



CITIZENS SUMMARY

Findings in the audit of Putnam County Memorial Hospital

Background

In September 2016, the State Auditor's Office announced a series of audits of county hospitals to focus on financial and operating best practices for acute care facilities that are critical to individuals who live and work in the surrounding communities.

The Putnam County Memorial Hospital opened in 1963 with the first patient admitted in October of that year. The hospital was designated as a critical access hospital (CAH) in the 1990s, which is a designation designed to reduce the financial vulnerability of rural hospitals and improve access to healthcare by keeping essential services in rural communities. The hospital is one of 36 CAHs in Missouri and is licensed for 15 acute care beds.

On November 29, 2016, the hospital's Board of Trustees (Board) entered into a lease agreement, for operating the hospital, with Hospital Partners, Inc. As part of this lease agreement, the Board is transferring operational ownership, via an official Change of Ownership process through the state of Missouri, and transferring the hospital's Medicare and Medicaid provider numbers to that entity. However, as of August 1, 2017, the Department of Health and Senior Services had yet to receive a change of ownership request.

Lack of Board Oversight

The Board did not perform sufficient due diligence over the process of awarding management contracts. In addition, the Board did not adequately document how decisions related to the hiring of management companies were made or retain sufficient documentation to show they conferred with legal counsel prior to entering into the contracts. The Board did not ensure personnel were in place to provide oversight of management company activities, and did not provide sufficient direct oversight of the compensation paid to the companies, including salaries paid to executive administration personnel. The Board has not provided appropriate oversight of laboratory contracts entered into by the new CEO/management company President. As a result, the hospital is incurring unnecessary payroll costs, and is involved in questionable laboratory billing practices.

The Board did not provide sufficient oversight to be aware the CEO entered the hospital into a verbal agreement for a \$500,000 loan. The Board does not have adequate procedures in place to provide sufficient oversight and ensure all travel reimbursements are reasonable and proper. Additionally, the hospital did not properly report all employee's wages earned to the state and federal government and reimbursed questionable expenses. The Board did not receive or request sufficient documentation from the previous management company prior to approving the addition of an inpatient psychiatric unit in March 2012, did not approve the management contracts put in place to run the unit, and did not provide any ongoing oversight or monitoring of the unit until its closure in December 2015.

Immediately upon signing the current management contract with the hospital, the CEO and his associates began billing significant amounts of out-of-state lab activity through the hospital. In the event the insurance companies being billed for this activity determine it is not legitimate, or

question the propriety of the hospital having out-of-state phlebotomists on its payroll, the Board and the hospital could potentially be held liable.

Financial Condition	The hospital is in extremely poor financial condition. The hospital's financial condition has steadily declined since we reported similar concerns in our 2 year-end December 31, 2011, audit report of Putnam County. In addition, several prior financial statement audit reports, including the audit report for the year ended June 30, 2014, identified a going concern issue with the hospital (conditions and events given rise to substantial doubt about the entity's ability to continue). The hospital has high levels of uncollectable accounts receivable, while at the same time experiencing high accounts payable balances.
Computer Security	The hospital does not store copies of backup data at an off-site location.

In the areas audited, the overall performance of this entity was **Poor**.*

*The rating(s) cover only audited areas and do not reflect an opinion on the overall operation of the entity. Within that context, the rating scale indicates the following:

- Excellent:** The audit results indicate this entity is very well managed. The report contains no findings. In addition, if applicable, prior recommendations have been implemented.
- Good:** The audit results indicate this entity is well managed. The report contains few findings, and the entity has indicated most or all recommendations have already been, or will be, implemented. In addition, if applicable, many of the prior recommendations have been implemented.
- Fair:** The audit results indicate this entity needs to improve operations in several areas. The report contains several findings, or one or more findings that require management's immediate attention, and/or the entity has indicated several recommendations will not be implemented. In addition, if applicable, several prior recommendations have not been implemented.
- Poor:** The audit results indicate this entity needs to significantly improve operations. The report contains numerous findings that require management's immediate attention, and/or the entity has indicated most recommendations will not be implemented. In addition, if applicable, most prior recommendations have not been implemented.

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