

Leslie W. Merritt, Jr., CPA, CFP
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

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July 16, 2007

Ms. Michelle D. Cooke
Clinical Administrator
Wayne Memorial Hospital
P. O. Box 8001
Goldsboro, NC 27533-8001

RE: State Grants from the Department of Health and Human Services—
State Fiscal Year 2005, \$80,624.00,
State Fiscal Year 2006, \$160,080.80.

Dear Ms. Cook:

We have completed an examination using certain limited procedures, as described below, related to management of state grant funds by Wayne Memorial Hospital. Our objective was to identify whether or not deficiencies in internal control; instances of noncompliance with laws, regulations, and/or deficiencies in the management of financial resources existed based solely on the performance of these procedures.

These procedures do not constitute an audit, examination, or a review as described in professional standards governing those types of services. Furthermore, our procedures were not agreed upon by you or any third party. Our procedures do not provide a basis for providing any level of assurance regarding internal control, compliance or financial management and should not be relied upon for that purpose. Specifically, our procedures included the following:

- Interviewing personnel;
- Examining accounting and other grant records for the purpose of identifying state grant transactions;
- Reviewing available policies and procedures; and
- Reviewing available board minutes.

The results of the examination conducted on June 13, 2007 disclosed internal control deficiencies, instances of noncompliance and/or other matters of concern that are described in the attached findings and recommendations.

This letter, including your written response to the draft findings, will be published on our Electronic Publication System (EPS) at www.ncauditor.net. You and others who are interested in the publication should register with EPS on the web site. Registered parties will receive an email notification and a link to the publication as soon as it is available.

This letter is intended solely for the information and use of the management of the Wayne Memorial Hospital, the Governor, the General Assembly, and grantor agencies and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,



Leslie W. Merritt, Jr., CPA, CFP
State Auditor

LWMjr/jef

Attachment

CC: Secretary Carmen Hooker Odom
Department of Health and Human Services
Ms. Laketha Miller, Controller
Department of Health and Human Services
Dr. Leah Devlin, Director
Division of Public Health, DHHS
Mr. Bob Fitzgerald, Director
Division of Facility Services
Ms. Jana Blackman, Director of Health Promotion
Wayne Memorial Hospital

Wayne Memorial Hospital

FINDINGS AND RECOMMENDATIONS

Overview: Wayne Memorial Hospital (the Hospital) is a 316 bed licensed facility that services Goldsboro and the surrounding areas in Wayne County. The Hospital has grants with the Department of Health and Human Services: a grant through the Division of Facility Services was for bioterrorism planning for emergency services; and a grant through the Division of Public Health provided funds for the School Nurse Initiative, which provides school nurses for health services. The Hospital was not monitored during the past grant period by either grantor.

While the grant documentation provided during our examination for the grant from the Division of Public Health, School Nurse Initiative, appeared complete with supporting documentation, there were two minor findings noted below related to the Hospital financial transaction policies and procedures and the Facility Services Grant on Bioterrorism.

1. WAYNE MEMORIAL HOSPITAL DID NOT HAVE WRITTEN INTERNAL CONTROLS OVER GRANT FUNDS.

The Hospital had an internal audit conducted to review internal controls and compliance to hospital requirements in general. The report stated internal controls were in place but needed to be formally documented by putting them in writing. The internal audit results were provided to the Board of Directors in September 2006. Minutes from that meeting stated that the controls would be reviewed and put in a written document. However, the internal control policy and procedures manual still was not established in writing at the time of the examination. The Hospital has not made this a priority.

Recommendation

The Hospital should immediately put in writing all policies and procedures, incorporating the recommendation from the internal audit relative to financial internal controls. Once the policies and procedures are developed, they should be presented to the Board of Directors for review and approval. This should be a priority since it is a requirement for receiving any state or federal funds.

Wayne Memorial Hospital
FINDINGS AND RECOMMENDATIONS (continued)

2. WAYNE MEMORIAL HOSPITAL WAS NOT IN FULL COMPLIANCE WITH GRANT REQUIREMENTS FOR THE EMERGENCY SYSTEMS BIOTERRORISM GRANT.

The Bioterrorism grant had a requirement to expand the emergency room services by five examination beds, going from 22 beds to 27. The Hospital purchased the beds in August 2006 and requested and received reimbursement from the grantor for \$6,015 in September 2006. However, the Hospital's plans for expansion of the emergency room changed, and the beds were placed in storage. At the time of the review, the beds still had not been placed in service. The grant ended in September 2006 and was not renewed. Thus, the Hospital did not comply with the terms of the grant.

Recommendation

Division of Facility Service and Hospital personnel should resolve this in an appropriate manner consistent with the terms of the grant that may include the Hospital refunding the purchase amount (\$6,015) to the Division.

Grantee's Response



July 9, 2007

Mr. Leslie W. Merritt, Jr., CPA, CFP
State Auditor
2 South Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601

Dear Mr. Merritt:

This letter is in response to your letter of June 25, 2007, which described procedures and findings related to limited procedures performed on state grant funds by Wayne Memorial Hospital on June 13, 2007.

There were two findings, and each of them is addressed below, in order.

1. Wayne Memorial Hospital did not have written internal controls over grant funds.

The report noted that a formal study of internal controls at WMH was performed in 2006, and a report was provided to the hospital's board of directors at its September 2006 meeting. No material issues were noted by the external accounting firm that conducted the review, and no issues of significance were noted in the report to the board following the year end audit (September 30, 2006) by the Hospital's external auditors. The recommendations from the September report are in the process of finalization and the final policies and procedures will be approved by the board at its September 2007 board meeting. Contributing to the delay in approval was turnover in the Director of Finance position, which was vacant from February 2007 to July 2007. That position has been filled with a highly qualified individual and work has resumed on completion of the internal controls manual. Within 60 days, written internal controls (including those covering compliance with grant requirements) will be approved by the Hospital's board.

2. Wayne Memorial Hospital was not in full compliance with grant requirements for the Emergency Systems Bioterrorism (ESB) grant.

When the ESB grant was originally contemplated, there was a plan to expand the emergency department into the current outpatient lab area, creating an additional space to expand from 22 to 27 beds. The overflow beds were purchased for \$6,015 as noted in your letter, and placed into storage until the construction occurred.

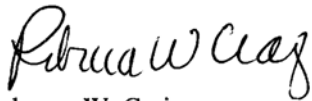
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Grantee's Response

Subsequently, it was determined by our strategic building operations planning committee that a better option was to build a new emergency department on the east side of the existing surgery area on the same floor, and allow imaging to expand into the current Emergency Department area. These beds in storage were inadvertently forgotten, and the hospital is repaying the grant money (\$6,015), as suggested by the auditors. The Hospital is exploring alternative uses for the purchased beds as part of our emergency preparedness plan, so that the beds can be utilized in a productive way. Review of all grant expenditures with appropriate personnel on a quarterly basis to ensure use as intended is a part of the written policies discussed in the answer to question 1 above.

If you have any questions about our responses, please call me at 919-731-6142. We appreciate the monies that have been allocated to us to enable us to be more ready in the case of a bioterrorism situation.

Very truly yours,



Rebecca W. Craig
Vice President of Finance

Copy: Ms. Jean Fecteau, NC Auditor's office
Ms. Janet Hayes, NC Auditor's office
Mr. J. William Paugh, CEO, Wayne Memorial Hospital
Ms. Van Raiford, Accountant, Wayne Memorial Hospital
Mr. Kent Thompson, Director of Finance, Wayne Memorial Hospital