

November 2021
PE 21-10-644

PERFORMANCE REVIEW HOSPITAL FINANCE AUTHORITY

AUDIT OVERVIEW

The Hospital Finance Board Has Not Established Internal Control or Oversight Over Timekeeping, Revenue, Purchasing, or Travel, Resulting in Significant Errors



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**John Sylvia
Director**

November 14, 2021

The Honorable Mark Maynard
West Virginia State Senate
Building 1, Room 217-W
1900 Kanawha Boulevard, East
Charleston, West Virginia 25305-0470

The Honorable Brandon Steele
West Virginia House of Delegates
Building 1, Room E-213
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Charleston, West Virginia 25305-0470

Dear Chairs:

We are transmitting a Performance Review of the Hospital Finance Authority. The issue covered herein is *"The Hospital Finance Board Has Not Established Internal Control or Oversight Over Timekeeping, Revenue, Purchasing, or Travel, Resulting in Significant Errors."*

We transmitted a draft copy of the report to the Hospital Finance Authority on October 13, 2021. We received the agency response on October 22, 2021.

Let me know if you have any questions.

Sincerely,


John Sylvia

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EXECUTIVE SUMMARY

The Performance Evaluation and Research Division, within the Office of the Legislative Auditor, conducted a performance review of the Hospital Finance Authority pursuant to Chapter 4, Article 2, Section 5 of the *West Virginia Code*, as amended. The objective of this review is to determine if the Hospital Finance Authority has internal controls to ensure compliance with state rules and West Virginia Code.

Frequently Used Acronyms

MOU – Memorandum of Understanding

PERD – Performance Evaluation and Research Division

STO – State Treasurer’s Office

W. Va. Code – West Virginia Code

Report Highlights:

Issue 1: The Hospital Finance Board Has Not Established Internal Control or Oversight Over Timekeeping, Revenue, Purchasing, or Travel, Resulting in Significant Errors

- The Hospital Finance Board has not established control activities for operational processes, resulting in non-compliance with the State Travel Rule, improper leave use, and overpayments to the State Treasurer’s Office.
- The secretary-treasurer should have used a minimum of 29.5 hours in annual leave to account for the time at meetings of the Board of Barbers and Cosmetologists and attendance at conferences.
- The Hospital Finance Authority is self-sufficient.
- Travel to Conferences at The Greenbrier Resort likely violate the Ethics Act.
- While the long tenure of board members, the secretary-treasurer, and the bond counsel is a benefit, the absence of a succession plan is also a concern for the agency as a whole.

PERD’s Response to the Agency’s Written Response

On October 22, 2021, PERD received the written response from the secretary-treasurer of the Hospital Finance Authority, which can be found in Appendix E. The agency generally agrees with the overall findings of the report. However, one caveat with regard to succession planning is that the governor is responsible for the appointment and/or reappointment of members, and the Authority may only request appointments.

Recommendations

1. *The Board establish job descriptions for both the secretary-treasurer and the director and perform evaluations based on the job descriptions.*
2. *The Board should establish appropriate policies, procedures, and control activities for travel, purchasing, and timekeeping as well as document the Board's action with regard to the policies, procedures, and control activities.*
3. *The Board establish an oversight mechanism for its sole employee*
4. *The Board should establish control activities for travel to provide reasonable assurance of compliance with the State Travel Rule.*
5. *The Board should require itemized receipts for travelers to comply with the State Travel Rule.*
6. *The Hospital Finance Authority establish control activities over disbursements to include a reconciliation of expenses to receipts and a monitoring system such as verification by a board member.*
7. *The Hospital Finance Authority seek reimbursement for the overpayment from the State Treasurer's Office.*
8. *The Hospital Finance Authority establish control activities and oversight for timekeeping to ensure correct leave usage.*
9. *The Board reduce the secretary-treasurer's leave balance by the appropriate amount to compensate for the failure to use leave.*
10. *The Hospital Finance Authority comply with the Ethics Act by creating a monitoring process to ensure the secretary-treasurer uses leave appropriately.*
11. *The Hospital Finance Authority should seek a contract exemption from the Ethics Commission for continued attendance at the Hospital Association's conferences held at The Greenbrier Resort.*
12. *The Hospital Finance Authority should implement a succession plan.*

ISSUE 1

The Hospital Finance Board Has Not Established Internal Control or Oversight Over Timekeeping, Revenue, Purchasing, or Travel, Resulting in Significant Errors

Issue Summary

The Hospital Finance Authority (Authority) is an agency with one employee, governed by a seven-member board (Board). The purpose of the Authority is to help hospitals and certain nursing facilities gain access to the financial markets by issuing bonds for the financing of various projects. As the Legislative Auditor has noted in reports on regulatory boards and commissions, entities with few employees are inherently at risk for fraud and abuse because the agency cannot properly segregate duties or provide adequate employee oversight. The Performance Evaluation and Research Division's (PERD) review of the Authority found the agency has not established internal control or policies/procedures for timekeeping, revenue collection, disbursements, or travel. As a result, PERD identified instances of the secretary-treasurer failing to use approximately 29 hours of leave to attend events for the Board of Barbers and Cosmetologists (of which she was the board president), over \$2,300 in meal reimbursements not in compliance with the travel rule, and overpayment to the State Treasurer's Office. In addition, there is concern, given the governor has authority over the Board, that the trips to the annual West Virginia Hospital Association conference held at The Greenbrier Resort, which the governor also owns, may violate the Ethics Act. Lastly, there is concern about the longevity of board members and the secretary-treasurer and the lack of a succession plan. The chair and secretary-treasurer have over 30 years of service each, with two other members serving over 20 years. Without the addition of new members, the departure of one or more members of the Board or the secretary-treasurer could have a negative impact on operations.

The agency has not established internal control or policies/procedures for timekeeping, revenue collection, disbursements, or travel.

There is concern that the trips to the annual West Virginia Hospital Association conference held at The Greenbrier Resort may violate the Ethics Act.

The Hospital Finance Authority Provides Hospitals Access to Low Interest Rate Financing for Facility Acquisition and Improvement

The Authority, established in 1984, provides hospitals and veteran nursing facilities access to the financial market by issuing tax-exempt bonds, resulting in lowering borrowing costs for hospitals without using tax dollars. The Board governs the Authority. The Board is composed of seven members. Two are ex-officio members: the secretary of the Department of Health and Human Resources and the treasurer of the State. The governor appoints the remaining five members who serve

six-year terms. Annually, the Board chooses an appointed member as chairperson, vice chairperson, and secretary-treasurer. In addition, the Board appoints an executive director of the Authority (in this instance, the secretary-treasurer is also the executive director).

From November 16, 1998, through June 30, 2019, the Authority issued \$3.2 billion in bonds in 49 separate issuances. Of the \$3.2 billion, \$2.7 billion in principal remains outstanding. The bonds were issued on behalf of 14 corporate entities. These entities used the bonds for a variety of purposes to benefit public health such as capital improvements, hospital acquisitions, equipping facilities with additional acute care beds, and refinancing older bonds. The corporate entities include a variety of hospitals throughout the state, including the Charleston Area Medical Center, West Virginia United Health Systems, Cabell Huntington Hospital, and Camden Clark Memorial Hospital. The entities are responsible for the cost of the bond issuance, including repayment to the bondholder. In addition, a bond trustee manages each bond and is responsible for ensuring the bond payments are made as scheduled. Bond trustees vary across the bonds, but are generally large banking institutions.

From November 16, 1998, through June 30, 2019, the Authority issued \$3.2 billion in bonds in 49 separate issuances.

Adequate Internal Control Over Hospital Finance Authority Operations Is Necessary for the Agency to Comply With State Laws and Rules

Per West Virginia Code (W. Va. Code) §16-29A-4, the Board is charged with controlling, managing, and operating the Authority. However, while both the Authority and the Board have explicit duties prescribed in Code, neither the executive director nor the secretary-treasurer do, nor has the Board established prescribed duties for either role. Moreover, the Board has not established internal control for the Authority. For the executive director and the Board to comply with various statutory mandates and state rules, the Board must have adequate internal control. According to the Committee of Sponsoring Organizations of the Treadway Commission (recognized as an authority on internal control and a thought leader on risk management, governance and fraud deterrence), internal control provides reasonable assurance of achieving effectiveness and efficiency of operations, reliability of financial reporting, and compliance with laws and regulations. While there are five major components of internal control, this review focuses on three:

The entities are responsible for the cost of the bond issuance, including repayment to the bondholder.

1. Control Environment,
2. Control Activities, and
3. Monitoring.

The Hospital Finance Board Has Not Established a Control Environment for the Hospital Finance Authority

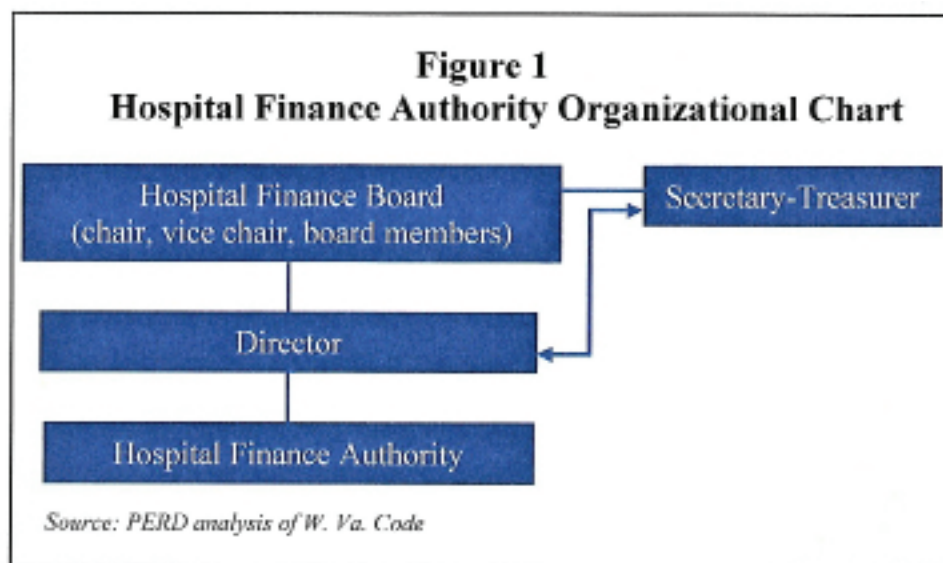
The control environment is an important component of internal control. Management sets the tone for the entire agency as to the priority it places on integrity, effectiveness, and competency. There are several sub-components, however, the most relevant sub-components for the Board and the Authority are:

- the establishment and communication of written policies and procedures,
- an appropriate organizational structure, and
- a monitoring process of operations.

However, the Board does not have any of these sub-components. There are no written policies or procedures nor is there a monitoring process in place (see timekeeping discussion). Moreover, as shown in Figure 1, the Board has not established an appropriate organizational structure given that the Board has appointed the same individual as both the secretary-treasurer and the executive director. She has been with the Authority since 1991 and is both the only employee as well as a board officer.

The control environment is an important component of internal control.

However, there are no written policies or procedures nor is there a monitoring process in place.



Although the Board has appointed the same person to both the executive director and secretary-treasurer roles, this is permissible as W. Va. Code §16-29A-4 states that the secretary-treasurer “need not be a member of the board.” However, W. Va. Code does not specify duties for either the secretary-treasurer or the director, nor has the Board established

job descriptions for either role. Job descriptions would be a part of the control environment for the Authority as the Board could then perform staff evaluations as a control activity based on the job descriptions. **The Legislative Auditor recommends the Board establish job descriptions for both the secretary-treasurer and the director and perform evaluations based on the job descriptions.**

The Board Has Not Established Control Activities for Operational Processes, Resulting in Non-Compliance with the State Travel Rule, Improper Leave Use, and Overpayments to the Treasurer's Office

One contributing factor to the absence of oversight and internal control of the Authority by the Board is that in 1997 the Authority entered a Memorandum of Understanding (MOU) with the State Treasurer's Office (STO) for back-office support, such as financial services, technical staff services, support staff, and support services. The MOU was authorized by W. Va. Code §5F-2-6, which was part of a reorganization of executive branch agencies. Under this arrangement, the STO staff process transactions, such as purchases, travel, and timekeeping for the secretary-treasurer. However, although the STO provides a service, it is not responsible for establishing a control environment for the Authority. The MOU does not, in any way, give control to the STO over the Authority. In fact, the MOU is explicit in that the consolidation does not affect the independence and autonomy of the Authority. Moreover, W. Va. Code §5F-2-6 specifically states *"that nothing in this section shall be construed to limit the independence and autonomy of the hospital finance authority."* **Thus, it is the Board's responsibility to establish control activities, such as approving purchases, reconciling purchases, auditing travel, and reviewing and approving of sign-in/sign-out sheets for the Authority.**

When asked about policies and procedures for purchasing, the secretary-treasurer of the Authority referred PERD staff to the STO, stating that *"all HFA purchasing goes through the State Treasurer's purchasing staff.... They do follow the state purchasing handbook."* However, the STO indicated in an interview that the secretary-treasurer presents invoices for payment, and they do not process a transaction without the secretary-treasurer's signature. Similarly, when asked about policies and procedures for travel, the secretary-treasurer stated *"oral approval is given...by the Chairman of the Board"* and that they *"follow the Treasurer's procedures which are set by the State Travel Rules."* However, when asked about these procedures, the STO stated that it attempts to ensure compliance, but ultimately it enters the information as provided as it does not exercise oversight of the Authority. **Consequently, the Board should establish appropriate policies, procedures, and control activities for travel, purchasing, and timekeeping as well as**

Although the STO provides a service, it is not responsible for establishing a control environment for the Authority. In fact, the MOU is explicit in that the consolidation does not affect the independence and autonomy of the Authority.

It is the Board's responsibility to establish control activities, such as approving purchases, reconciling purchases, auditing travel, and reviewing and approving of sign-in/sign-out sheets for the Authority.

document the Board’s action with regard to the policies, procedures, and control activities. The Legislative Auditor also recommends the Board establish an oversight mechanism for its sole employee.

Travel expenses are one of the larger areas of discretionary expenses for the Authority. However, the Board has not established control activities over travel. Control activities are the actions put in place by management to help ensure that directives to mitigate risks are carried out. These include policies and procedures, monitoring, approvals and authorization, segregation of duties, and other activities. Although the secretary-treasurer stated that the Authority follows the STO’s procedures which are based on the state travel rule, PERD found instances of non-compliance with the State Travel Rule. It should be noted that the STO primarily enters the information that it receives from the secretary-treasurer; however, the Board is not overseeing the information. As shown in Table 1, most travel expenses (94%) are for the annual West Virginia Hospital Association conferences held at The Greenbrier Resort.

Travel expenses are one of the larger areas of discretionary expenses for the Authority. However, the Board has not established control activities over travel.

Table 1
Hospital Finance Authority Conference Expenses
FY 2014 to FY 2020

Fiscal Year	WVHA Conference Travel Expenses	Non-Conference Travel Expenses	Total	Conference Travel as a Percent of Total
2014	\$6,441	\$179	\$6,620	97%
2015	\$4,399	\$24	\$4,423	99%
2016	\$7,997	\$350	\$8,347	96%
2017	\$7,148	\$1,262	\$8,410	85%
2018	\$4,352	\$152	\$4,504	97%
2019	\$1,582	\$173	\$1,755	90%
2020	\$3,271	\$0	\$3,271	100%
Total	\$35,190	\$2,140	\$37,330	94%
Average	\$5,320	\$357	\$5,676	95%

Source: PERD analysis of travel documentation contained in the OASIS WV-FIN-TRLDTL-002 report.

Upon review of the documentation contained within the State Auditor's Our Advanced Solution with Integrated Systems (OASIS), the expenses of the trips to The Greenbrier Resort for the Hospital Association's annual conferences did not comply with the State Travel Rule. Per the State Travel Rule, "*exceptions may be granted to per diem rates in situations when authorized by the Spending Unit Officer. When expenses are approved in excess of per diem rates, itemized receipts are required for the meal and incidental expenses for the entire day.*" However, PERD's review of the supporting documentation for travel expense reimbursements did not identify any itemized receipts for meals. Also, per the travel rule, "*when an acceptable form of receipt is not available, a traveler shall create, in paper or electronic form, an itemized list reflecting the goods or services purchased, vendor name, date of purchase and price.*" However, PERD's review did not identify itemized lists of goods or services purchased.

The expenses of the trips to The Greenbrier Resort for the Hospital Association's annual conferences did not comply with the State Travel Rule.

The absence of receipts is a cause for concern for two reasons. The first is that PERD's review of travel reimbursements found spouses would accompany the board members to the Greenbrier for conferences. In these instances, the reimbursement requests for the meal costs charged to the room were simply reduced by half. However, it is unlikely that simply reducing the cost of a meal by 50 percent would accurately capture the cost of the meal for the board member and would also likely cover some of the expense of the spouse. The second reason the absence of receipts is concerning is that the State does not pay for alcohol or entertainment expenses. However, without the itemized receipts, it cannot be determined if the meal cost and subsequent reimbursement include alcohol or entertainment expenses. As shown in Table 2, from Fiscal Year 2014 through 2019, the meals authorized at cost total \$2,373.44 for 6 individuals for 13 days in full travel status and 26 days in partial travel status (e.g. trip out and trip back). **The Board should establish control activities for travel to provide reasonable assurance of compliance with the State Travel Rule. The Board should also require itemized receipts for travelers to comply with the State Travel Rule.**

It is unlikely that simply reducing the cost of a meal by 50 percent would accurately capture the cost of the meal for the board member and would also likely cover some of the expense of the spouse.

Table 2
Hospital Finance Authority Conference Expenses
FY 2014 to FY 2020

Fiscal Year	No. of Travelers	Registration	Per Diem	Room	Meals	Mileage	Other	Total
2014	5	\$1,375	\$542	\$3,812	\$0	\$628	\$84	\$6,441
2015	3	\$901	\$324	\$2,646	\$0	\$159	\$369	\$4,399
2016	6	\$1,811	\$0	\$4,368	\$919	\$492	\$406	\$7,997
2017	3	\$2,003	\$0	\$3,821	\$792	\$464	\$68	\$7,148
2018	4	\$0	\$0	\$3,063	\$662	\$491	\$136	\$4,352
2019	1	\$375	\$128	\$800	\$0	\$271	\$8	\$1,582
2020	2	\$650	\$275	\$1,952	\$0	\$303	\$92	\$3,271
Total	3	\$6,465	\$993	\$18,511	\$2,373	\$2,506	\$1,071	\$35,190
Average		\$1,078	\$166	\$3,085	\$396	\$418	\$178	\$5,320

Source: PERD analysis of travel documentation contained in the OASIS WV-FIN-TRLDTL-002 report.

During the audit, PERD also identified that the STO owes the Authority \$873.44 for overpayments of expenses associated with attendance at the 2016 West Virginia Hospital Association's Annual Conference. The STO used its Purchasing Card for the event. After the conference, the STO billed the Authority for the full cost of the chair's hotel folio of \$1,198.34, Mr. Williams's folio of \$755.50, and Ms. Robert's folio of \$820.56 for a total of \$2,774.40. However, this was based on an outdated hotel folio from September 30, 2016, that did not reflect the removal of \$69.74 in taxes for all three (per W. Va. Code §7-18-5, lodging billed directly to a state agency is tax exempt). In addition, the chair moved \$664.22 in non-lodging charges to a personal credit card as reflected on the folio from October 5, 2016 submitted for expense reimbursement. Thus, the actual total due was \$1,900.96. Based on documentation in OASIS, the STO billed the Authority for charges to the card for the dates of the stays but was unaware of the removal of tax and other expenses occurring after the travel due to the outdated folio. It is likely that if a control activity was in place, such as the Board reviewing and approving all expenditures prior to payment, the chair would likely have noted the outdated portfolio prior to payment. Similarly, if the Board were to actively monitor agency funds, such as by reviewing prior spending, it is likely the chair would have been able to note the movement of personal expenses to his personal credit card. **The Legislative Auditor recommends the Hospital Finance Authority establish control**

During the audit, PERD also identified that the STO owes the Authority \$873.44 for overpayments of expenses associated with attendance at the 2016 West Virginia Hospital Association's Annual Conference.

activities over disbursements to include a reconciliation of expenses to receipts and a monitoring system such as verification by a board member. The Legislative Auditor recommends the Hospital Finance Authority seek reimbursement for the overpayment from the State Treasurer's Office.

Similar to travel, the Authority has not established control activities or a monitoring process over timekeeping. In fact, when asked about the use of timesheets, the secretary-treasurer stated: *"I have never taken the responsibility of keeping my time since the mid 90's when the former Director resigned. After this The Treasurer's office tracked and entered my sick and annual leave."* However, according to the STO's staff, *"it is not our responsibility to monitor if she is working from home or from the physical office location."* In addition, the STO staff stated they *"are required to provide a 'sign off' which is merely a system function so that Kronos will interface with the payroll system."* Thus, without reviewing records within the Kronos electronic timekeeping system, there is no oversight over the secretary-treasurer's time and/or leave use, resulting in leave not used when she was, in fact, out of the office. **The Legislative Auditor recommends the Hospital Finance Authority establish control activities and oversight for timekeeping to ensure correct leave usage.**

Given there is no apparent oversight over the secretary-treasurer's time, PERD reviewed her use of leave concerning her responsibilities as president of the Board of Barber's and Cosmetologists. Between July 2015 and December 2019, the secretary-treasurer attended 39 meetings of the Board of Barbers and Cosmetologists. Of those 39 meetings, 24 did not require the use of leave as the meetings were on a Sunday. The remaining 15 meetings occurred during a weekday and thus would require the use of leave from her role with the Authority. PERD's analysis found the secretary-treasurer attended 5 weekday meetings without using annual leave. Three of the five meetings did not have an end time in the meeting minutes; thus, the audit team cannot determine the amount of leave that the secretary-treasurer should have used to attend. However, two meetings did have end times. Based on the start and end times, the audit team calculated that the executive director should have used a minimum of 5.5 hours of annual leave to attend these meetings. This represents a cost of \$205.37 in salary costs.

In addition, a review of attendance at the National Interstate Council of State Boards of Cosmetology conferences for the secretary-treasurer's role as president of the Board of Barbers and Cosmetologists and the secretary-treasurer of the National Interstate Council of Boards of Cosmetology found that sick leave was used to attend two days of the August 2017 conference in Charleston, West Virginia and no use of annual leave for the return trip day for the October 2018 conference in

When asked about the use of timesheets, the secretary-treasurer stated: "I have never taken the responsibility of keeping my time since the mid 90's when the former Director resigned."

PERD's analysis found the secretary-treasurer attended 5 weekday meetings without using annual leave.

A review of attendance at the National Interstate Council of State Boards of Cosmetology conferences found that sick leave was used to attend two days of the August 2017 conference in Charleston, West Virginia.

Seattle, Washington. The use of sick leave to attend a conference is not permissible under the Division of Personnel's leave use policy. The audit team estimates the secretary-treasurer should have used a minimum of 29.5 hours in annual leave to account for the time at meetings of the Board of Barbers and Cosmetologists and attendance at conferences. **The Legislative Auditor also recommends the Board reduce the secretary-treasurer's leave balance by the appropriate amount to compensate for the failure to use leave.**

In addition to owing hours for time out of the office, failure to use annual leave is a violation of the Ethics Act. Section §6B-2-5(1) of the Ethics Act states "*A public employee may not receive additional compensation from another publicly-funded state, county, or municipal office or employment for working the same hours, unless... The public employee uses earned paid vacation, personal or compensatory time or takes unpaid leave from his or her public employment to perform the duties of another public office or employment.*" PERD's review of the secretary-treasurer's records within the Kronos electronic timekeeping system found five instances when the secretary-treasurer did not use leave for attendance at meetings of the Board of Barbers and Cosmetologists while receiving the \$150 per diem (a total of \$750) and her regular salary for hours paid by the Authority, thus paid by two public entities for the same hours. **The Legislative Auditor recommends the Hospital Finance Authority comply with the Ethics Act by creating a monitoring process to ensure the secretary-treasurer uses leave appropriately.**

The Hospital Finance Authority Is Financially Self-Sufficient

As shown in Table 3, the Authority has a relatively small operating budget, with expenditures averaging less than \$100,000 annually. Moreover, as also shown in Table 3, the Authority has a declining end-of-year cash balance. The decline in the end-of-year cash balance is primarily due to the Authority using the proceeds of a settlement from several years ago to fund operations.

The audit team estimates the secretary-treasurer should have used a minimum of 29.5 hours in annual leave to account for the time at meetings of the Board of Barbers and Cosmetologists and attendance at conferences.

The secretary-treasurer did not use leave for attendance at meetings of the Board of Barbers and Cosmetologists while receiving the \$150 per diem (a total of \$750) and her regular salary for hours paid by the Authority, thus paid by two public entities for the same hours.

Table 3 Hospital Finance Authority Budget Information FY 2015 through FY 2019				
Fiscal Year	Beginning Cash	Revenues	Disbursements	Ending Cash
2015	\$760,219	\$16,500	\$84,808	\$691,911
2016	\$691,911	\$14,158	\$90,491	\$615,578
2017	\$615,578	\$71,745	\$97,897	\$589,426
2018	\$589,426	\$0.00	\$99,838	\$489,588
2019	\$489,588	\$111,117	\$102,413	\$498,291
Average	\$629,344	\$42,704	\$88,956	\$576,959
<i>Source: OASIS (WV-FIN-GL-064).</i>				

The audit team reviewed bond issuances and was able to identify and reconcile all 16 bond issuances to corresponding deposits.

Although the Authority has relied on a financial settlement to fund operations, the Board also collects bond issuance fees but waives the annual fee for existing issuances due to the settlement. As shown in Table 4, the audit team reviewed the bond issuances and associated OASIS entry of deposits from July 1, 2014 through June 30, 2019. There were 16 bond issuances during this time. The audit team was able to identify and reconcile all 16 bond issuances to corresponding deposits.

Table 4 Variance Between PERD Calculated Deposits and Actual Deposits by Bond Issuance FY 2015 through FY 2019				
Obligated Group	Amount of Issuance	OASIS Entry	PERD Calculated Revenue	Variance
CAMC 2014 A	\$45,625,000	\$2,000	\$2,000	\$0
Valley Health 2014	\$19,080,000	\$2,000	\$2,000	\$0
Valley Health 2015	\$5,240,000	\$2,000	\$2,000	\$0
Potomac Valley 2015 A	\$18,500,000	\$5,550	\$5,550	\$0
WVUHS 2015	\$7,500,000	\$4,608	\$4,608	\$0
WVUHS 2016 A	\$260,890,000	\$2,000	\$2,000	\$0
WVUHS 2017 A	\$185,320,000	\$71,745	\$71,745	\$0
WVUHS 2018 A	\$218,550,000	\$45,000	\$45,000	\$0
WVUHS 2018 B	\$210,850,000	\$0.00	\$0.00	\$0
WVUHS 2018 C	\$56,880,000	\$2,000	\$2,000	\$0
WVUHS 2018 D	\$23,680,000	\$2,000	\$2,000	\$0
WVUHS 2018 E	\$57,910,000	\$2,000	\$2,000	\$0
Cabell Huntington 2018 A	\$240,300,000	\$47,000	\$45,000	\$0
Cabell Huntington 2018 B	\$31,275,000		\$2,000	\$0
CAMC 2019 A	\$87,985,000	\$11,117	\$11,117	\$0
CAMC 2019 B	\$16,031,818	\$2,000	\$2,000	\$0
Total	\$1,485,616,818	\$201,020	\$201,020	\$0
<i>Source: PERD Analysis</i>				

As shown in Table 5, the Authority's operating costs consist of personnel expenses, insurance, attorney fees, and other assorted costs. Personnel costs, including salary and fringe benefits, are the largest expense for the Authority, representing approximately 80 percent of the annual expenditures. Both travel and attorney fees are the next largest categories of expenses, representing five percent of annual expenditures each.

Table 5
Expenditures by Category
FY 2015 through FY 2019

Expense	2015	2016	2017	2018	2019	Total	Percent of Total
Salary & Fringe	\$68,012	\$71,909	\$80,967	\$79,915	\$82,486	\$383,290	81%
Telecom	\$551	\$204	\$82	\$0	\$191	\$1,027	0%
Insurance	\$2,396	\$3,024	\$2,508	\$2,732	\$2,756	\$13,416	3%
Computer Services	\$289	\$200	\$245	\$200	\$275	\$1,209	0%
Attorney Fees	\$6,162	\$0	\$2,155	\$7,067	\$10,640	\$26,025	5%
Travel	\$4,399	\$8,213	\$6,407	\$4,504	\$1,380	\$24,903	5%
Membership	\$3,000	\$4,600	\$3,800	\$3,800	\$800	\$16,000	3%
Other	\$0	\$2,341	\$1,733	\$1,620	\$165	\$5,859	1%
Rent	\$0	\$0	\$0	\$0	\$3,720	\$3,720	1%
Total	\$84,808	\$90,491	\$97,897	\$99,838	\$102,413	\$475,448	100%

Source: PERD Analysis of data contained in the OASIS WV-FIN-GL-151 report.

Travel to Conferences at The Greenbrier Resort Likely Violates Ethics Act

The trips to The Greenbrier Resort for the conferences from 2017 to the present may violate the ethics laws, given that the governor has a financial interest in the event as the Hospital Association holds the conference at The Greenbrier Resort, which he owns. The governor also has direct authority over the public contract in which he has a financial interest because the governor appoints the members of the board (and may also remove a board member at any time). Thus, without a contract exemption from the Ethics Commission, the Authority likely violates W. Va. Code §6B-2-5(d)(1), which states “no elected or appointed public official or public employee or member of his or her immediate family or business with which he or she is associated may be a party to or have an interest in the profits or benefits of a contract which the official or employee may have direct Authority to enter into, or over which he or she may have control... .” **Consequently, the Hospital Finance Authority should seek a contract exemption from the Ethics Commission for**

The trips to The Greenbrier Resort for the conferences from 2017 to the present may violate the ethics laws.

continued attendance at the Hospital Association's conferences at The Greenbrier Resort.

In two instances, the Ethics Commission provided contract exemptions to two separate state agencies for events related to The Greenbrier Resort. The Ethics Commission found it necessary to give the exemptions for two reasons: 1) the governor has “*direct authority or control*” over the agencies by virtue of being the chief executive officer for the State and the employees serve at the will and pleasure of the governor and 2) the governor, as owner, has a direct financial interest in the lodging and other expenses paid to The Greenbrier Resort. Thus, without a contract exemption, the agencies would be in violation of W. Va. Code §6B-2-5(d)(1).

Of the two contract exemptions, one is substantially similar to the Authority's situation: Contract Exemption 2017-04 for the West Virginia Development Office to attend an annual business summit at The Greenbrier Resort. In Contract Exemption 2017-04, the Development Office states that they “*routinely attended functions at the Greenbrier Resort as part of its normal business operations.*” Specifically, the Development Office sought “*to attend the annual Business Summit of the West Virginia Chamber of Commerce to be held at The Greenbrier Resort... The Summit is the largest gathering of business, industry, financial, and political leaders from around our state. A portion of the registration fee is used to pay expenses associated with the use of The Greenbrier's facilities. Lodging, however, is not included with the registration fee.*” In issuing the Advisory Opinion, the Ethics Commission found that the Development Office would violate W. Va. Code §6B-2-5(d)(1) of the Ethics Act. The second contract exemption was for the Tourism Office to “*sell advertising space and membership in West Virginia's Cooperative Advertising Program to the Greenbrier.*” As with the Development Office, the Ethics Commission granted an exemption, Contract Exemption 2018-02, to the Tourism Office as otherwise the agency would be in violation of W. Va. Code §6B-2-5(d)(1).

The Hospital Finance Authority should seek a contract exemption from the Ethics Commission for continued attendance at the Hospital Association's conferences at The Greenbrier Resort.

The Hospital Finance Authority Complies With Laws and Rules Governing Meetings

Overall, the Hospital Finance Authority complies with public notice requirements as well as self-imposed public meeting notice requirements. Of the 16 meetings within the scope of the audit, all 16 had public meeting notices on the Secretary of State's website that met all public notice requirements. In addition, W. Va. Code §16-29A-4 specifies that four members constitute a quorum. The audit team reviewed attendance at board meetings from August 2014 to March 2019 and found the board had a quorum present for each meeting except for April 4, 2018.

Overall, the Hospital Finance Authority complies with public notice requirements as well as self-imposed public meeting notice requirements.

Implementing a Succession Plan Should Be Considered

While the long tenure of board members, the secretary-treasurer, and the bond counsel is a benefit, the absence of a succession plan is also a concern for the agency as a whole. The chair has been with the agency since its inception in 1985, one member was with the Board for over 25 years, one member has over 20 years, one member has over 15 years, one member (no longer serving) was with the Authority for 10 years. Moreover, the secretary-treasurer has been with the Authority since 1991. Similarly, the Board has had the same bond counsel since 1992. It is the Legislative Auditor's opinion that longevity does provide a benefit to an agency; however, the Authority should balance it by the onboarding of new individuals so that succession planning can occur. According to the Government Finance Officers' Association, *"Many governments face the challenge of ensuring continuity and consistency of service delivery due to employee turnover. In instances where large numbers of government employees are eligible to retire, there is a concern that not enough qualified or available workers will be prepared to replace them."* Given the complexity of the Authority's operations and the relation to public health, a succession plan should be implemented to avoid any disruption in operations with the possible loss of multiple board members or staff due to retirement or individuals stepping down. A succession plan could involve seeking appointments of new members when their terms expired. However, the Authority does not have plans to request replacements for the members whose terms have expired but who continue to serve (board members serve six-year terms unless replacing an individual and may continue to serve on an expired term unless replaced) nor does the Board anticipate replacing any member with unexpired terms. Although West Virginia Code allows for board members to be reappointed, there is concern that the potential loss of institutional knowledge could be disruptive if multiple members and staff depart. **Consequently, the Legislative Auditor recommends the Hospital Finance Authority implement a succession plan.**

While the long tenure of board members, the secretary-treasurer, and the bond counsel is a benefit, the absence of a succession plan is also a concern for the agency as a whole.

Although West Virginia Code allows for board members to be reappointed, there is concern that the potential loss of institutional knowledge could be disruptive if multiple members and staff depart.

Conclusion

Given the weaknesses in internal control and lack of oversight, the risk of fraud, waste, and abuse at the Hospital Finance Authority is relatively high. PERD finds that elements of waste and abuse have occurred. The Board needs to enhance its oversight of the agency's operations to eliminate abusive and wasteful occurrences and reduce the risk of such elements reoccurring.

In addition to oversight issues, the absence of succession planning should be addressed. The secretary-treasurer, chair, and bond counsel

have been with the agency for approximately 30 years each. In addition, two board members have over 20 years of service, while the newest member has 10 years of service. Without a succession plan, the departure of multiple members and staff could negatively impact the Board's future performance.

Recommendations

1. *The Board establish job descriptions for both the secretary-treasurer and the director and perform evaluations based on the job descriptions.*
2. *The Board should establish appropriate policies, procedures, and control activities for travel, purchasing, and timekeeping as well as document the Board's action with regard to the policies, procedures, and control activities.*
3. *The Board establish an oversight mechanism for its sole employee*
4. *The Board should establish control activities for travel to provide reasonable assurance of compliance with the State Travel Rule.*
5. *The Board should require itemized receipts for travelers to comply with the State Travel Rule.*
6. *The Hospital Finance Authority establish control activities over disbursements to include a reconciliation of expenses to receipts and a monitoring system such as verification by a board member.*
7. *The Hospital Finance Authority seek reimbursement for the overpayment from the State Treasurer's Office.*
8. *The Hospital Finance Authority establish control activities and oversight for timekeeping to ensure correct leave usage.*
9. *The Board reduce the secretary-treasurer's leave balance by the appropriate amount to compensate for the failure to use leave.*
10. *The Hospital Finance Authority comply with the Ethics Act by creating a monitoring process to ensure the secretary-treasurer uses leave appropriately.*

11. *The Hospital Finance Authority should seek a contract exemption from the Ethics Commission for continued attendance at the Hospital Association's conferences held at The Greenbrier Resort.*
12. *The Hospital Finance Authority should implement a succession plan.*

Appendix A Transmittal Letter

WEST VIRGINIA LEGISLATURE *Performance Evaluation and Research Division*

1900 Kanawha Blvd., E.
Building 1, Room W-314
Charleston, WV 25305-0610
(304) 347-4890



John Sylvia
Director

October 13, 2021

Sarah Hamrick, Secretary-Treasurer
Hospital Finance Authority
322 70th Street, SE
Kanawha City, WV 25304

Dear Secretary-Treasurer Hamrick:

This is to transmit a draft copy of the Performance Review of the Hospital Finance Authority. This report is tentatively scheduled to be presented during the November 14 through 16 2021 interim meetings of the Joint Committee on Government Operations, and the Joint Committee on Government Organization. We will inform you of the exact time and location once the information becomes available. It is expected that a representative from your agency be present at the meeting to orally respond to the report and answer any questions committee members may have during or after the meeting.

We need to schedule an exit conference to discuss any concerns you may have with the report. We would like to have the meeting prior to October 22, 2021. Please notify us to schedule an exact time. In addition, we need your written response by noon on Friday, October 29, 2021 in order for it to be included in the final report. If your agency intends to distribute additional material to committee members at the meeting, please contact the House Government Organization staff at 304-340-3192 by Thursday, November 10, 2021 to make arrangements.

We request that your personnel not disclose the report to anyone unaffiliated with your agency. However, the Legislative Auditor advises that you inform any non-state government entity of the content of this report if that entity is unfavorably described, and request that it not disclose the content of the report to anyone unaffiliated with its organization. Thank you for your cooperation.

Sincerely,


John Sylvia

Enclosure

Joint Committee on Government and Finance

Appendix B

Objectives, Scope and Methodology

The Performance Evaluation and Research Division (PERD) within the Office of the Legislative Auditor conducted this performance review of the Hospital Finance Authority as authorized by, Chapter 4, Article 2, Section 5 of the *West Virginia Code*, as amended. The purpose of the Hospital Finance Authority, as established in West Virginia Code §16-29A-5, is to provide hospitals with appropriate means to maintain, expand, enlarge and establish health care, hospital and other related facilities and to provide hospitals with the ability to finance or refinance indebtedness pursuant to a hospital loan program.

Objective

The objective of this review is to determine does the Hospital Finance Authority have internal controls to ensure compliance with state rules and West Virginia Code.

Scope

The scope of this review consisted of the Hospital Finance Authority's internal controls over purchasing, travel, revenue, and timekeeping for Fiscal Year 2014 through Fiscal Year 2019. The internal controls include the policies and procedures used by the agency to ensure compliance with statewide policies, laws, and rules.

Methodology

PERD gathered and analyzed several sources of information and conducted audit procedures to assess the sufficiency and appropriateness of the information used as audit evidence. The information gathered and audit procedures are described below.

Testimonial evidence was gathered for this review through interviews with the State Treasurer's Office staff and the Hospital Finance Authority's staff. The testimonial evidence was confirmed by written statements and in some cases by corroborating evidence. Testimonial evidence was gathered in order to gain a better understanding of operating practices, and oversight of those practices, due to the absence of written policies and procedures.

PERD used expenditure data from the State's "Our Advanced Solution Integrated Systems" (OASIS) for the analysis of travel expenditures, revenue, and leave use. PERD reviewed documentation attached to travel reimbursement requests and determined the information was reasonably sufficient and appropriate to meet the objective of this audit, and instances of errors are addressed within the report. PERD also calculated the amounts that should have been deposited based on the agency's fee schedule as it relates to the type of the bond issuances and compared the calculations to revenue entries within OASIS. PERD determined the information in OASIS to be sufficient and appropriate.

Lastly, PERD reviewed Kronos information (the official timekeeping record for this Agency) and compared the record to known out-of-office instances for the Authority's staff. PERD determined that the Kronos information was sufficient and reliable, and instances of errors are addressed within the report.

The Office of the Legislative Auditor reviews the statewide single audit and the Division of Highways financial audit annually with regards to any issues related to the State's financial system known as the West Virginia Our Advanced Solution with Integrated Systems (OASIS). The Legislative Auditor's staff on a quarterly basis requests and reviews any external or internal audit of OASIS. In addition, through its numerous audits, the Office of the Legislative Auditor continuously tests the financial information contained in OASIS. Based on these actions, along with the audit tests conducted on the audited agency, it is our professional judgement that the information in OASIS is reasonably accurate for auditing purposes under the 2018 Government Auditing Standards (Yellowbook). However, in no manner should this statement be construed as a statement that 100 percent of the information in OASIS is accurate.

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.

Appendix C

Agency Response



Jim Justice
Governor

**WEST VIRGINIA
HOSPITAL FINANCE AUTHORITY**
322 70th Street SE
Charleston, WV 25304

James R. Christie, Chairman
Board Members
David Williams, Vice Chairman
Bill J. Crouch, Secretary, WV DHHR
John D. Perdue, Treasurer of State
J. Gordon Roop
Geraldine Roberts
Sarah B. Hamrick, Secretary/Treasurer

October 22, 2021

Dear Mr. Browning:

After discussing the audit with the Chairman of the board Mr. James R. Christie we can assure you that your findings will be taken into consideration.

I would like to reiterate that the 29.5 hours in question were not taken intentionally but were simply overlooked. I typically ask for my leave to be entered by Mr. Bryan Archer in advance. I was not aware that I had failed to request additional hours of leave. I have no problem with the hours being deducted from my leave balance.

The sick leave in question for conference days were taken due to a supervisor telling me that it was allowed several years ago.

The state Board of Barbers meetings held on a weekday were typically over by 12:00 noon. I always came to the office after our meetings were over and never ask for time to be added back to my balance.

The Governor is responsible for making the appointments to the Board. I have made numerous attempts to get members reappointed or replaced with no response.

Followed the STO travel regulations. The STO staff audited and sent the reimbursement form in for payment.

The Board will get itemized receipts for travel related costs. Establish oversight for the sole employee. Implement policies and procedures for the authority. The job description will be revised by the Board.

Sincerely,

A handwritten signature in black ink, appearing to read 'Sarah Hamrick', is written over a horizontal line. The signature is fluid and cursive, with a long, sweeping underline that extends to the right.

Sarah Hamrick, Acting Director

West Virginia Hospital Finance Authority

322 70th Street S.E.

Charleston, WV 25304



WEST VIRGINIA LEGISLATIVE AUDITOR

PERFORMANCE EVALUATION & RESEARCH DIVISION

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