

AN AUDIT

*Wisconsin Mental  
Health Institutes*

*Department of Health and Family Services*

*00-9*

*August 2000*

**1999-2000 Joint Legislative Audit Committee Members**

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Audit Prepared by

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**State of Wisconsin** \ LEGISLATIVE AUDIT BUREAU

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August 25, 2000

Senator Gary R. George and  
Representative Carol Kelso, Co-chairpersons  
Joint Legislative Audit Committee  
State Capitol  
Madison, Wisconsin 53702

Dear Senator George and Representative Kelso:

We recently completed a financial audit of the Mendota and Winnebago Mental Health Institutes for the period July 1, 1998 through June 30, 1999. The audit was requested by the Department of Health and Family Services to comply with requirements of the Joint Commission on Accreditation of Hospitals. We were able to express an unqualified opinion on each Institute's financial statements. These statements show that, on an accrual basis, Mendota Mental Health Institute had net income of \$787,000 and Winnebago Mental Health Institute had net income of \$2.6 million.

For several years, the Department did not maintain an adequate system to accumulate accurate and reliable information on patient revenues and outstanding patient accounts receivables and to summarize that information for financial reporting purposes. In January 1999, the Department began implementing a new billing and receivable system; however, the new system is not yet able to produce receivable balances that we can rely upon for financial statement purposes. Most significantly, the process to determine and establish beginning receivable balances in the new system has not been completed. In addition, patient billings for April through June 1999 were delayed six months. As a result, there is increased risk that net patient revenues and net patient accounts receivable are misstated in the financial statements.

We anticipate that as the Department completes its analysis of receivable balances and continues to work with the software vendor to address system issues, the information on the new system will be more reliable and will allow for more accurate reporting of the Institutes' patient receivable balances in the future. However, we recommend in a management letter to the Department that it take additional steps to increase accounting staff's familiarity with information available from the new system and how that information can be used in the financial reporting process.

We appreciate the courtesy and cooperation extended to us by Department of Health and Family Services staff during our audit.

Respectfully submitted,

Janice Mueller  
State Auditor

JM/DA/ao



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# INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS OF MENDOTA MENTAL HEALTH INSTITUTE

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We have audited the accompanying balance sheet of the State of Wisconsin Mendota Mental Health Institute as of June 30, 1999, and the related statement of revenues, expenses, and changes in retained earnings and statement of cash flows for the year then ended. These financial statements are the responsibility of the management of Mendota Mental Health Institute and the Wisconsin Department of Health and Family Services. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Mendota Mental Health Institute and are not intended to present fairly the financial position of the State of Wisconsin and the results of its operations and the cash flows of its proprietary fund types and nonexpendable trust funds in conformity with generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Mendota Mental Health Institute as of June 30, 1999, and the results of its operations and cash flows for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated July 28, 2000, on our consideration of the Department of Health and Family Services' internal control over financial reporting for Mendota Mental Health Institute and on our tests of compliance with certain provisions of laws, regulations, contracts, and grants.

LEGISLATIVE AUDIT BUREAU

July 28, 2000

by

Diann Allsen  
Audit Director



**Mendota Mental Health Institute**  
**Balance Sheet**  
June 30, 1999

	Unrestricted Fund	Restricted Fund	Inmate/Patient Fund	Canteen Fund	Totals (Memorandum Only)
<b>Assets</b>					
Current Assets:					
Cash and cash equivalents (Note 5)	\$ 4,212	\$ 0	\$ 24,712	\$ 36,557	\$ 65,481
Net accounts receivable (Note 10)	10,064,138	43	879	978	10,066,038
Due from State of Wisconsin	1,262,731	22,614	0	0	1,285,345
Supplies inventory	172,125	0	0	6,049	178,174
Prepaid items	329,282	302	0	0	329,584
<b>Total Current Assets</b>	<b>11,832,488</b>	<b>22,959</b>	<b>25,591</b>	<b>43,584</b>	<b>11,924,622</b>
Property and Equipment:					
Land	333,874	0	0	0	333,874
Land improvements	1,442,184	0	0	0	1,442,184
Buildings	17,630,184	0	0	0	17,630,184
Equipment	1,845,267	0	0	0	1,845,267
Accumulated depreciation (Note 6)	(11,123,786)	0	0	0	(11,123,786)
Construction in progress	4,111,796	0	0	0	4,111,796
<b>Total Property and Equipment</b>	<b>14,239,519</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>14,239,519</b>
<b>Total Assets</b>	<b>\$26,072,007</b>	<b>\$22,959</b>	<b>\$25,591</b>	<b>\$43,584</b>	<b>\$26,164,141</b>
<b>Liabilities and Fund Equity</b>					
Current Liabilities:					
Accounts payable	\$ 461,421	\$ 6,074	\$ 0	\$ 2,049	\$ 469,544
Due to federal government	55,627	124	0	0	55,751
Due to State of Wisconsin (Notes 7, 10)	12,441,747	9,520	0	701	12,451,968
Accrued expenses	2,043,303	1,650	0	0	2,044,953
Capital leases--current maturities (Note 11)	41,074	0	0	0	41,074
Patient funds held in trust	0	0	25,591	0	25,591
Deferred revenue	0	0	0	24,349	24,349
<b>Total Current Liabilities</b>	<b>15,043,172</b>	<b>17,368</b>	<b>25,591</b>	<b>27,099</b>	<b>15,113,230</b>
Long-term Liabilities:					
Obligations under capital leases (Note 11)	175,435	0	0	0	175,435
Fund Equity:					
Contributed capital	25,109,784	0	0	0	25,109,784
Retained earnings--unreserved	(14,256,384)	5,591	0	16,485	(14,234,308)
<b>Total Fund Equity</b>	<b>10,853,400</b>	<b>5,591</b>	<b>0</b>	<b>16,485</b>	<b>10,875,476</b>
<b>Total Liabilities and Fund Equity</b>	<b>\$26,072,007</b>	<b>\$22,959</b>	<b>\$25,591</b>	<b>\$43,584</b>	<b>\$26,164,141</b>

The accompanying notes are an integral part of this statement.

**Mendota Mental Health Institute**  
**Statement of Revenues, Expenses, and Changes in Retained Earnings**  
for the Year Ended June 30, 1999

	Unrestricted Fund	Restricted Fund	Canteen Fund	Totals (Memorandum Only)
<b>Operating Revenues</b>				
Net Revenue from Patient Care (Note 1F)	\$ 16,418,720	\$ 0	\$ 0	\$ 16,418,720
Revenue from State of Wisconsin	23,751,381	0	0	23,751,381
Miscellaneous Revenue	1,558,802	(10,895)	94,695	1,642,602
Total Operating Revenues	<u>41,728,903</u>	<u>(10,895)</u>	<u>94,695</u>	<u>41,812,703</u>
<b>Operating Expenses</b>				
Salaries	24,771,711	17,710	9,198	24,798,619
Fringe Benefits	8,770,980	3,608	0	8,774,588
Materials and Supplies	5,989,438	33,151	77,563	6,100,152
Depreciation	627,648	0	0	627,648
Total Operating Expenses	<u>40,159,777</u>	<u>54,469</u>	<u>86,761</u>	<u>40,301,007</u>
Operating Income (Loss)	<u>1,569,126</u>	<u>(65,364)</u>	<u>7,934</u>	<u>1,511,696</u>
<b>Nonoperating Revenues</b>				
Revenue from State of Wisconsin	699,926	43,620	0	743,546
Gain (Loss) on Sale of Fixed Assets	(100,705)	0	0	(100,705)
Canteen Commissions	0	0	12,650	12,650
Other Nonoperating Revenues	0	0	52	52
Total Nonoperating Revenues	<u>599,221</u>	<u>43,620</u>	<u>12,702</u>	<u>655,543</u>
<b>Nonoperating Expenses</b>				
Materials and Supplies	699,926	0	7,583	707,509
Interest Expense	16,731	0	0	16,731
Total Nonoperating Expenses	<u>716,657</u>	<u>0</u>	<u>7,583</u>	<u>724,240</u>
Income (Loss) before Operating Transfers	1,451,690	(21,744)	13,053	1,442,999
Operating Transfers Out (Notes 2, 8, 9)	<u>656,107</u>	<u>0</u>	<u>0</u>	<u>656,107</u>
Net Income (Loss)	795,583	(21,744)	13,053	786,892
<b>Retained Earnings</b>				
Retained Earnings--Unreserved July 1, 1998	(15,197,194)	27,335	3,432	(15,166,427)
Prior-period Adjustments (Note 14)	145,227	0	0	145,227
Retained Earnings--Unreserved June 30, 1999	<u>\$ (14,256,384)</u>	<u>\$ 5,591</u>	<u>\$ 16,485</u>	<u>\$ (14,234,308)</u>

The accompanying notes are an integral part of this statement.

**Mendota Mental Health Institute**  
**Statement of Cash Flows**  
for the Year Ended June 30, 1999

	<u>Year Ended</u> <u>June 30, 1999</u>
Cash Flows from Operating Activities:	
Cash receipts from customers	\$ 36,082,679
Cash payments to suppliers for goods and services	(6,162,131)
Cash payments to employees for services	(33,490,006)
Other sources (uses) of cash	49,535
Net Cash Provided (Used) by Operating Activities	<u>(3,519,923)</u>
Cash Flows from Noncapital Financing Activities:	
Operating transfers out	(98,086)
Loan from State of Wisconsin	3,691,765
Net Cash Provided (Used) by Noncapital Financing Activities	<u>3,593,679</u>
Cash Flows from Capital and Related Financing Activities:	
Payments to vendors	(139,753)
Other cash flows from capital financing activities	74,041
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(65,712)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	8,044
Cash and Cash Equivalents, Beginning of Year	<u>57,437</u>
Cash and Cash Equivalents, End of Year	<u>\$ 65,481</u>

The accompanying notes are an integral part of this statement.

**Mendota Mental Health Institute**  
**Statement of Cash Flows**  
for the Year Ended June 30, 1999

Reconciliation of Operating Income (Loss) to Net Cash Provided by Operations

	<u>Year Ended</u> <u>June 30, 1999</u>
Operating Income (Loss)	\$ 1,511,696
Adjustments to Reconcile Operating Income to Net Cash Provided by Operations:	
Depreciation	627,648
Miscellaneous nonoperating income (expense)	43,620
Changes in assets and liabilities:	
Decrease (Increase) in receivables	(5,873,701)
Decrease (Increase) in due from State of Wisconsin	(35,454)
Decrease (Increase) in supplies inventories	(11,756)
Decrease (Increase) in prepaid items	(73,553)
Increase (Decrease) in accrued expenses	145,074
Increase (Decrease) in accounts payable	(8,668)
Increase (Decrease) in due to State of Wisconsin	126,798
Increase (Decrease) in due to federal government	8,182
Increase (Decrease) in deferred revenue	8,951
Increase (Decrease) in patient funds held in trust	6,121
Increase (Decrease) in canteen fund	5,119
Total Adjustments	<u>(5,031,619)</u>
Net Cash Provided by Operating Activities	<u>\$ (3,519,923)</u>
Noncash Investing, Capital, and Financing Activities:	
Contributions/Transfer of fixed assets	(\$1,050,442)

The accompanying notes are an integral part of this statement

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# NOTES TO THE FINANCIAL STATEMENTS OF MENDOTA MENTAL HEALTH INSTITUTE

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## 1. Summary of Accounting Policies

- A. Fund Accounting and Basis of Presentation - The financial statements of Mendota Mental Health Institute have been prepared in conformance with generally accepted accounting principles for proprietary (enterprise) funds, with the exception of inmate/patient activity, which is classified as an agency fund, as discussed in Note 1D. Proprietary funds are accounted for on the accrual basis of accounting: revenues are recognized when earned, and expenses are recognized when incurred. Enterprise funds account for operations that are financed and operated in a manner similar to private business enterprises, where the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis is financed primarily through user charges. These statements do not represent the State as a whole, but instead are only part of the State of Wisconsin financial reporting entity.
- B. Unrestricted Fund - The unrestricted fund consists of funds that are not restricted by donors or grantors and are available for general operations.
- C. Restricted Fund - The restricted fund is used to segregate funds on which outside parties have placed user restrictions, or funds that have restrictions placed on them as a result of operations of the Institute. Included in the restricted fund are the federal revenues received by the Institute during FY 1998-99.
- D. Inmate/Patient Fund - The inmate/patient fund represents amounts held by the Institute on behalf of the inmates and patients of the Institute. The inmate/patient fund is classified as an agency fund and uses the modified accrual basis of accounting.
- E. Canteen Fund - The canteen fund reflects the operation of the canteen at the Institute.
- F. Net Revenue from Patient Care - Revenue from patient care for the Institute is reported net of known and estimated contractual adjustments. The estimated contractual adjustment amounts are subject to change as patient accounts are settled and actual contractual adjustments are determined.
- G. Property and Equipment - Property and equipment are valued at cost. Depreciation is computed using the straight-line method based on the following estimated useful lives:

Land Improvements	15-20 years
Buildings	10-40 years
Equipment	4-20 years

- H. Supplies Inventory - The inventory is valued at cost.
- I. Employe Compensated Absences - Unused, earned compensated absences other than sick leave are accrued with the resulting liability included in the accrued expenses account. The liability and expense for compensated absences are based on current rates of pay.
- J. Employe Retirement Plan - Permanent, full-time employes of Mendota Mental Health Institute are participants in the Wisconsin Retirement System, a cost-sharing, multiple-employer, defined benefit plan governed by Chapter 40 of Wisconsin Statutes. State and local government public employes are entitled to an annual formula retirement benefit based on: 1) the employe's final average earnings, 2) years of creditable service, and 3) a formula factor. If an employe's contributions, matching employer's contributions, and interest credited to the employe's account exceed the value of the formula benefit, the retirement benefit may instead be calculated as a money purchase benefit. The Wisconsin Retirement System is considered part of the State of Wisconsin's financial reporting entity. Copies of the separately issued financial report that includes financial statements and required supplementary information for the year ending December 31, 1999 may be obtained by writing to:

Department of Employee Trust Funds  
P.O. Box 7931  
Madison, WI 53707-7931

The report is also available on the Department of Employee Trust Funds' Web site, <http://badger.state.wi.us/agencies/etf/>.

Generally, the State's policy is to fund retirement contributions on a level-percentage-of-payroll basis to meet normal and prior service costs of the retirement system. Prior service costs are amortized over 40 years, beginning January 2, 1990. The retirement plan requires employe contributions equal to specified percentages of qualified earnings based on the employe's classification, plus employer contributions at a rate determined annually. Mendota Mental Health Institute's contributions to the plan were \$3,823,451 for FY 1998-99. The relative position of Mendota Mental Health Institute in the Wisconsin Retirement System is not available because the Wisconsin Retirement System is a statewide, multi-employer plan.

- K. Contributed Capital - The contributed capital account reflects the amount of land, buildings, and equipment provided by the State of Wisconsin to the Institute. Most of this amount was financed with general obligation bonds.
- L. Cash and Cash Equivalents - Cash and cash equivalents include bank accounts, petty cash, and cash in transit.

**2. General Obligation Bonds**

The State of Wisconsin issues general obligation bonds on behalf of the various state agencies. Proceeds from the sale of bonds may be used to construct and/or purchase assets for Mendota Mental Health Institute. The Institute holds title to the assets.

The Institute has received proceeds from 23 bond issues. The bonds have maturity dates ranging from April 15, 2000 to April 15, 2019. The principal balance outstanding as of June 30, 1999 attributable to the Institute is \$16,415,506. This debt represents a debt of the State of Wisconsin and is not a debt of the Institute. Accordingly, this debt is not reported in the Institute's financial statements. Debt service payments made by the State of Wisconsin for the year ended June 30, 1999 are allocated as follows:

Principal	\$1,446,332
Interest	<u>953,523</u>
Total paid	\$2,399,855

However, the Institute reimburses the State of Wisconsin General Fund for a portion of interest expense based on the number of days of care billable to third-party payers. The Institute remitted \$252,170 to the General Fund as reimbursement of interest expense, which is included in the financial statements as operating transfers out.

**3. Third-Party Contractual Adjustments**

Since the audits of the FY 1997-98 and FY 1998-99 Medicare and Medical Assistance cost reports were not completed as of June 30, 1999, no third-party settlements resulting from these reports had been received or paid by year-end. A Medicare cost report has been completed and submitted to United Government Services. A Medical Assistance cost report has been completed but has not yet been submitted to the third-party contractor. The proposed settlement amounts in these reports are subject to audit and are often revised after the completion of the financial statement audit. Further, the settlement amounts are difficult to estimate. Therefore, the proposed settlement amounts are not included in the financial statements.

#### 4. **Income Augmentation Efforts**

The Department of Health and Family Services has contracted with Maximus, Inc., a private consulting firm, to provide income augmentation services, which included reviewing the Institutes' Medicare claims settlements for FYs 1991-92 through 1997-98 to determine if all eligible discharge claims were included in the final Medicare cost reports. Final Medicare cost reports have been amended for FYs 1996-97 and 1997-98, and the final closed settlements for FYs 1991-92 through 1995-96 have been reopened. Changes to the final cost reports have been submitted to United Government Services for all seven fiscal years. During FY 1998-99, Mendota Mental Health Institute received \$90,100 in revenue as a result of Maximus' efforts. All other income augmentation receipts have been deposited in the State of Wisconsin General Fund as required by the Legislature's Joint Committee on Finance.

#### 5. **Deposits**

The Institute's cash and cash equivalents include deposits of the contingent fund, inmate/patient fund, and canteen fund that are held in several financial institutions. The contingent fund is used to meet operating needs of the Institute. The inmate/patient fund includes deposits held on behalf of the Institute's inmates/patients, and the canteen fund includes cash received from operations. As of June 30, 1999, the carrying value of these deposits was \$61,360 and the bank balance was \$68,838.

Governmental Accounting Standards Board (GASB) statement number 3 requires deposits with financial institutions to be categorized to indicate the level of risk assumed by the Institute. At June 30, 1999, all cash balances fall under risk category 1, which means that cash is insured or supported by collateral.

#### 6. **Property and Equipment**

A summary of the property and equipment classification and the related accumulated depreciation at June 30, 1999 follows:

<u>Cost</u>	
Land	\$ 333,874
Land improvements	1,442,184
Buildings	17,630,184
Equipment	1,845,267
Construction in progress	<u>4,111,796</u>
Total Cost	<u>\$25,363,305</u>

Accumulated Depreciation

Land	\$	0
Land improvements		731,167
Buildings		9,134,215
Equipment		1,258,404
Construction in progress		<u>0</u>
Total Depreciation		<u>\$11,123,786</u>
Property and Equipment (net)		<u>\$14,239,519</u>

Land improvements, buildings, and equipment are depreciated on a straight-line basis. Estimated useful lives are based on an industry standard determined by the publication *Estimated Useful Lives of Depreciable Hospital Assets*, 1998 edition, issued by the American Hospital Association. Construction in progress consists of various projects to repair or improve the facilities of the Institute.

**7. Loan from State of Wisconsin**

The State of Wisconsin Treasury provided the Institute a loan of \$9,360,314 as of June 30, 1999 to cover cash overdrafts in appropriations. The Institute is expected to repay this loan.

**8. Overhead**

The State of Wisconsin provided \$1,247,519 of administrative services, funded by general purpose revenues, to Mendota Mental Health Institute during FY 1998-99. A portion of the administrative overhead is later recovered through Medical Assistance patient revenue. The Institute includes overhead expense in the Medical Assistance cost reports, which are used to determine the final Medical Assistance settlement for the year. During FY 1998-99, the Institute remitted \$200,337 of Medical Assistance payments related to overhead expense to the State of Wisconsin General Fund as reimbursement for administrative services provided. The amount remitted is included in the financial statements as operating transfers out.

**9. Depreciation**

Depreciation on assets originally purchased by the State and contributed to Mendota Mental Health Institute is included in the Institute's financial statements and claimed on the Medical Assistance cost reports, which are used to determine the final Medical Assistance settlement for the year. During FY 1998-99, the Institute remitted to the State of Wisconsin General Fund \$107,405 of Medical Assistance payments related to depreciation expense for assets originally

purchased by the State. The amount remitted is included in the financial statements as operating transfers out.

**10. Insurance Reimbursements for Forensic Patients**

Throughout the year, forensic patients are committed to the Institute through the criminal justice system. The Institute receives general-purpose revenue from the State of Wisconsin to cover the costs associated with care of forensic patients. In some cases, forensic patients qualify for medical insurance. Any medical insurance collections covering the charges of forensic patients are used to reimburse the State. These collections are deposited in a general-purpose revenue-earned appropriation at the State Treasury, which is not controlled by the Institute. The statements reflect expected reimbursements as a receivable and as a payable to the State of Wisconsin. For the year ending June 30, 1999, both the receivable from Medical Assistance, Medicare, and private insurers, less related contractual adjustments, and the related payable to the State of Wisconsin were \$2,646,701.

**11. Obligations Under Capital Leases**

During FY 1998-99, Mendota Mental Health Institute leased a chemistry analyzer and a hematology analyzer. The terms of the leases are 60 months. The value of the equipment under lease as of June 30, 1999, was \$285,000. The accumulated depreciation on the equipment totaled \$49,288, resulting in a net book value of \$235,712.

The following is a schedule of future minimum lease payments under capital leases, together with the present value of the net minimum lease payments, as of June 30, 1999:

For the year ending:	
June 30, 2000	\$ 92,213
June 30, 2001	92,213
June 30, 2002	70,932
June 30, 2003	68,997
June 30, 2004	<u>45,998</u>
Total minimum lease payments	370,353
Less: amounts representing interest	<u>153,844</u>
Present value of minimum lease payments	216,509
Less: current maturities	<u>41,074</u>
Long-term portion of present value of minimum lease payments	\$175,435

**12. Investments as a Lessor**

Mendota Mental Health Institute leases excess space to other state agencies and nonprofit organizations. The leases are classified as operating leases. The leases are for one year and may be renewed by mutual agreement.

The leased facilities are in buildings with the following costs:

Buildings	\$618,242
Less: accumulated depreciation	<u>389,016</u>
	\$229,226

Minimum future lease payments to be received during the year ended June 30, 2000 are \$335,780.

**13. Obligations Under Operating Leases**

Mendota Mental Health Institute leases copiers. The terms of all leases are three years. Future minimum rental payments required under the operating leases as of June 30, 1999 are as follows for the year ended:

June 30, 2000	\$4,820
June 30, 2001	2,820
June 30, 2002	705

The composition of the total rental expense for the year ended June 30, 1999 is as follows:

Minimum rentals	\$34,296
Contingent rentals	0
Less: sublease rentals	<u>0</u>
Rental Expense	\$34,296

**14. Prior-Period Adjustments**

The beginning FY 1998-99 retained earnings balance was adjusted to correct for a net understatement of net income for prior years, because Mendota Mental Health Institute had been reporting and depreciating buildings and equipment associated with a power plant that supplies utility services to the Institute. The power plant, which provides electricity, water, and sewer services to state-owned institutions operated by the Department of Health and Family Services and the Department of Corrections, is not part of the Mendota Mental Health Institute's financial reporting entity. Accordingly, assets totaling \$1,152,117 were removed from the financial statements, and contributed capital was reduced by a corresponding amount.

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# INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS OF WINNEBAGO MENTAL HEALTH INSTITUTE

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We have audited the accompanying balance sheet of the State of Wisconsin Winnebago Mental Health Institute as of June 30, 1999, and the related statement of revenues, expenses, and changes in retained earnings and statement of cash flows for the year then ended. These financial statements are the responsibility of the management of the Winnebago Mental Health Institute and the Wisconsin Department of Health and Family Services. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Winnebago Mental Health Institute and are not intended to present fairly the financial position of the State of Wisconsin and the results of its operations and the cash flows of its proprietary fund types and nonexpendable trust funds in conformity with generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Winnebago Mental Health Institute as of June 30, 1999, and the results of its operations and cash flows for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated July 28, 2000, on our consideration of the Department of Health and Family Services' internal control over financial reporting for Winnebago Mental Health Institute and on our tests of compliance with certain provisions of laws, regulations, contracts, and grants.

LEGISLATIVE AUDIT BUREAU

July 28, 2000

by

Diann Allsen  
Audit Director



**Winnebago Mental Health Institute**  
**Balance Sheet**  
June 30, 1999

	Unrestricted Fund	Restricted Fund	Inmate/Patient Fund	Canteen Fund	Totals (Memorandum Only)
<b>Assets</b>					
Current Assets:					
Cash and cash equivalents (Note 5)	\$ 19,384	\$ 4,657	\$ 125,131	\$ 11,237	\$ 160,409
Investments (Note 5)	0	0	0	8,547	8,547
Net accounts receivable (Note 10)	11,492,848	7,458	10,228	2,568	11,513,102
Due from State of Wisconsin	1,058,023	23,545	0	0	1,081,568
Supplies inventory	332,224	0	0	25,156	357,380
Prepaid items	289,088	467	0	922	290,477
<b>Total Current Assets</b>	<b>13,191,567</b>	<b>36,127</b>	<b>135,359</b>	<b>48,430</b>	<b>13,411,483</b>
Property and Equipment:					
Land	230,340	0	0	0	230,340
Land improvements	465,633	0	0	0	465,633
Buildings	18,576,870	0	0	0	18,576,870
Equipment	2,623,401	0	0	7,100	2,630,501
Accumulated depreciation (Note 6)	(7,390,123)	0	0	(3,273)	(7,393,396)
Construction in progress	54,166	0	0	0	54,166
<b>Total Property and Equipment</b>	<b>14,560,287</b>	<b>0</b>	<b>0</b>	<b>3,827</b>	<b>14,564,114</b>
<b>Total Assets</b>	<b>\$ 27,751,854</b>	<b>\$ 36,127</b>	<b>\$ 135,359</b>	<b>\$ 52,257</b>	<b>\$ 27,975,597</b>
<b>Liabilities and Fund Equity</b>					
Current Liabilities:					
Accounts payable	\$ 265,960	\$ 405	\$ 0	\$ 1,769	\$ 268,134
Due to federal government	49,311	62	0	114	49,487
Due to State of Wisconsin (Notes 7, 10)	13,518,751	3,268	0	2,375	13,524,394
Accrued expenses	1,818,799	2,603	0	2,940	1,824,342
Patient funds held in trust	0	0	135,359	0	135,359
Deferred revenue	0	0	0	149	149
<b>Total Current Liabilities</b>	<b>15,652,821</b>	<b>6,338</b>	<b>135,359</b>	<b>7,347</b>	<b>15,801,865</b>
Fund Equity:					
Contributed capital	25,549,491	0	0	0	25,549,491
Retained earnings--unreserved	(13,450,458)	29,789	0	44,910	(13,375,759)
<b>Total Fund Equity</b>	<b>12,099,033</b>	<b>29,789</b>	<b>0</b>	<b>44,910</b>	<b>12,173,732</b>
<b>Total Liabilities and Fund Equity</b>	<b>\$ 27,751,854</b>	<b>\$ 36,127</b>	<b>\$ 135,359</b>	<b>\$ 52,257</b>	<b>\$ 27,975,597</b>

The accompanying notes are an integral part of this statement.

**Winnebago Mental Health Institute**  
**Statement of Revenues, Expenses, and Changes in Retained Earnings**  
for the Year Ended June 30, 1999

	Unrestricted <u>Fund</u>	Restricted <u>Fund</u>	Canteen <u>Fund</u>	Totals (Memorandum <u>Only</u> )
<b>Operating Revenues</b>				
Net Revenue from Patient Care (Note 1F)	\$ 19,815,658	\$ 0	\$ 0	\$ 19,815,658
Revenue from State of Wisconsin	17,540,705	0	0	17,540,705
Miscellaneous Revenue	868,054	20,725	196,360	1,085,139
Total Operating Revenues	<u>38,224,417</u>	<u>20,725</u>	<u>196,360</u>	<u>38,441,502</u>
<b>Operating Expenses</b>				
Salaries	21,650,158	21,610	67,769	21,739,537
Fringe Benefits	7,227,759	4,424	0	7,232,183
Materials and Supplies	5,283,613	33,644	139,284	5,456,541
Depreciation	677,037	0	710	677,747
Total Operating Expenses	<u>34,838,567</u>	<u>59,678</u>	<u>207,763</u>	<u>35,106,008</u>
Operating Income (Loss)	<u>3,385,850</u>	<u>(38,953)</u>	<u>(11,403)</u>	<u>3,335,494</u>
<b>Nonoperating Revenues</b>				
Revenue from State of Wisconsin	659,129	46,443	0	705,572
Gain on Sale of Fixed Assets	3,105	0	0	3,105
Canteen Commissions	0	0	16,053	16,053
Other Nonoperating Revenues	0	0	585	585
Total Nonoperating Revenues	<u>662,234</u>	<u>46,443</u>	<u>16,638</u>	<u>725,315</u>
<b>Nonoperating Expenses</b>				
Materials and Supplies	621,053	0	1,241	622,294
Total Nonoperating Expenses	<u>621,053</u>	<u>0</u>	<u>1,241</u>	<u>622,294</u>
Income before Operating Transfers	3,427,031	7,490	3,994	3,438,515
Operating Transfers Out (Notes 2, 8, 9)	829,503	0	0	829,503
Net Income	2,597,528	7,490	3,994	2,609,012
<b>Retained Earnings</b>				
Retained Earnings--Unreserved July 1, 1998	(16,047,986)	22,299	40,916	(15,984,771)
Retained Earnings--Unreserved June 30, 1999	<u>\$ (13,450,458)</u>	<u>\$ 29,789</u>	<u>\$ 44,910</u>	<u>\$ (13,375,759)</u>

The accompanying notes are an integral part of this statement.

**Winnebago Mental Health Institute**  
**Statement of Cash Flows**  
for the Year Ended June 30, 1999

	<u>Year Ended</u> <u>June 30, 1999</u>
Cash Flows from Operating Activities:	
Cash receipts from customers	\$ 31,947,559
Cash payments to suppliers for goods and services	(5,450,999)
Cash payments to employees for services	(28,960,670)
Other sources (uses) of cash	<u>22,683</u>
Net Cash Provided (Used) by Operating Activities	<u>(2,441,427)</u>
Cash Flows from Noncapital Financing Activities:	
Operating transfers out	(87,647)
Loan from State of Wisconsin	<u>2,685,180</u>
Net Cash Provided (Used) by Noncapital Financing Activities	<u>2,597,533</u>
Cash Flows from Capital and Related Financing Activities:	
Payments to vendors	(211,793)
Other cash flows from capital financing activities	<u>106,134</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(105,659)</u>
Cash Flows from Investing Activities:	
Purchase of investment securities	(347)
Proceeds from sales of investments	<u>65,620</u>
Net Cash Provided (Used) by Investing Activities	<u>65,273</u>
Net Increase (Decrease) in Cash and Cash Equivalents	115,720
Cash and Cash Equivalents, Beginning of Year	<u>44,689</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 160,409</u></u>

The accompanying notes are an integral part of this statement.

**Winnebago Mental Health Institute**  
**Statement of Cash Flows**  
for the Year Ended June 30, 1999

Reconciliation of Operating Income (Loss) to Net Cash Provided by Operations

	Year Ended <u>June 30, 1999</u>
Operating Income (Loss)	\$ 3,335,494
Adjustments to Reconcile Operating Income to Net Cash Provided by Operations:	
Depreciation	677,747
Miscellaneous nonoperating income (expense)	46,443
Changes in assets and liabilities:	
Decrease (Increase) in receivables	(6,678,378)
Decrease (Increase) in due from state of Wisconsin	102,663
Decrease (Increase) in supplies inventories	7,336
Decrease (Increase) in prepaid items	(95,372)
Increase (Decrease) in accrued expenses	142,812
Increase (Decrease) in accounts payable	(25,252)
Increase (Decrease) in due to State of Wisconsin	(16,244)
Increase (Decrease) in due to federal government	6,473
Increase (Decrease) in deferred revenue	5
Increase (Decrease) in patient funds held in trust	39,449
Increase (Decrease) in canteen fund	15,397
Total Adjustments	<u>(5,776,921)</u>
Net Cash Provided by Operating Activities	<u>\$ (2,441,427)</u>
Noncash Investing, Capital, and Financing Activities:	
Contributions/Transfer of fixed assets	\$139,698

The accompanying notes are an integral part of this statement.

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# NOTES TO THE FINANCIAL STATEMENTS OF WINNEBAGO MENTAL HEALTH INSTITUTE

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## 1. Summary of Accounting Policies

- A. Fund Accounting and Basis of Presentation - The financial statements of Winnebago Mental Health Institute have been prepared in conformance with generally accepted accounting principles for proprietary (enterprise) funds, with the exception of inmate/patient activity, which is classified as an agency fund, as discussed in Note 1D. Proprietary funds are accounted for on the accrual basis of accounting: revenues are recognized when earned, and expenses are recognized when incurred. Enterprise funds account for operations that are financed and operated in a manner similar to private business enterprises, where the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis is financed primarily through user charges. These statements do not represent the State as a whole, but instead are only part of the State of Wisconsin financial reporting entity.
- B. Unrestricted Fund - The unrestricted fund consists of funds that are not restricted by donors or grantors and are available for general operations.
- C. Restricted Fund - The restricted fund is used to segregate funds on which outside parties have placed user restrictions, or funds that have restrictions placed on them as a result of operations of the Institute. Included in the restricted fund are the federal revenues received by the Institute during FY 1998-99.
- D. Inmate/Patient Fund - The inmate/patient fund represents amounts held by the Institute on behalf of the inmates and patients of the Institute. The inmate/patient fund is classified as an agency fund and uses the modified accrual basis of accounting.
- E. Canteen Fund - The canteen fund reflects the operation of the canteen at the Institute.
- F. Net Revenue from Patient Care - Revenue from patient care for the Institute is reported net of known and estimated contractual adjustments. The estimated contractual adjustment amounts are subject to change as patient accounts are settled and actual contractual adjustments are determined.
- G. Property and Equipment - Property and equipment are valued at cost. Depreciation is computed using the straight-line method based on the following estimated useful lives:

Land improvements	12-25 years
Buildings	10-40 years
Equipment	4-20 years

- H. Supplies Inventory - The inventory is valued at cost.
- I. Employee Compensated Absences - Unused, earned compensated absences other than sick leave are accrued with the resulting liability included in the accrued expenses account. The liability and expense for compensated absences are based on current rates of pay.
- J. Employee Retirement Plan - Permanent, full-time employees of Winnebago Mental Health Institute are participants in the Wisconsin Retirement System, a cost-sharing, multiple-employer, defined benefit plan governed by Chapter 40 of Wisconsin Statutes. State and local government public employees are entitled to an annual formula retirement benefit based on: 1) the employee's final average earnings, 2) years of creditable service, and 3) a formula factor. If an employee's contributions, matching employer's contributions, and interest credited to the employee's account exceed the value of the formula benefit, the retirement benefit may instead be calculated as a money purchase benefit. The Wisconsin Retirement System is considered part of the State of Wisconsin's financial reporting entity. Copies of the separately issued financial report that includes financial statements and required supplementary information for the year ending December 31, 1999 may be obtained by writing to:

Department of Employee Trust Funds  
P.O. Box 7931  
Madison, WI 53707-7931

The report is also available on the Department of Employee Trust Funds' Web site, <http://badger.state.wi.us/agencies/etf/>.

Generally, the State's policy is to fund retirement contributions on a level-percentage-of-payroll basis to meet normal and prior service costs of the retirement system. Prior service costs are amortized over 40 years, beginning January 2, 1990. The retirement plan requires employee contributions equal to specified percentages of qualified earnings based on the employee's classification, plus employer contributions at a rate determined annually. Winnebago Mental Health Institute's contributions to the plan were \$3,128,821 for FY 1998-99. The relative position of Winnebago Mental Health Institute in the Wisconsin Retirement System is not available because the Wisconsin Retirement System is a statewide, multi-employer plan.

- K. Contributed Capital - The contributed capital account reflects the amount of land, buildings, and equipment provided by the State of Wisconsin to the Institute. Most of this amount was financed with general obligation bonds.

- L. Cash and Cash Equivalents - Cash and cash equivalents include bank accounts, petty cash, cash in transit, and short-term investments such as certificates of deposit. Short-term investments have a maturity date within 90 days of the date of acquisition.

**2. General Obligation Bonds**

The State of Wisconsin issues general obligation bonds on behalf of the various state agencies. Proceeds from the sale of bonds may be used to construct and/or purchase assets for Winnebago Mental Health Institute. The Institute holds title to the assets.

The Institute has received proceeds from 23 bond issues. The bonds have maturity dates ranging from April 15, 2000 to April 15, 2019. The principal balance outstanding as of June 30, 1999 attributable to the Institute is \$12,329,317. This debt represents a debt of the State of Wisconsin and is not a debt of the Institute. Accordingly, this debt is not reported in the Institute's financial statements. Debt service payments made by the State of Wisconsin for the year ended June 30, 1999 are allocated as follows:

Principal	\$936,597
Interest	<u>663,984</u>
Total paid	\$1,600,581

However, the Institute reimburses the State of Wisconsin General Fund for a portion of interest expense based on the number of days of care billable to third-party payers. The Institute remitted \$288,771 to the General Fund as reimbursement of interest expense, which is included in the financial statements as operating transfers out.

**3. Third-Party Contractual Settlements**

Since the audits of the FY 1997-98 and FY 1998-99 Medicare and Medical Assistance cost reports were not completed as of June 30, 1999, no third-party settlements resulting from these reports had been received or paid by year-end. A Medicare cost report has been completed and submitted to United Government Services. A Medical Assistance cost report has been completed but has not yet been submitted to the third-party contractor. The proposed settlement amounts in these reports are subject to audit and are often revised after the completion of the financial statement audit. Further, the settlement amounts are difficult to estimate. Therefore, the proposed settlement amounts are not included in the financial statements.

#### **4. Income Augmentation Efforts**

The Department of Health and Family Services has contracted with Maximus, Inc., a private consulting firm, to provide income augmentation services, which included reviewing the Institutes' Medicare claims settlements for FYs 1991-92 through 1997-98 to determine if all eligible discharge claims were included in the final Medicare cost reports. Final Medicare cost reports have been amended for FYs 1996-97 and 1997-98, and the final closed settlements for FYs 1991-92 through 1995-96 have been reopened. Changes to the final cost reports have been submitted to United Government Services for all seven fiscal years. During FY 1998-99, Winnebago Mental Health Institute received \$90,100 in revenue as a result of Maximus' efforts. All other income augmentation receipts have been deposited in the State of Wisconsin General Fund as required by the Legislature's Joint Committee on Finance.

#### **5. Deposits and Investments**

The Institute's cash and cash equivalents and investments include deposits of the contingent fund, restricted fund, inmate/patient fund, and canteen fund that are held in several financial institutions. The contingent fund is used to meet operating needs of the Institute. The restricted fund's cash balance represents the temporary difference between cash received and cash disbursed from the fund. The inmate/patient fund includes deposits held on behalf of the Institute's inmates/patients, and the canteen fund includes cash received from operations. As of June 30, 1999, the carrying value of the deposits was \$158,006. The bank balance of the deposits of the inmate/patient fund, canteen fund, and contingent fund was \$170,131. The deposits of the restricted fund are commingled with other funds deposited by the State of Wisconsin Treasurer. Therefore, the bank balance for the restricted fund cannot be determined.

Governmental Accounting Standards Board (GASB) statement number 3 requires deposits with financial institutions to be categorized to indicate the level of risk assumed by the Institute. At June 30, 1999, all cash balances fall under risk category 1, which means that cash is insured or supported by collateral.

## 6. Property and Equipment

A summary of the property and equipment classification and the related accumulated depreciation at June 30, 1999, follows:

### Cost

Land	\$ 230,340
Land improvements	465,633
Buildings	18,576,870
Equipment	2,630,501
Construction in progress	<u>54,166</u>
Total Cost	<u>\$21,957,510</u>

### Accumulated Depreciation

Land	\$ 0
Land improvements	256,025
Buildings	5,979,868
Equipment	1,157,503
Construction in progress	<u>0</u>
Total Depreciation	<u>\$ 7,393,396</u>
Property and Equipment (net)	<u>\$14,564,114</u>

Land improvements, buildings, and equipment are depreciated on a straight-line basis. Estimated useful lives are based on an industry standard determined by the publication *Estimated Useful Lives of Depreciable Hospital Assets*, 1998 edition, issued by the American Hospital Association. Construction in progress consists of various projects to repair or improve the facilities of the Institute.

## 7. Loan from State of Wisconsin

The State of Wisconsin Treasury provided the Institute a loan of \$10,795,645 as of June 30, 1999, to cover cash overdrafts in appropriations. The Institute is expected to repay this loan.

## 8. Overhead

The State of Wisconsin provided \$1,235,064 of administrative services, funded by general purpose revenues, to Winnebago Mental Health Institute during FY 1998-99. A portion of the administrative overhead is later recovered through Medical Assistance patient revenue. The Institute includes overhead expense in the Medical Assistance cost reports, which are used to determine the final Medical Assistance settlement for the year. During FY 1998-99, the Institute remitted \$263,723 of Medical Assistance payments related to overhead expense

to the State of Wisconsin General Fund as reimbursement for administrative services provided. The amount remitted is included in the financial statements as operating transfers out.

**9. Depreciation**

Depreciation on assets originally purchased by the State and contributed to Winnebago Mental Health Institute is included in the Institute's financial statements and claimed on the Medical Assistance cost reports, which are used to determine the final Medical Assistance settlement for the year. During FY 1998-99, the Institute remitted to the State of Wisconsin General Fund \$175,816 of Medical Assistance payments related to depreciation expense for assets originally purchased by the State. The amount remitted is included in the financial statements as operating transfers out.

**10. Insurance Reimbursements for Forensic Patients**

Throughout the year, forensic patients are committed to the Institute through the criminal justice system. The Institute receives general-purpose revenue from the State of Wisconsin to cover the costs associated with the care of forensic patients. In some cases, forensic patients qualify for medical insurance. Any medical insurance collections covering the charges of forensic patients are used to reimburse the State. These collections are deposited in a general-purpose revenue-earned appropriation at the State Treasury, which is not controlled by the Institute. The statements reflect expected reimbursements as a receivable and as a payable to the State of Wisconsin. For the year ending June 30, 1999, both the receivable from Medical Assistance, Medicare, and private insurers, less related contractual adjustments, and the related payable to the State of Wisconsin were \$2,466,038.

**11. Investments as a Lessor**

Winnebago Mental Health Institute leases excess space to other state agencies and nonprofit organizations. The lease is classified as an operating lease. The lease is for one year and may be renewed for one year by mutual agreement.

The portion of the building being leased has an original cost of \$21,855 and has been fully depreciated. Minimum future lease payments to be received during the year ended June 30, 2000 are \$900.

**12. Obligations Under Operating Leases**

Winnebago Mental Health Institute leases copiers. The terms of all leases are three years.

Future minimum rental payments required under the operating leases as of June 30, 1999 are as follows for the year ended:

June 30, 2000	\$ 19,735
June 30, 2001	16,220
June 30, 2002	2,881

The composition of the total rental expense for the fiscal year ended June 30, 1999 is as follows:

Minimum rentals	\$21,454
Contingent rentals	0
Less: sublease rentals	<u>0</u>
Rental Expense	\$21,454

Winnebago Mental Health Institute is not obligated under any capital leases as of June 30, 1999.

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# INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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We have audited the financial statements of the State of Wisconsin Mendota Mental Health Institute and Winnebago Mental Health Institute as of and for the year ended June 30, 1999, and have issued our reports thereon dated July 28, 2000. We conducted our audits in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

## **Compliance**

As part of obtaining reasonable assurance about whether the Institutes' financial statements are free of material misstatement, we performed tests of their compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

## **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Department's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Department's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

For several years, the Department has not maintained an adequate system to accumulate and summarize accurate and reliable summary information on patient revenues and outstanding patient accounts receivable. To address this concern, the Department began implementing, in January 1999, a new billing and receivable system. However, difficulties in implementing the new system have reduced the reliability of receivable balances from the system. Most significantly, the process to determine and establish beginning receivable balances in the new system has not been completed. In addition, patient billings for April through June 1999 were delayed six months. As a result, there is increased risk that net patient revenues and net patient accounts receivable are misstated. We anticipate that, as the Department completes its process for analyzing collectible balances and continues to work with the software vendor to address system issues, the

new system will serve as a more reliable accounts receivable subsidiary ledger that can be used in determining each of the Institutes' accounts receivable balances in the future.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition regarding concerns with the system to report net patient revenues and net patient receivables to be a material weakness. We also noted other matters involving the internal control over financial reporting. We will report these matters, as well as additional comments regarding reporting of patient revenue and receivables, in a separate management letter to the Department.

This report is intended solely for the information and use of the Department's and the Institutes' management, and the Wisconsin Legislature. This restriction is not intended to limit the distribution of this report, which, upon submission to the Joint Legislative Audit Committee, is a public document. However, because we do not express an opinion on compliance or provide assurance on internal control over financial reporting, this report is not intended to be used by anyone other than these specified parties.

LEGISLATIVE AUDIT BUREAU

July 28, 2000

by

Diann Allsen  
Audit Director