

# **→DURBIN&CO.**

Certified Public Accountants

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## **RANKIN COUNTY HOSPITAL DISTRICT**

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March 20, 2018

Board of Directors  
Rankin County Hospital District  
Rankin, Texas

We have audited the financial statements of Rankin County Hospital District for the year ended September 30, 2017. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated October 17, 2017. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

*Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in Note 1 to the combined financial statements. As described in Note 1 to the combined financial statements, the Medical Center implemented the provisions of GASB Statement No. 77, *Tax Abatement Disclosures* and GASB Statement No. 82, *Pension Issues – an Amendment of GASB Statements No. 67, No. 68, and No. 73* in 2017. The implementation of these Statements did not affect the combined change in net position in 2017 or 2016. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were management's estimates of the allowances for uncollectible patient accounts receivable and third-party payor settlements.

Rankin County Hospital District  
Governance Letter

Management's estimate of the allowance for uncollectible patient accounts is based on a balance sheet approach in which management evaluates the collectability of patient accounts receivable, including the nature of the accounts, credit concentrations, historical write-off experience, specific impaired accounts, and economic conditions. Management also takes an income statement approach to monitor the net patient service revenue as a percent of gross revenue on a monthly basis to identify unexpected fluctuations from historical trends. We evaluated the key factors and assumptions used to develop the District's allowance for uncollectible patient accounts and determined them to be reasonable in relation to the financial statements taken as a whole.

The estimate for third-party payor settlements is based on management's evaluation of the current status of all previously filed, but not yet final settled, cost reports and an estimate of the current year initial filed cost report.

We evaluated the key factors and assumptions used to develop the estimates for uncollectible patient accounts and third-party payor settlements in determining that they are reasonable to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

*Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

*Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. The following material misstatements detected as a result of audit procedures were corrected by management:

- Entries to adjust accounts payable – decrease net position \$420,005
- Entry to adjust net accounts receivable – decrease net position \$250,000
- Entry to adjust long-term debt and related accrued interest – decrease net position \$357,432
- Entry to adjust third party payor settlements – increase net position \$409,221
- Entry to adjust UC payable – decrease net position \$280,000

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*Disagreements with Management.*

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

*Management Representations*

We have requested certain representations from management that are included in the management representation letter dated March 20, 2018.

*Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

*Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to the management's discussion and analysis, which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

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We were engaged to report on other financial information, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Restriction on Use

This information is intended solely for the use of the Board of Directors and management of Rankin County Hospital District and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

*Durbin & Company, L.L.P.*

Durbin & Company, L.L.P  
Lubbock, Texas

**Rankin County Hospital District**  
**Summary Schedule of Uncorrected Audit Differences**  
**September 30, 2017**

		<u>Over (Under)</u> <u>Statement</u>
Statement of Revenues, Expenses, and Changes in Net Position Misstatements:		
General Ledger in Excess of Audited Cash Support		\$ 18,910
		<hr/>
Cumulative Effect of Unadjusted Audit Differences		<u>\$ 18,910</u>
		<hr/>
Statement of Net Position Misstatements:	<u>General Ledger</u> <u>Number</u>	<u>Over (Under)</u> <u>Statement</u>
Current Assets:		
Cash	11005.100	<u>\$ 18,910</u>
Total Current Assets		<u>18,910</u>
Total Assets:		<u>\$ 18,910</u>
Total Liabilities:		
		<hr/>
Total Liabilities		<u>\$ -</u>
Net Assets:		
Beginning		<u>\$ -</u>
Ending		<u>\$ 18,910</u>

March 20, 2018

Management and the Board of Directors  
Rankin County Hospital District  
Rankin, Texas

In planning and performing our audit of the financial statements of Rankin County Hospital District, (the “District”), as of and for the year ended September 30, 2017, in accordance with auditing standards generally accepted in the United States of America, we considered the District’s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District’s internal control. Accordingly, we do not express an opinion on the effectiveness of the District’s internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District’s financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the following deficiencies in the District’s internal control to be material weaknesses:

*Account Reconciliations*

Although management has a process in place to maintain financial statements in accordance with GAAP, certain general ledger accounts required significant audit adjustments for the year-end financial statement presentation. Areas in which significant adjustments were proposed and recorded by management include:

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- Allowance for Contractual Adjustments and Uncollectible Accounts
- Third-Party Settlements
- Property Taxes Receivable
- Capital Assets, Net
- Pension Assets and Liabilities
- Long-Term Debt, Bonds Payable and Related Interest
- Accounts Payable and Accrued Liabilities
- 1115 Waiver Program Revenues

We recommend management review and refine the process to adjust all general ledger accounts on a monthly basis to reflect financial activity in accordance with GAAP.

*Accounts Receivable and Estimates for Allowances for Uncollectible Accounts*

**Accounts Receivable** – During our audit, we noted that the District uses two separate software applications to perform various functions related to patient accounts receivable processing and accounting. The District’s patient accounts receivable and billing activity are maintained on a computer application separate from the District’s main accounting software system. The District personnel must manually enter and code patient charges recorded through the clinical module of the main computer system into the outside computer application in order for patient accounts receivable to be billed. This duplication of effort is not only inefficient, but it also has a high risk of error. To reduce this risk, the District should reconcile the separate, external accounting application accounts receivable and billing activity to the District’s main accounting software system.

**Estimates for Allowances for Uncollectible Accounts** – Management has a process in place to estimate allowances for contractual adjustments and bad debts to patient accounts receivable; however, the process does not allow management to factor patient credit balances or identify whether the patient accounts receivable general ledger balances are properly reconciled. As a result, net patient accounts receivable and net patient service revenue were not properly stated during the year. Management should review and update the current processes in place to ensure patient accounts receivable are reconcile at month and year-end and patient credit balances are properly identified and considered in the estimated calculation.



Accounting Estimates – Third Party Settlements

The System's estimate for third-party payor settlements should reflect management's best estimate for the current year settlement as well as pending settlements on prior years that have not been final settled. We understand that management takes a conservative approach to this estimate and may prefer to wait until the cost report is prepared, five months after year-end, to recognize the estimate due to the complexity involved in determining the amount. However, the lack of a process to recognize this activity will most likely result in a material adjustment during the audit engagement. Thus, auditing standards require that we disclose this risk to the board and management.

Segregation of Accounting Duties

Due to the limited size of the office staff, the District has a lack of segregation of accounting duties. A good system of internal control includes segregation of duties so that no one individual handles a transaction from inception to completion. Management should evaluate the cost versus benefit of additional staff to allow for proper segregation of duties. Specific items are identified below:

**Accounting** – During the audit process, it was noted that the individual responsible for recording entries into the financial system also has online banking capabilities and reconciles the bank statements. To the extent possible, duties should be segregated to serve as a check and balance on the employee's integrity and to maintain the best control system possible. We suggest that a control structure be implemented whereby these inherent functions are segregated and performed by different individuals. At a minimum, we recommend that the bank reconciliations be performed by a separate individual.

**Accounts Receivable** – During the audit, we noted that the business office manager maintains the charge master file, posts electronic patient related payments and contractual adjustments, posts manual entries to the general ledger related to allowances, posts bad debt and charity write-offs and reconciles daily cash receipts and contractals to remittance advices. We suggest that a control structure be implemented whereby these inherent functions are segregated and performed by different individuals.

**Accounts Payable** – During the audit process, it was noted one individual enters invoices into the accounting software, prepares checks, maintains custody of unused checks, and mails signed checks to the vendor. To the extent possible, duties should be segregated to serve as a check and balance and to maintain the best control system possible. We suggest that

Rankin County Hospital District  
Management Letter

the segregation of duties be reviewed and adjusted where possible to strengthen the system of internal control.

**Payroll** – During the audit, it was noted that one individual maintains the employee master file, processes payroll and authorizes direct deposits. To the extent possible, duties should be segregated to serve as a check and balance to maintain the best control system possible. We suggest that someone other than the person processing payroll maintain the employee master file.

A significant deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiency in internal control to be a significant deficiency:

*Completeness of Accounts Payable*

Our audit procedures disclosed that the District enters invoices into the accounts payable ledger on the date that the invoice is paid. To ensure completeness of financial data, we recommended that all invoices be recorded when received. Once invoices are entered, payment should not be made until approved by the appropriate personnel. Financial reporting will be improved as accounts payable and the related expenses will be reported on the accrual basis of accounting.

This communication is intended solely for the information and use of management, board of directors, and others within the District, and is not intended to be, and should not be, used by anyone other than these specified parties.

*Durbin & Company, L.L.P.*

Durbin & Company, L. L. P.  
Lubbock, Texas  
March 20, 2018

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March 20, 2018

Management and the Board of Directors  
Rankin County Hospital District  
Rankin, Texas

This letter is an informative letter which will offer other comments and suggestions that were not included in our management letter or governance letter. This letter focuses on operational information to gain more insight about the financial statements and comparisons with your peers.

These discussion points are a result of our audit of the financial statements of Rankin County Hospital District as of September 30, 2017. Any specific areas considered as a basis for further action may need to be balanced with other goals of the District. Therefore, these comments should be adapted to the mission of the District as defined by the Board of Directors and management.

If you have any questions regarding these or any other matters, please feel free to contact us.

Sincerely,



Durbin & Company, L. L. P.  
Lubbock, Texas

**INFORMATIVE**

**ACCOUNTS RECEIVABLE – HOSPITAL ONLY**

**Days in Accounts Receivable** - Gross days were 75.2 in 2017 and 118.0 in 2016. Net days were 33.9 in 2017 and 60.1 in 2016. Ideal days in accounts receivable should be approximately 60 to 80 days for both gross and net.

Days cash on hand were 170.5 and 227.0 at September 30, 2017 and 2016, respectively.

**CHARITY CARE REPORTING**

The District should continue efforts to properly identify accounts receivable write-offs between bad debt and charity. Total charity, indigent and bad debt expense amounted to \$1,017,793 and \$607,740 in 2017 and 2016, respectively. Charity write-offs amount to 6.8% and 6.9% of the total charity, indigent and bad debt expense in 2017 and 2016, respectively.

Charity care write-offs should reflect patients that do not have the ability to pay either because they are financially indigent or they are medically indigent. This determination should be based on District’s policy, and documented in the patient file.

**ESTIMATED THIRD-PARTY PAYOR SETTLEMENTS**

As of September 30, 2017, the District has the following open cost report estimated balances:

	2017
Medicare Cost Report Receivable/ (Payable)	<u>\$ 985,736</u>

We recommend that tentative and final settlements received or paid during fiscal 2018 be applied against these estimated balances first, then the remainder should be released to income.

**UNCOMPENSATED CARE & MEDICAID DSH PAYMENTS**

*Demonstration Year 5 (DY5)* – In April 2016, the hospitals completed the UCC Tool for 2016, in conjunction with the state DSH application for SFY 2016. THHSC issued the DY5 advanced payment in April 2016. The hospital should ensure proper retention of records supporting the uncompensated care charge amounts for FY 2014 and 2015 to maximize the UCC funding opportunities.

*Demonstration Year 6 (DY6)* – In February 2017, the hospitals completed the UCC Tool for 2017, in conjunction with the state DSH application for SFY 2017. THHSC should issue information on the dates of the DY6 advanced payment later in 2017. The hospital should ensure proper retention of records supporting the uncompensated care charge amounts for FY 2015 and 2016 to maximize the UCC funding opportunities.

On December 21, 2017, the Centers for Medicare and Medicaid Services (“CMS”) approved a five year renewal of the Texas 1115 Transformation Waiver from October 1, 2017 to September 30, 2022, Demonstration Years (DY) 7-11. The renewal continues Medicaid managed care statewide along with the Uncompensated Care pool and the Delivery System Reform Incentive Payment (DSRIP) program pool. The DSRIP funding pool has been extended four years, through September 30, 2021.

## **INFORMATIVE**

Texas's UC pool funding disbursement methodology will be revised as part of the 1115 Waiver extension, in alignment with nationally applied federal policies. Over the course of calendar year 2018, Texas will lay the groundwork to direct UC pool funding towards charity care. The state will not receive federal financial participation for any UC pool payments for DY 9 (October 1, 2019 through September 30, 2020) or later until a UC Protocol Addendum has been submitted to and approved by CMS. The UC Protocol Addendum must include precise definitions of eligible uncompensated provider charity care costs (consistent with the Medicare cost reporting principles) and revenues that must be included in the calculation of uncompensated charity care cost for purpose of reconciling UC payments to unreimbursed charity care cost. Once approved, Texas will begin distributing UC pool funds following this framework effective October 1, 2019.

For each of the first two years of the extension, Texas will receive approximately \$3.1 billion for the UC pool; for subsequent years CMS resize Texas' UC pool for the remaining years of this demonstration extension, beginning October 1, 2019, to reflect final UC amount based on the most recent available S-10 data reflecting provider charity care for 2017. CMS expects Texas will work with its providers seeking to participate in the UC pool so that they accurately report the extent of their charity care in alignment with Medicare cost reporting principles, and have reported S-10 data documenting charity care provided in federal fiscal year 2017 by no later than September 2019.

### **RETROACTIVE ADJUSTMENT AND RECOUPMENT**

Once 2017 S-10 data is used to determine the DY 9-11 UC pool amounts, CMS will assess whether total UC pool payments made during DY 9 through DY 11 exceed the final DY 9 through DY 11 pool sizes, and CMS will reclaim overpayments for these years. If the UC pool payments have not been sufficient to cover the final DY 9 through DY 11 UC pool sizes based on 2017 S-10 data, CMS will make additional payments consistent with the final pool sizes.

### **REIMBURSEMENT – INFORMATIVE**

*CRITICAL ACCESS HOSPITAL:* Your hospital's acute care Average Daily Census (ADC) was 0.27 and acute Average Length of Stay (ALOS) was 3.03, which are both under the mandated level of 25.0 and 4.0 for CAH's. These statistics are monitored by management monthly to ensure critical access levels are maintained.

*AS FILED MEDICARE / MEDICAID PROJECTED COST REPORT SETTLEMENT:* The Hospital's Medicare / Medicaid Settlement on the filed cost report showed a total Receivable of \$985,736. Critical Access Hospitals are paid on the respective Medicare or Medicaid share of hospital cost and therefore the resulting over or under payment to a Critical Access Hospital is based on variables in overall cost, charges, census statistical data, and the respective program utilization, as compared to the amount the hospital was paid throughout the reporting period.

**INFORMATIVE**

**HOSPITAL OPERATIONAL SUMMARY – INFORMATIVE**

Below are some key operating indicators that compare the District with national Rural Hospitals.

	RCHD		Rural	Texas
	<u>2017</u>	<u>2016</u>	<u>Hospitals</u>	<u>Hospitals</u>
Total Margin	16.7%	12.7%	1.7%	5.5%
Current Ratio	1.9	1.5	2.1	2.1
Days in Net AR	33.9	60.1	56.1	57.3
Average Payment Period	127.8	198.4	49.9	0.4
Days Cash on Hand, Short-Term Sources	170.5	216.3	17.7	11.6
Days Cash on Hand, All Sources	170.5	227.0	44.8	15.2
FTE's per Adjusted Occupied Bed	8.8	13.5	3.8	3