. New policy is being written authorizing the administrator to use the company van for facility business only, except for travel to and from work and home, inasmuch as she is always on call. A log will be kept of all travel, per board policy.

FINDING 13 THE NURSING HOME'S BOARD OF DIRECTORS DID NOT ASSUME OVERSIGHT RESPONSIBILITY

The nursing home's board of directors did not assume sufficient oversight responsibility regarding payments for salaries and bonuses to employees, gifts to employees, the use of Wal-Mart and Sam's Club charge cards, employees' payroll records, gasoline purchases made by the nursing home administrator, reimbursement of travel expenses paid to the administrator, other reimbursements made to the nursing home administrator, and general purchasing procedures for the nursing home. The board had adopted formal policies and procedures to govern the nursing home operations but had not adopted policies and procedures governing travel reimbursements, the use of credit cards, and personal use of nursing home telephones. Furthermore, many of the policies that were adopted by the board are vague and poorly worded. In many instances, the minutes that were taken at board meetings did not indicate who made the motions and who voted for or against the motions, and generally lacked many specifics necessary for determining what actions did take place. Policies and procedures are necessary for strong internal controls.

RECOMMENDATION

The nursing home board should review all existing policies and procedures to determine their adequacy for the operations of the nursing home. The board should then strengthen internal controls where necessary. Also, the board should assume a more active role in overseeing the nursing home's operations to ensure that funds are properly disbursed for the benefit of the nursing home. Also, the board should approve salaries, bonuses, and the types of gifts given to employees.

MANAGEMENT'S RESPONSE - OBION COUNTY NURSING HOME BOARD OF DIRECTORS

The board will address the concerns cited by the review. We will meet monthly and will assume greater oversight of the operations of the nursing home.