

AN AUDIT

*Wisconsin  
Mental Health Institutes*

*Department of Health and Family Services*

*99-17*

*October 1999*

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

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State Auditor - Janice Mueller

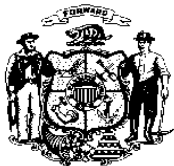
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State of Wisconsin \ LEGISLATIVE AUDIT BUREAU

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October 15, 1999

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, 1997 through June 30, 1998. 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 \$771,000 and Winnebago Mental Health Institute had net income of \$53,000. This income has allowed the Institutes to reduce their overall cash deficit.

Because of limitations in the Department's patient billing system, the prior year's financial statements contained errors, which had the effect of overstating patient accounts receivable, patient revenues, and net income. To correct for these overstatements, the fiscal year 1997-98 financial statements reflect a \$2.6 million prior-period reduction in retained earnings for the Mendota Mental Health Institute and a \$3.7 million reduction in retained earnings for the Winnebago Mental Health Institute.

Our audit report was delayed primarily because of difficulties relating to the Department's billing system, which does not report patient revenues and receivables in accordance with generally accepted accounting principles. Therefore, complex additional procedures were required to determine the Institutes' patient revenues and receivables. Because the Department's system is unable to accumulate and summarize accurate information on patient revenues and receivables, we qualified our report on internal controls.

The Department has recognized the limitations of its billing system for a number of years and is implementing a new billing system that is intended to allow for more timely and accurate financial reporting of patient revenues and accounts receivable. However, the Department is experiencing difficulties in this effort and, as of September 30, 1999, had not billed patients or other parties since March 1999. The Department resumed billing in October 1999. We will review the Department's new system during our audit of the Mental Health Institutes' fiscal year 1998-99 financial statements.

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/BN/bh

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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, 1998, 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.

The financial statements of Mendota Mental Health Institute are intended to present the financial position and results of operations and cash flows of only that portion of the funds and account groups of the State of Wisconsin attributable to the transactions of the Institute.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mendota Mental Health Institute as of June 30, 1998, and the results of its operations and cash flows for the year then ended in conformity with generally accepted accounting principles.

The required supplementary information on year 2000 on pages 17-18 is not a required part of the basic financial statements, but is supplementary information required by Governmental Accounting Standards Board technical bulletin 99-1. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and do not express an opinion on it. In addition, we do not provide assurance that Mendota Mental Health Institute and the Department of Health and Family Services are or will become year 2000 compliant, that Mendota Mental Health Institute's and the Department of Health and Family Services' year 2000 remediation efforts will be successful in whole or in part, or that parties with which Mendota Mental Health Institute and the Department of Health and Family Services do business are or will become year 2000 compliant.

As discussed in note 13, the financial statements of Mendota Mental Health Institute reflect a prior-period adjustment of \$2,589,955, primarily to correct for the net overstatement of accounts receivable in prior years.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 8, 1999, 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

October 8, 1999      by

Bryan Naab  
Audit Director

**Mendota Mental Health Institute**  
**Balance Sheet**  
June 30, 1998

	Unrestricted Fund	Restricted Fund	Inmate/Patient Fund	Canteen Fund	Totals (Memorandum Only)
<b>Assets</b>					
Current Assets:					
Cash and cash equivalents (Note 4)	\$ 29,382	\$ 0	\$18,592	\$ 9,463	\$ 57,437
Net accounts receivable (Note 9)	3,510,839	50	1,632	7,324	3,519,845
Due from State of Wisconsin	1,191,773	46,398	0	0	1,238,171
Supplies inventory	161,590	0	0	4,827	166,417
Prepaid items	255,819	212	0	0	256,031
Total Current Assets	<u>5,149,403</u>	<u>46,660</u>	<u>20,224</u>	<u>21,614</u>	<u>5,237,901</u>
Property and Equipment:					
Land	333,874	0	0	0	333,874
Land improvements	1,297,053	0	0	0	1,297,053
Buildings	19,304,183	0	0	0	19,304,183
Equipment	1,473,401	0	0	0	1,473,401
Accumulated depreciation (Note 5)	(11,002,241)	0	0	0	(11,002,241)
Construction in progress	4,302,315	0	0	0	4,302,315
Total Property and Equipment	<u>15,708,585</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>15,708,585</u>
<b>TOTAL ASSETS</b>	<u><u>\$20,857,988</u></u>	<u><u>\$46,660</u></u>	<u><u>\$20,224</u></u>	<u><u>\$21,614</u></u>	<u><u>\$20,946,486</u></u>
<b>Liabilities and Fund Equity</b>					
Current Liabilities:					
Accounts payable	\$ 356,810	\$ 0	\$ 0	\$ 2,213	\$ 359,023
Due to community boards	75,928	0	0	0	75,928
Due to federal government	47,432	137	0	0	47,569
Due to State of Wisconsin (Note 6, 9)	7,424,594	15,959	0	571	7,441,124
Accrued expenses	1,896,650	3,229	0	0	1,899,879
Capital leases--current maturities (Note 10)	47,289	0	0	0	47,289
Patient funds held in trust	0	0	20,224	0	20,224
Deferred revenue	0	0	0	15,398	15,398
Total Current Liabilities	<u>9,848,703</u>	<u>19,325</u>	<u>20,224</u>	<u>18,182</u>	<u>9,906,434</u>
Long-term Liabilities:					
Obligations under capital leases (Note 10)	46,253	0	0	0	46,253
Fund Equity:					
Contributed capital	26,160,226	0	0	0	26,160,226
Retained earnings--unreserved	(15,197,194)	27,335	0	3,432	(15,166,427)
Total Fund Equity	<u>10,963,032</u>	<u>27,335</u>	<u>0</u>	<u>3,432</u>	<u>10,993,799</u>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<u><u>\$20,857,988</u></u>	<u><u>\$46,660</u></u>	<u><u>\$20,224</u></u>	<u><u>\$21,614</u></u>	<u><u>\$20,946,486</u></u>

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, 1998

	Unrestricted Fund	Restricted Fund	Canteen Fund	Totals (Memorandum Only)
<b>Operating Revenues</b>				
Net revenue from patient care (Note 1F)	\$15,138,865	\$ 0	\$ 0	\$15,138,865
Revenue from State of Wisconsin	22,926,029	0	0	22,926,029
Miscellaneous revenue	1,192,990	8,166	82,605	1,283,761
Total Operating Revenues	<u>39,257,884</u>	<u>8,166</u>	<u>82,605</u>	<u>39,348,655</u>
<b>Operating Expenses</b>				
Salaries	23,304,179	50,660	10,850	23,365,689
Fringe benefits	8,322,658	10,853	0	8,333,511
Materials and supplies	5,197,987	46,975	71,707	5,316,669
Depreciation	710,211	0	0	710,211
Total Operating Expenses	<u>37,535,035</u>	<u>108,488</u>	<u>82,557</u>	<u>37,726,080</u>
Operating Income (Loss)	<u>1,722,849</u>	<u>(100,322)</u>	<u>48</u>	<u>1,622,575</u>
<b>Nonoperating Revenues</b>				
Revenue from State of Wisconsin	411,348	83,591	0	494,939
Gain (Loss) on sale of fixed assets	(2,718)	0	0	(2,718)
Canteen commissions	0	0	13,333	13,333
Other nonoperating revenues	0	0	49	49
Total Nonoperating Revenues	<u>408,630</u>	<u>83,591</u>	<u>13,382</u>	<u>505,603</u>
<b>Nonoperating Expenses</b>				
Materials and supplies	411,348	0	18,685	430,033
Interest expense	10,603	0	0	10,603
Total Nonoperating Expenses	<u>421,951</u>	<u>0</u>	<u>18,685</u>	<u>440,636</u>
Income (Loss) before Operating Transfers	1,709,528	(16,731)	(5,255)	1,687,542
Operating Transfers Out (Note 2, 7 ,8)	<u>915,805</u>	<u>0</u>	<u>0</u>	<u>915,805</u>
Net Income (Loss)	793,723	(16,731)	(5,255)	771,737
<b>Retained Earnings</b>				
Retained earnings--unreserved July 1, 1997	(13,424,800)	67,904	8,687	(13,348,209)
Prior-period adjustments (Note 13)	<u>(2,566,117)</u>	<u>(23,838)</u>	<u>0</u>	<u>(2,589,955)</u>
Retained earnings--unreserved June 30, 1998	<u>(\$15,197,194)</u>	<u>\$27,335</u>	<u>\$3,432</u>	<u>(\$15,166,427)</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, 1998

	<u>Year Ended</u> <u>June 30, 1998</u>
Cash Flows from Operating Activities:	
Cash receipts from customers	\$38,260,701
Cash payments to suppliers for goods and services	(5,328,411)
Cash payments to employees for services	(31,538,484)
Other sources (uses) of cash	<u>85,176</u>
Net Cash Provided (Used) by Operating Activities	1,478,982
Cash Flows from Noncapital Financing Activities:	
Operating transfers out	(87,119)
Loan from State of Wisconsin	<u>(1,375,624)</u>
Net Cash Provided (Used) by Noncapital Financing Activities	(1,462,743)
Cash Flows from Capital and Related Financing Activities:	
Payments to vendors	(108,201)
Other cash flows from capital financing activities	<u>86,883</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	(21,318)
Cash Flows from Investing Activities:	
Proceeds from sales of investments	<u>0</u>
Net Cash Provided by Investing Activities	0
Net Increase (Decrease) in Cash and Cash Equivalents	(5,079)
Cash and Cash Equivalents, Beginning of Year	<u>62,516</u>
Cash and Cash Equivalents, End of Year	<u><u>\$57,437</u></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, 1998

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

	Year Ended <u>June 30, 1998</u>
Operating Income (Loss)	\$1,622,575
Adjustments to Reconcile Operating Income to Net Cash Provided by Operations:	
Depreciation	710,211
Miscellaneous nonoperating income (expense)	83,591
Changes in Assets and Liabilities:	
Decrease (Increase) in receivables	(515,359)
Decrease (Increase) in due from State of Wisconsin	(592,538)
Decrease (Increase) in supplies inventories	(12,305)
Decrease (Increase) in prepaid items	(14,071)
Increase (Decrease) in accrued expenses	113,394
Increase (Decrease) in accounts payable	58,902
Increase (Decrease) in due to State of Wisconsin	24,020
Increase (Decrease) in due to federal government	4,532
Increase (Decrease) in deferred revenue	11,468
Increase (Decrease) in patient funds held in trust	(10,135)
Increase (Decrease) in canteen fund	<u>(5,303)</u>
Total Adjustments	<u>(143,593)</u>
Net Cash Provided by Operating Activities	<u><u>\$1,478,982</u></u>
Noncash Investing, Capital, and Financing Activities:	
Contributions/Transfer of fixed assets	\$477,363

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 (refer to item “D” below). 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 available for general operations.
- C. Restricted Fund - Restricted funds are 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 funds are the federal revenues received by the Institute during FY 1997-98.
- D. Inmate/Patient Fund - The inmate/patient fund represents amounts held by the Institute for 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, 1998, may be obtained by writing to:

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

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 \$3,780,845 for FY 1997-98. 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 received proceeds from 21 bond issues. The bonds have maturity dates ranging from April 15, 2000 to April 15, 2017. The principal balance outstanding as of June 30, 1998 attributable to the Institute is \$14,214,592. 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, 1998 are allocated as follows:

Principal	\$1,551,546
Interest	<u>1,279,026</u>
Total paid	\$2,830,572

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 \$379,710 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 Medicare and Medical Assistance cost reports were not completed as of June 30, 1998, 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 Blue Cross/Blue Shield. 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 audit. Therefore, the proposed settlement amounts are not included in the financial statements.

#### 4. 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, 1998, the carrying value of these deposits was \$52,896 and the bank balance was \$61,784.

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, 1998, all cash balances fall under risk category 1, which means that cash is insured or supported by collateral.

#### 5. Property and Equipment

A summary of the property and equipment classification and the related accumulated depreciation at June 30, 1998, follows:

##### Cost

Land	\$ 333,874
Land improvements	1,297,053
Buildings	19,304,183
Equipment	1,473,401
Construction in progress	<u>4,302,315</u>
Total Cost	\$26,710,826

##### Accumulated Depreciation

Land	\$ 0
Land improvements	641,834
Buildings	9,142,770
Equipment	1,217,637
Construction in progress	0
Total Depreciation	<u>\$11,002,241</u>
Property and Equipment (net)	<u>\$15,708,585</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*, 1993 edition, issued by the American Hospital Association. Construction in progress consists of various projects to repair or improve the facilities of the Institute.

## **6. Loan from Treasury**

The State of Wisconsin Treasury provided the Institute a loan of \$5,668,548 as of June 30, 1998, to cover cash overdrafts in appropriations. The Institute is expected to repay this loan.

## **7. Overhead**

The State of Wisconsin provided \$1,320,981 of administrative services, funded by general purpose revenues, to Mendota Mental Health Institute during FY 1997-98. 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 filed with Blue Cross/Blue Shield to determine the final Medical Assistance settlement for the year. During FY 1997-98, the Institute remitted \$295,148 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.

## **8. 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 filed with Blue Cross/Blue Shield to determine the final Medical Assistance settlement for the year. During FY 1997-98, the Institute remitted to the State of Wisconsin General Fund \$154,093 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.

## **9. Insurance Reimbursements for Forensic Patients**

Forensic patients are patients committed to the Institute through the criminal justice system. The Institute receives general purpose revenue to provide care to forensic patients. Insurance reimbursements for forensic patient care are deposited in the State Treasury in a general purpose revenue-earned appropriation that the Institute does not control. Therefore, the statements reflect expected reimbursements as a receivable and as a payable to the State of Wisconsin. For the year ending June 30, 1998, the receivable from Medical Assistance, Medicare, and private insurers for the care of forensic patients, and the related payable to the State of Wisconsin, was \$646,082.



## 10. Obligations Under Capital Leases

During FY 1997-98, Mendota Mental Health Institute leased a chemistry analyzer, a hematology analyzer, and communications equipment. The terms of the leases are all 60 months. The lease for the communications equipment ended on January 31, 1998. The value of the equipment under lease as of June 30, 1998, was \$305,300. The accumulated depreciation on the equipment totaled \$209,269, resulting in a net book value of \$96,031.

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, 1998:

For the year ending:	
June 30, 1999	\$50,766
June 30, 2000	23,216
June 30, 2001	23,216
June 30, 2002	1,935
June 30, 2003	<u>0</u>
Total minimum lease payments	\$99,133
Less: amounts representing interest	<u>5,591</u>
Present value of minimum lease payments	93,542
Less: current maturities	<u>47,289</u>
Long-term portion of present value of minimum lease payments	\$46,253

## 11. 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	\$564,704
Less: accumulated depreciation	<u>348,738</u>
	\$215,966

Minimum future lease payments to be received during the year ended June 30, 1999, are \$90,370.

**12. Obligations Under Operating Leases**

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

Future minimum rental payments required under the operating leases as of June 30, 1998, are as follows for the year ended:

June 30, 1999	\$34,212
June 30, 2000	2,684
June 30, 2001	0

The composition of the total rental expense for the year ended June 30, 1998, is as follows:

Minimum rentals	\$34,212
Contingent rentals	0
Less: sublease rentals	<u>0</u>
Rental Expense	\$34,212

**13. Prior - Period Adjustments**

The beginning FY 1997-98 retained earnings balance was adjusted to correct for the net overstatement of accounts receivable in prior years; the reclassification of certain contractual services from the restricted fund to the unrestricted fund; and an error in the valuation of a leased asset that caused accumulated depreciation to be understated in prior years and long-term capital leases to be overstated in prior years. The prior - period adjustments consist of:

Unrestricted Fund

Net overstatement in prior years'	
accounts receivable	\$(2,597,468)
Reclassification of contractual services	23,838
Net adjustment to assets and liabilities due to error in leased asset valuation	<u>7,513</u>
Total Prior-Period Adjustment	\$(2,566,117)

Restricted Fund

Reclassification of contractual services	\$ (23,838)
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Of the total prior-period adjustment, \$1,721,819 pertains to FY 1996-97 operations. The Institute previously reported a FY 1996-97 net income of \$739,843. The adjusted amount is a net loss of \$981,976.

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## REQUIRED SUPPLEMENTARY INFORMATION FOR MENDOTA MENTAL HEALTH INSTITUTE—YEAR 2000

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The Wisconsin Department of Health and Family Services has a year 2000 plan that oversees year 2000 issues related to all organizations within the Department, including the Mendota Mental Health Institute. The year 2000 issue refers to the many computer programs that use only the last two digits to refer to a year. Therefore, both 1900 and 2000 would be referred to as “00.” Computer programs have to be adjusted to recognize the difference between those two years or the programs may fail or create errors. The year 2000 issue could also affect electronic equipment containing computer chips that have date-recognition features.

The Department has made a commitment to be able to seamlessly deliver services to the citizens of Wisconsin through and beyond January 1, 2000. To this end, it is engaged in a comprehensive program to provide the maximum possible confidence that all items are “year 2000 compliant.” As of January 1999, the following information is available:

Hardware and Operating Software - It is estimated that the Department has completed approximately 95 percent of the network upgrades, with the remainder to be completed by mid-1999. Of the approximately 3,800 personal computers managed by the Department, it is estimated that approximately 5 percent may not be compliant. The Department is currently on a replacement and modification schedule that will allow all personal computers to be compliant by mid-1999.

Software Applications - All modifications and testing to mainframe applications have been completed. Inventory and testing of personal computer-based applications is now being completed. Communications with vendor-supported software are continuing, and progress is monitored. All data-exchange agreements are being reviewed.

Other Equipment - All institutions and office equipment have been inventoried. Analysis is currently being done to determine year 2000 compliance. All facility equipment is being reviewed statewide for all State of Wisconsin facilities by the Wisconsin Department of Administration.

The Department of Health and Family Services is reviewing contractual arrangements with partners and suppliers, and contingency plans.

The Department has not to date identified any significant year 2000 consequences or unbudgeted costs to make the critical business applications year 2000 compliant. The costs to the Department to become year 2000 compliant have been and will continue to be absorbed within the base operating budgets, because most year 2000 compliance work is being completed by the Department as part of ongoing maintenance and upgrades previously identified and budgeted for by the Department.

In addition, the Department of Administration, which has the overall responsibility for the coordination of information technology in state government, is coordinating the State's year 2000 compliance issues. The Department of Administration has created an interagency taskforce to advise on ways to coordinate year 2000 compliance oversight activities. This approach allows the State to focus on the highest-priority year 2000 compliance issues.

The State of Wisconsin cannot provide absolute assurances that all year 2000 problems will be corrected by January 1, 2000, nor that all information technology systems will continue to work efficiently on January 1, 2000. There remains a possibility that some year 2000 problems will not be identified or corrected by January 1, 2000. Contingency plans are being developed to address these situations. The many actions that the State of Wisconsin is currently completing will minimize such potential problems, especially for critical business applications.

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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, 1998, 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.

The financial statements of Winnebago Mental Health Institute are intended to present the financial position and results of operations and cash flows of only that portion of the funds and account groups of the State of Wisconsin attributable to the transactions of the Institute.

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, 1998, and the results of its operations and cash flows for the year then ended in conformity with generally accepted accounting principles.

The required supplementary information on year 2000 on pages 33-34 is not a required part of the basic financial statements, but is supplementary information required by Governmental Accounting Standards Board technical bulletin 99-1. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and do not express an opinion on it. In addition, we do not provide assurance that Winnebago Mental Health Institute and Department of Health and Family Services are or will become year 2000 compliant, that Winnebago Mental Health Institute's and the Department of Health and Family Services' year 2000 remediation efforts will be successful in whole or in part, or that parties with which Winnebago Mental Health Institute and the Department of Health and Family Services do business are or will become year 2000 compliant.

As discussed in note 12, the financial statements of the Winnebago Mental Health Institute reflect a prior - period adjustment of \$3,693,502, primarily to correct for the net overstatement of accounts receivable in prior years.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 8, 1999, 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

October 8, 1999                      by

Bryan Naab  
Audit Director

**Winnebago Mental Health Institute**  
**Balance Sheet**  
June 30, 1998

	Unrestricted Fund	Restricted Fund	Inmate/Patient Fund	Canteen Fund	Totals (Memorandum Only)
<b>Assets</b>					
Current Assets:					
Cash and cash equivalents (Note 4)	\$ 16,048	\$ 4,817	\$ 20,062	\$ 3,762	\$ 44,689
Investments (Note 4)	0	0	65,620	8,200	73,820
Net accounts receivable (Note 9)	6,175,657	1,294	12,466	3,273	6,192,690
Due from State of Wisconsin	1,076,767	18,783	0	0	1,095,550
Supplies inventory	338,861	0	0	25,855	364,716
Prepaid items	192,895	517	0	1,693	195,105
Total Current Assets	<u>7,800,228</u>	<u>25,411</u>	<u>98,148</u>	<u>42,783</u>	<u>7,966,570</u>
Property and Equipment:					
Land	230,340	0	0	0	230,340
Land improvements	450,603	0	0	0	450,603
Buildings	19,821,682	0	0	0	19,821,682
Equipment	1,092,238	0	0	7,100	1,099,338
Accumulated depreciation (Note 5)	(6,736,320)	0	0	(2,563)	(6,738,883)
Construction in progress	221,291	0	0	0	221,291
Total Property and Equipment	<u>15,079,834</u>	<u>0</u>	<u>0</u>	<u>4,537</u>	<u>15,084,371</u>
<b>TOTAL ASSETS</b>	<u><u>\$22,880,062</u></u>	<u><u>\$25,411</u></u>	<u><u>\$98,148</u></u>	<u><u>\$47,320</u></u>	<u><u>\$23,050,941</u></u>
<b>Liabilities and Fund Equity</b>					
Current Liabilities:					
Accounts payable	\$ 321,541	\$ 0	\$ 0	\$ 74	\$ 321,615
Due to community boards	31,005	0	0	0	31,005
Due to federal government	42,956	58	0	0	43,014
Due to State of Wisconsin (Note 6, 9)	11,445,824	651	0	3,988	11,450,463
Accrued expenses	1,676,929	2,403	0	2,198	1,681,530
Patient funds held in trust	0	0	98,148	0	98,148
Deferred revenue	0	0	0	144	144
Total Current Liabilities	<u>13,518,255</u>	<u>3,112</u>	<u>98,148</u>	<u>6,404</u>	<u>13,625,919</u>
Fund Equity:					
Contributed capital	25,409,793	0	0	0	25,409,793
Retained earnings--unreserved	<u>(16,047,986)</u>	<u>22,299</u>	<u>0</u>	<u>40,916</u>	<u>(15,984,771)</u>
Total Fund Equity	<u>9,361,807</u>	<u>22,299</u>	<u>0</u>	<u>40,916</u>	<u>9,425,022</u>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<u><u>\$22,880,062</u></u>	<u><u>\$25,411</u></u>	<u><u>\$98,148</u></u>	<u><u>\$47,320</u></u>	<u><u>\$23,050,941</u></u>

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, 1998

	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)	\$16,182,327	\$ 0	\$ 0	\$16,182,327
Revenue from State of Wisconsin	17,599,127	0	0	17,599,127
Miscellaneous revenue	<u>502,039</u>	<u>21,723</u>	<u>170,638</u>	<u>694,400</u>
Total Operating Revenues	<u>34,283,493</u>	<u>21,723</u>	<u>170,638</u>	<u>34,475,854</u>
<b>Operating Expenses</b>				
Salaries	20,691,449	23,268	63,417	20,778,134
Fringe benefits	7,040,256	7,653	0	7,047,909
Materials and supplies	4,368,037	38,839	121,302	4,528,178
Depreciation	945,365	0	710	946,075
Total Operating Expenses	<u>33,045,107</u>	<u>69,760</u>	<u>185,429</u>	<u>33,300,296</u>
Operating Income (Loss)	<u>1,238,386</u>	<u>(48,037)</u>	<u>(14,791)</u>	<u>1,175,558</u>
<b>Nonoperating Revenues</b>				
Revenue from State of Wisconsin	450,260	37,832	0	488,092
Gain (Loss) on sale of fixed assets	2,047	0	0	2,047
Canteen commissions	0	0	15,688	15,688
Other nonoperating revenues	<u>0</u>	<u>0</u>	<u>1,023</u>	<u>1,023</u>
Total Nonoperating Revenues	<u>452,307</u>	<u>37,832</u>	<u>16,711</u>	<u>506,850</u>
<b>Nonoperating Expenses</b>				
Materials and supplies	<u>560,260</u>	<u>0</u>	<u>6,050</u>	<u>566,310</u>
Total Nonoperating Expenses	<u>560,260</u>	<u>0</u>	<u>6,050</u>	<u>566,310</u>
Income (Loss) before Operating Transfers	1,130,433	(10,205)	(4,130)	1,116,098
Operating Transfers Out (Note 2, 7, 8)	<u>1,062,633</u>	<u>0</u>	<u>0</u>	<u>1,062,633</u>
Net Income (Loss)	67,800	(10,205)	(4,130)	53,465
<b>Retained Earnings</b>				
Retained earnings--unreserved July 1, 1997	(12,423,195)	33,415	45,046	(12,344,734)
Prior-period adjustments (Note 12)	<u>(3,692,591)</u>	<u>(911)</u>	<u>0</u>	<u>(3,693,502)</u>
Retained earnings--unreserved June 30, 1998	<u>(\$16,047,986)</u>	<u>\$22,299</u>	<u>\$40,916</u>	<u>(\$15,984,771)</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, 1998

	<u>Year Ended</u> <u>June 30, 1998</u>
Cash Flows from Operating Activities:	
Cash receipts from customers	\$34,524,464
Cash payments to suppliers for goods and services	(4,558,961)
Cash payments to employees for services	(27,625,765)
Other sources (uses) of cash	<u>60,928</u>
Net Cash Provided (Used) by Operating Activities	2,400,666
Cash Flows from Noncapital Financing Activities:	
Operating transfers out	(60,557)
Loan from State of Wisconsin	<u>(2,433,793)</u>
Net Cash Provided (Used) by Noncapital Financing Activities	(2,494,350)
Cash Flows from Capital and Related Financing Activities:	
Payments to vendors	(47,544)
Other cash flows from capital financing activities	<u>156,783</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	109,239
Cash Flows from Investing Activities:	
Purchase of investment securities	(20,221)
Proceeds from sales of investments	<u>6,675</u>
Net Cash Provided (Used) by Investing Activities	(13,546)
Net Increase (Decrease) in Cash and Cash Equivalents	2,009
Cash and Cash Equivalents, Beginning of Year	<u>42,680</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 44,689</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, 1998

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

	Year Ended <u>June 30, 1998</u>
Operating Income (Loss)	\$ 1,175,558
Adjustments to Reconcile Operating Income to Net Cash Provided by Operations:	
Depreciation	946,075
Miscellaneous nonoperating income (expense)	37,832
Changes in Assets and Liabilities:	
Decrease (Increase) in receivables	299,597
Decrease (Increase) in due from state of Wisconsin	(251,612)
Decrease (Increase) in supplies inventories	(88,761)
Decrease (Increase) in prepaid items	(3,291)
Increase (Decrease) in accrued expenses	193,806
Increase (Decrease) in accounts payable	57,858
Increase (Decrease) in due to State of Wisconsin	(11,024)
Increase (Decrease) in due to federal government	5,910
Increase (Decrease) in deferred revenue	(2)
Increase (Decrease) in patient funds held in trust	28,059
Increase (Decrease) in canteen fund	<u>10,661</u>
Total Adjustments	<u>1,225,108</u>
Net Cash Provided by Operating Activities	<u>\$ 2,400,666</u>
Noncash Investing, Capital, and Financing Activities:	
Contributions/Transfer of fixed assets	(\$5,313,549)

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 (refer to item “D” below). 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 available for general operations.
- C. Restricted Fund - Restricted funds are 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 funds are the federal revenues received by the Institute during FY 1997-98.
- D. Inmate/Patient Fund - The inmate/patient fund represents amounts held by the Institute for 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, 1998, may be obtained by writing to:

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

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 \$3,116,459 for FY 1997-98. 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 received proceeds from 21 bond issues. The bonds have maturity dates ranging from April 15, 2000 to April 15, 2017. The principal balance outstanding as of June 30, 1998 attributable to the Institute is \$10,832,433. 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, 1998 are allocated as follows:

Principal	\$1,481,334
Interest	<u>1,167,296</u>
Total paid	\$2,648,630

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 \$507,800 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 Medicare and Medical Assistance cost reports were not completed as of June 30, 1998, 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 Blue Cross/Blue Shield. 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 audit. Therefore, the proposed settlement amounts are not included in the financial statements. Subsequent to fiscal year-end, the audit of the FY 1995-96 cost report was completed. As a result, the Institute received a final settlement of \$14,952.

#### 4. 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, 1998, the carrying value of the deposits was \$112,976. The bank balance of the deposits of the inmate/patient fund, canteen fund, and contingent fund was \$123,964. 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, 1998, all cash balances fall under risk category 1, which means that cash is insured or supported by collateral.

#### 5. Property and Equipment

A summary of the property and equipment classification and the related accumulated depreciation at June 30, 1998, follows:

<u>Cost</u>	
Land	\$ 230,340
Land improvements	450,603
Buildings	19,821,682
Equipment	1,099,338
Construction in progress	<u>221,291</u>
Total Cost	\$21,823,254
<u>Accumulated Depreciation</u>	
Land	\$ 0
Land improvements	228,280
Buildings	5,727,109
Equipment	783,494
Construction in progress	<u>0</u>
Total Depreciation	<u>\$ 6,738,883</u>
Property and Equipment (net)	<u>\$15,084,371</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*, 1993 edition, issued by the American Hospital Association. Construction in progress consists of various projects to repair or improve the facilities of the Institute.

Effective June 17, 1998, Winnebago Mental Health Institute transferred ownership of Kempster Hall, with a net book value of \$4,554,251, to the State of Wisconsin Department of Corrections. Contributed capital was reduced by \$4,554,251 to reflect this transfer.

**6. Loan from Treasury**

The State of Wisconsin Treasury provided the Institute a loan of \$8,110,465 as of June 30, 1998, to cover cash overdrafts in appropriations. The Institute is expected to repay this loan.

**7. Overhead**

The State of Wisconsin provided \$1,170,300 of administrative services, funded by general purpose revenues, to Winnebago Mental Health Institute during FY 1997-98. 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 filed with Blue Cross/Blue Shield to determine the final Medical Assistance settlement for the year. During FY 1997-98, the Institute remitted \$318,943 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.

**8. 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 filed with Blue Cross/Blue Shield to determine the final Medical Assistance settlement for the year. During FY 1997-98, the Institute remitted to the State of Wisconsin General Fund \$183,037 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.

**9. Insurance Reimbursements for Forensic Patients**

Forensic patients are patients committed to the Institute through the criminal justice system. The Institute receives general purpose revenue to provide care to forensic patients. Insurance reimbursements for forensic patient care are



deposited in the State Treasury in a general purpose revenue—earned appropriation that the Institute does not control. Therefore, the statements reflect expected reimbursements as a receivable and as a payable to the State of Wisconsin. For the year ending June 30, 1998, the receivable from Medical Assistance, Medicare, and private insurers for the care of forensic patients, and the related payable to the State of Wisconsin, was \$2,058,007.

**10. 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 the following costs:

Building	\$ 21,855
Less: accumulated depreciation	<u>21,106</u>
	\$ 749

Minimum future lease payments to be received during the year ended June 30, 1999 are \$200.

**11. Obligations Under Operating Leases**

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

Future minimum rental payments required under the operating leases as of June 30, 1998, are as follows for the year ended:

June 30, 1999	\$ 9,523
June 30, 2000	5,770
June 30, 2001	2,255

The composition of the total rental expense for the fiscal year ended June 30, 1998, is as follows:

Minimum rentals	\$19,737
Contingent rentals	0
Less: sublease rentals	<u>0</u>
Rental Expense	\$19,737

Winnebago Mental Health Institute is not obligated under any capital leases as of June 30, 1998.

## 12. Prior-Period Adjustments

The beginning FY 1997-98 retained earnings balance was adjusted to correct for the net overstatement of accounts receivable in prior years, the net understatement of equipment in the prior year, the reclassification of certain contractual services from the restricted fund to the unrestricted fund, and the understatement of operating transfers out in the prior year.

### Unrestricted Fund

Net overstatement in prior years' accounts receivable	\$ (3,687,502)
Net understatement in prior year's equipment	5,046
Reclassification of contractual services	911
Net understatement in prior year's operating transfers out	<u>(11,046)</u>
Total Prior-Period Adjustment	\$ (3,692,591)

### Restricted Fund

Reclassification of contractual services	\$ (911)
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Of the total prior-period adjustment, \$2,586,904 pertains to FY 1996-97 operations. The effect of the prior-period adjustment on FY 1996-97 net income is a reduction from income of \$1,209,532 to a loss of \$1,377,372.

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## REQUIRED SUPPLEMENTARY INFORMATION FOR THE WINNEBAGO MENTAL HEALTH INSTITUTE—YEAR 2000

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The Wisconsin Department of Health and Family Services has a year 2000 plan that oversees year 2000 issues related to all organizations within the Department, including Winnebago Mental Health Institute. The year 2000 issue refers to the many computer programs that use only the last two digits to refer to a year. Therefore, both 1900 and 2000 would be referred to as “00.” Computer programs have to be adjusted to recognize the difference between those two years or the programs may fail or create errors. The year 2000 issue could also affect electronic equipment containing computer chips that have date-recognition features.

The Department has made a commitment to be able to seamlessly deliver services to the citizens of Wisconsin through and beyond January 1, 2000. To this end, it is engaged in a comprehensive program to provide the maximum possible confidence that all items are “year 2000 compliant.” As of January 1999, the following information is available:

Hardware and Operating Software - It is estimated that the Department has completed approximately 95 percent of the network upgrades, with the remainder to be completed by mid-1999. Of the approximately 3,800 personal computers managed by the Department, it is estimated that approximately 5 percent may not be compliant. The Department is currently on a replacement and modification schedule that will allow all personal computers to be compliant by mid-1999.

Software Applications - All modifications and testing to mainframe applications have been completed. Inventory and testing of personal computer-based applications is now being completed. Communications with vendor-supported software are continuing, and progress is monitored. All data-exchange agreements are being reviewed.

Other Equipment - All institutions and office equipment have been inventoried. Analysis is currently being done to determine year 2000 compliance. All facility equipment is being reviewed statewide for all State of Wisconsin facilities by the Wisconsin Department of Administration.

The Department of Health and Family Services is reviewing contractual arrangements with partners and suppliers, and contingency plans.

To date the Department has not identified any significant year 2000 consequences or unbudgeted costs to make the critical business applications year 2000 compliant. The costs to the Department to become year 2000 compliant have been and will continue to be absorbed within the base operating budgets, because most year 2000 compliance work is being completed by the Department as part of ongoing maintenance and upgrades previously identified and budgeted for by the Department.

In addition, the Department of Administration, which has the overall responsibility for the coordination of information technology in state government, is coordinating the State's year 2000 compliance issues. The Department of Administration has created an interagency taskforce to advise on ways to coordinate year 2000 compliance oversight activities. This approach allows the State to focus on the highest-priority year 2000 compliance issues.

The State of Wisconsin cannot provide absolute assurances that all year 2000 problems will be corrected by January 1, 2000, nor that all information technology systems will continue to work efficiently on January 1, 2000. There remains a possibility that some year 2000 problems will not be identified or corrected by January 1, 2000. Contingency plans are being developed to address these situations. The many actions that the State of Wisconsin is currently completing will minimize such potential problems, especially for critical business applications.

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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, 1998, and have issued our reports thereon dated October 8, 1999. 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 a reportable condition. 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. The Department does not maintain an adequate system to accumulate and summarize accurate and reliable information on patient revenues and outstanding patient accounts receivable. As a result, there is increased risk that net patient revenues and net patient accounts receivable are misstated.

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. We consider the reportable condition regarding the lack of an adequate patient accounts receivable system 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 the lack of a patients accounts receivable system, 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

October 8, 1999 by

Bryan Naab  
Audit Director