

AN AUDIT

*Wisconsin Mental
Health Institutes*

Department of Health and Family Services

02-13

August 2002

2001-2002 Joint Legislative Audit Committee Members

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State Auditor - Janice Mueller

Editor of Publications - Jeanne Thieme

Audit Prepared by

Diann Allsen, Director and Contact Person
Sherry Haakenson
Connie Christianson
Sarah Scholze

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State of Wisconsin \ LEGISLATIVE AUDIT BUREAU

JANICE MUELLER
STATE AUDITOR

22 E. MIFFLIN ST., STE. 500
MADISON, WISCONSIN 53703
(608) 266-2818
FAX (608) 267-0410
Leg.Audit.Info@legis.state.wi.us

August 20, 2002

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

Dear Senator George and Representative Leibham:

We have completed a financial audit of the Mendota and Winnebago Mental Health Institutes for the period July 1, 2000 through June 30, 2001. 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 are able to express an unqualified opinion on each Institute's financial statements. The financial statements show that, on an accrual basis, Mendota had a net loss of \$360,835 and Winnebago had a net loss of \$502,963.

We also reviewed the Department's progress in implementing its billing and accounting system for the Institutes and improving its process for estimating revenue and receivable balances. During prior years, we reported that technical problems associated with the system resulted in significant billing and collection delays and accounting problems. The Department is taking reasonable steps to address these technical issues. However, additional direction from management may be needed to improve the timeliness and effectiveness of the Department's collection efforts. As the result of continuing concerns with the Department's process for estimating patient revenues and receivables, one-time adjustments totaling \$14.6 million were required to correct reporting errors in both Institutes' patient receivable balances.

We appreciate the courtesy and cooperation extended to us by Department of Health and Family Services staff during our audit. The Department's response is the appendix.

Respectfully submitted,

A handwritten signature in cursive script that reads 'Janice Mueller'.

Janice Mueller
State Auditor

JM/DA/ss

Summary

Through the Department of Health and Family Services, the State operates the Mendota and Winnebago Mental Health Institutes, which are licensed and accredited hospitals that provide specialized diagnostic, evaluation, and treatment services for patients ranging from emotionally disturbed children to mentally ill geriatric patients, as well as forensic patients who are referred to the Institutes through the criminal justice system. The Department annually requests an audit of the Institutes' financial statements to comply with requirements of the Joint Commission on Accreditation of Hospitals. As necessary parts of this audit, we reviewed the Institutes' control procedures, assessed the fair presentation of the fiscal year (FY) 2000-01 financial statements, and reviewed compliance with statutory provisions. We are able to express an unqualified opinion on each Institute's financial statements. The financial statements show that, on an accrual basis, Mendota had a net loss of \$360,835 and Winnebago had a net loss of \$502,963.

Combined, the Institutes, which have 1,553 authorized full-time equivalent (FTE) positions, served an average daily population of 560 patients during FY 2000-01. Operations to support patient care are funded through a mix of general purpose revenue (GPR) and program revenue. During FY 2000-01, receipts from all sources totaled \$86.1 million, 51.0 percent of which was GPR. The Medical Assistance program, which is partially funded by the State, was the largest source of program revenue, representing 30.0 percent of total receipts.

The Legislature authorized three significant additions to the Institutes' nursing staff effective for FY 2000-01 and FY 2001-02: the reallocation of 34.1 FTE positions from the Department's Centers for the Developmentally Disabled, to enable the Institutes to comply with changes in federal regulations that restrict the use of seclusion and restraints to manage patient behavior; the addition of 34.5 FTE positions to manage increases in the number of patients; and the addition of 29.66 FTE positions to avoid decertification that would have made the Institutes ineligible to receive Medical Assistance and Medicare funding.

As part of our audit, we reviewed the Department's progress in implementing its billing and accounting system for the Institutes and in improving its process for estimating revenue and receivable balances. For several years, the Department did not have an adequate financial reporting system for patient revenues and account balances. In January 1999, it began implementing a \$525,000 billing and accounting system. In doing so, the Department has encountered several issues that resulted in billing, collection, and accounting problems. The Department has taken reasonable steps to address these technical issues; however, additional direction from management may be needed to improve the timeliness and effectiveness of the Department's collection efforts. While progress has been made in more timely billings and collections, we continue to have concerns with the compilation of accounting estimates for collectible amounts.

As a result of problems encountered in implementing the billing and accounting system and of the limited historical data available, the Department has had limited documentation to support its estimates of collectibility. In addition, the Department did not consider outstanding balances from previous years in compiling its revenue and receivable balances for the current year's estimation process. Further, there has been limited communication between the billing and collection unit and those individuals responsible for compiling the financial statements. Therefore, we performed additional audit steps to assess the reasonableness of the Department's estimates. During the audit, one-time adjustments were made to reduce patient receivable balances by \$14.6 million, largely to correct errors in estimated receivables from prior years. We again recommend improvements for the Department's process for developing and documenting estimates of patient revenues and receivables.

Introduction

Through the Department of Health and Family Services' Division of Care and Treatment Facilities, the State operates the Mendota and Winnebago Mental Health Institutes, which are licensed and accredited hospitals that provide specialized diagnostic, evaluation, and treatment services for patients ranging from emotionally disturbed children to mentally ill geriatric patients, as well as forensic patients who are referred to the Institutes through the criminal justice system. The Institutes cannot refuse to treat patients who have been denied care in other facilities.

The Department annually requests the audit of the Institutes' financial statements to comply with requirements of the Joint Commission on Accreditation of Hospitals. As necessary parts of this audit, we reviewed the Institutes' control procedures, assessed the fair presentation of the fiscal year (FY) 2000-01 financial statements, and reviewed compliance with statutory provisions. We also reviewed the Department's progress in implementing its billing and accounting system for the Institutes and in improving its process for estimating revenue and receivable balances.

Average Daily Population

The Institutes' average daily population has grown steadily since 1998.

As shown in Table 1, the average daily population of both Mendota and Winnebago decreased during the first part of the 1990s. However, there has been steady growth in the patient population since 1998.

Table 1

Ten-Year Trends in Average Daily Population and Capacity For the fiscal year ending June 30

	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
<u>Mendota</u>										
Average Daily Population	263	260	244	241	244	268	258	263	269	281
Capacity	317	312	305	295	275	300	300	293	293	299
Percentage Filled	83.0	83.3	80.0	81.7	88.7	89.3	86.0	89.8	91.8	94.0
<u>Winnebago</u>										
Average Daily Population	252	245	239	252	242	249	259	267	274	279
Capacity	330	330	330	330	330	330	330	313	313	299
Percentage Filled	76.4	74.2	72.4	76.4	73.3	75.5	78.5	85.3	87.5	93.3

Patient Care Funding Sources

Care for forensic patients is funded by GPR.

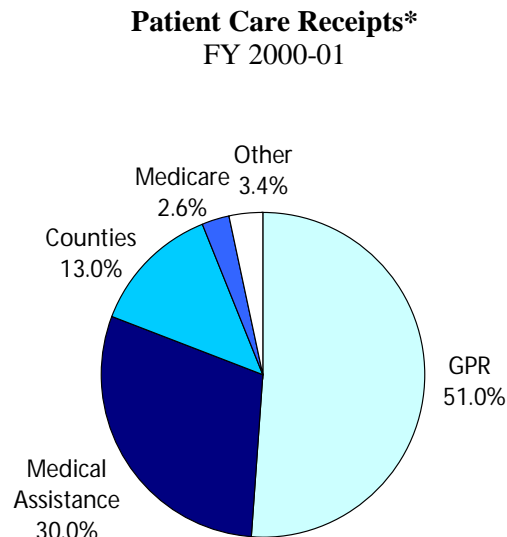
The Institutes are funded through a mix of general purpose revenue (GPR) and program revenue. Forensic patients are referred from the criminal justice system and include individuals being evaluated for competency to stand trial, as well as individuals charged with crimes who have been found either incompetent to stand trial or not guilty of the crimes by reason of mental defect or disease. Forensic patient charges are initially funded by GPR. The costs of providing care for patients committed through civil proceedings or by voluntary placement are funded primarily through program revenue generated by daily charges for patient care. These charges are paid by counties; the Medical Assistance program, through which the State funds approximately 40 percent and the federal government funds the remaining 60 percent; Medicare; and private payers.

Average daily patient rates as of June 30, 2001, were \$581 at Mendota and \$514 at Winnebago. These rates, which are intended to cover the full cost of providing patient care services, represent an increase of \$6 and \$5, respectively, over the prior year.

During FY 2000-01, the Department received \$86.1 million in support for patient services.

Figure 1 illustrates the Institutes' funding sources for patient care during FY 2000-01. GPR support accounts for 51.0 percent of the \$86.1 million received. The Medical Assistance program, which is partially funded by the State, represents the largest source of program revenue.

Figure 1



* Represents cash receipts.

The Legislature appropriates GPR for the Institutes based on an estimate of the proportion of forensic patients in the Institutes' entire population. For FY 2000-01, the Legislature appropriated funds to support 73 percent of Mendota's population and 57 percent of Winnebago's. The actual forensic patient stays represented 71 percent of Mendota's population and 49 percent of Winnebago's.

Staffing

The Institutes had 1,553 authorized positions as of June 30, 2001.

As of June 30, 2001, the two Institutes had a total of 1,553 authorized full-time equivalent (FTE) positions, which represented an increase of 86.0 FTE positions, or 5.9 percent, compared with the prior year. Of the additional FTE positions, 36.0 are nursing staff, which includes 34.1 FTE positions the Legislature provided through reallocation of nursing staff positions from the Department's Centers for the Developmentally Disabled, so that the Institutes could comply with a change in federal regulations that restricts the use of seclusion and restraints to manage patient behavior.

During FY 2000-01, the Institutes reported \$2.5 million in expenses for night and weekend differentials in nursing staff pay and total overtime for all positions at the Institutes; that amount represents an increase of 31.7 percent from FY 1999-2000. The most significant increase was Mendota's overtime, which increased 49.7 percent. In June 2001, the Legislature approved a request under s. 16.505/515, Wis. Stats., to provide 34.5 FTE positions to address population growth and increases in patient acuity, including the addition of a new 20-bed unit at Mendota.

A federal survey of Mendota in June 2001 resulted in a potential decertification notice.

Also in June 2001, the federal Centers for Medicaid and Medicare Services conducted a survey of Mendota to certify whether it could continue to be eligible for federal funding. This unannounced survey found staffing deficiencies at Mendota, including the need for additional nursing staff on night shifts and the need for registered nurses on some units; high use of mandatory overtime; inadequate therapeutic and rehabilitative services; and various documentation deficiencies. The survey indicated that without appropriate corrective action, Mendota would be decertified from participation in federal funding. The Department projected the decertification would result in the loss of up to \$9.4 million in Medical Assistance and Medicare funds.

Although a federal survey has not yet been conducted at Winnebago, the Department anticipates that Winnebago will be surveyed in the future. Based on standards used in the federal survey of Mendota, the Department considered staffing levels at Winnebago to be deficient. To address the deficiencies:

- The Legislature's Joint Committee on Finance authorized 29.66 additional FTE positions for Mendota and Winnebago. The additional positions assigned to Mendota enabled Mendota to demonstrate that appropriate action was taken and to thereby avoid decertification.
- The Department of Employment Relations authorized the Institutes to continuously recruit for critical positions, to address federal findings of excessive vacancies.
- Mendota increased staffing on several units by redirecting 28.0 FTE positions authorized in June 2001 to staff a new unit. However, the subsequent closing of a forensic juvenile treatment unit because of declines in the juvenile population at the Department of Corrections allowed Mendota to open the originally approved 20-bed unit in April 2002.

The Institutes' financial operations are complex because the mix of patients the Institutes accommodate is supported by a number of different funding sources. For several years, the Department did not have an adequate financial reporting system for patient revenues and account balances. In January 1999, it began implementing a new \$525,000 billing and accounting system, referred to as Insight. As noted in our audit of the Institutes' FY 1999-2000 financial statements (report 01-14), the Department encountered several problems in implementing the system, which resulted in billing, collection, and accounting problems. While the Department has made progress in addressing these issues, continued efforts are needed to further improve the timeliness of billing and collection activities and to address associated accounting issues.

In separate correspondence with management, we communicated security concerns related to the Insight system. For example, we identified several instances in which the level of access available to system users exceeded the level of access needed to complete their job responsibilities. The confidential nature of the patient information on the system, which is protected by s. 51.61(1)(n), Wis. Stats., increases the importance of limiting and controlling access. The Department has agreed to take steps to address the security concerns.

Billing and Collection Activities

For care provided to patients eligible for Medical Assistance, who are primarily children under the age of 21, the Department bills the Medical Assistance program directly. For other patients, the cost of care is generally funded initially by the counties in which they reside or, in the case of forensic patients, by GPR. The Department's Billing and Collection Unit within the Bureau of Fiscal Services attempts to collect from third parties, such as Medicare, commercial insurance providers, or the patients, in order to reimburse the counties or the State for GPR support.

Additional direction from management could improve collection efforts.

However, technical problems associated with the Insight system have resulted in significant billing and collection delays. The Department is in the process of addressing these system problems and has improved the timeliness of recent billings. As the system problems are resolved, additional direction from management on collection priorities could further improve the timeliness and effectiveness of the Department's collection efforts.

With five staff members, the Department services over 35,000 patient accounts, which is equivalent to approximately 7,000 accounts per responsible staff member in the Billing and Collection Unit. Activities of these staff have been affected by problems in implementing two automated billing functions within Insight: functions that bill patients or patients' relatives after partial payments or denials are received from other sources, and functions that accurately process bills to secondary payers when a full or partial denial of charges is received from the primary payer. In the first instance, Insight was including all outstanding charges, rather than the amounts for which the Department had previously determined the patient or patients' relatives were responsible. The process of billing secondary payers has remained largely a manual process.

The Department assigned a project manager to work with Insight's developer to make programming changes that address these billing functions, as well as other requested system refinements. Insight began generating accurate bills to patients and patients' relatives in January 2002, and the Department anticipates that Insight will more accurately process bills to secondary payers by the end of the summer of 2002.

As the Department worked to address the technical system problems, billing and collection staff also focused their efforts on increasing the timeliness of their billing and collection activities. As a result, most of the Institutes' billings are now being processed in a timely manner, with the exception of Medicare bills. In some instances, the Department is still billing Medicare charges incurred during October 2000. Further, more recent Medicare charges cannot be billed until claims from prior periods are settled.

The Medicare program is complex and requires significant staff time to process claims. Medicare psychiatric coverage is limited, and long-term patients' coverage can be exhausted relatively early in their stays. For example, while Medicare represented the primary payer for approximately 20.2 percent of total charges in FY 2000-01, it accounted for only 2.6 percent of receipts. However, the Department must submit claims for Medicare coverage because denials from Medicare are occasionally required to pursue payment from other sources, such as private insurance. In addition, Medicare requires the claims to be filed in order to ensure the accuracy of data concerning psychiatric days available. To further address delays in Medicare billings, the Department plans to have Institutes staff research whether psychiatric days are available upon admission. If Institutes staff determine that no psychiatric days are available, these claims will be directed to one individual in the Billing and Collection Unit who will then submit them to Medicare.

As the Department continues to improve the timeliness of its billing activities, it also has begun to direct its attention to improving the effectiveness of its collection activities. For example, the Department has refined the “tickler” system in Insight and has created several reports that enable collectors to identify claims that may be a higher priority. It also has begun discussing changes with Insight’s software developer to make system changes that will provide statistical information on collectors’ activities.

Currently, there are no formal benchmarks to evaluate and monitor performance.

We also believe the Department would benefit from additional management direction and oversight of collection activities, such as establishing, communicating, and monitoring collection priorities and targets for the Billing and Collection Unit overall and for individual staff within it. Compiling statistical information, such as average days to collect patient receivables, collections by payer type, and reimbursements to the State and counties, could help the Billing and Collection Unit to establish priorities. In addition, gathering collection data for individual staff members would help management identify areas in which additional guidance or training may be needed. Currently, there are no formal benchmarks or processes to evaluate and monitor the Unit’s or individual staff’s performance in the timeliness and effectiveness of collection activities. *Therefore, we recommend the Department of Health and Family Services establish benchmarks for the Billing and Collection Unit and for individual staff within it, and actively monitor the results of the Billing and Collection Unit compared to established benchmarks.*

Agency Response: The Billing and Collection Unit agrees with the need to establish benchmarks. The Unit is in the process of proposing priorities that maintain the progress made in billing, maximize revenues, and most appropriately allocate staff resources. The proposed priorities will be approved by both the Bureau of Fiscal Services and the Division of Care and Treatment Facilities. Benchmarks will also be developed to actively monitor the Billing and Collection Unit’s results in meeting established priorities.

Accounting Issues

The Department needs continued improvement in its process and documentation for developing estimates of revenue collections.

To properly present revenue and accounts receivable balances in the Institutes’ financial statements, the Department develops estimates of the amount of revenue that will be collected from the different parties paying for the care and treatment of the Institutes’ patients, including Medical Assistance, Medicare, and commercial insurance. During our prior audit, we raised concerns regarding how these estimates were derived and offered steps to improve the Department’s estimation process. While we found that some improvements were made in developing estimates, additional audit steps were still needed to assess

the reasonableness of the revenue and receivable balances. Therefore, we again offer steps for the Department to take to improve its estimation process and provide more complete documentation to support its estimates in the future.

First, the Department needs to develop and document historical trends for the type of receivable. In developing its estimates of collectibility for FY 2000-01, the Department used only data from the prior year, and there were no examples or case studies to support these estimates or to supplement limited historical information. While we acknowledge that limited historical data are available under Insight, in the absence of such data management should consider current conditions that may not be fully incorporated into the limited historical information, such as delays in billing and collection activities.

Second, the Department needs to consider different rates of collectibility based on the age of a receivable, as is common industry practice. At a minimum, assessments of the collectibility between current and prior-year receivables should be made, taking into consideration filing deadlines, such as a one-year requirement for Medical Assistance.

Third, the Department needs to develop a receivable report that differentiates between current-year and prior charges. In compiling adjustments to the receivable balances, the Department only considered current-year charges. However, the receivable balance also includes charges from prior periods that, for the most part, are uncollectible. We took additional audit steps to analyze these balances and proposed that the Department complete its own analysis of prior-year charges still included in the receivable balance, to assess whether it believed that such balances would be collected. The Department's subsequent analysis resulted in additional material adjustments to reduce revenue and receivable balances. The absence of reports that distinguish between current and prior charges also limits the Department's ability to assess whether past estimates were reasonable and to further refine future estimates based on actual results.

Fourth, the Department needs to ensure that the Billing and Collection Unit staff and staff responsible for compiling the financial statements are discussing the collectibility of receivables. We have observed limited communication related to the analysis of information on Insight compared to balances reported on the financial statements. For example, while collection staff compiled the data used to adjust the financial statements to reflect the percentage of charges that were uncollectible, there was limited communication about how these percentages would be applied or whether additional adjustments were needed. We identified additional material adjustments for charges because collection staff agreed that minimal collections would be received, yet this information had not been

communicated to the accounting staff, nor did accounting staff inquire about the collectibility of these charges. Collaborative efforts between accounting and collection staff are necessary to fully ensure collection activities are properly reflected in the financial statements.

As a result of this audit, combined adjustments of \$14.6 million were made to reduce the receivable balances reported in the financial statements of both Institutes. The adjustments represented a 44.5 percent decrease from the initially reported receivable balances. Over \$10.5 million of the adjustments were made to correct estimated receivables from prior years. Had the Department taken the additional steps outlined above, the corrections made through the audit may have been unnecessary, and the amount of audit assistance needed to develop reasonable estimates of the receivable balances would have been limited. Therefore, we again recommend the Department of Health and Family Services take steps to improve its process to develop and document estimates of collectibility, including:

- developing and documenting trends based on the age and type of the receivables;
- considering additional reports from Insight that may assist it in understanding the outstanding receivable balances and any potential adjustments necessary;
and
- increasing communication between the collection and accounting staff to ensure that the financial statements appropriately reflect collection activities.

Agency Response: The Department agrees with the recommendation. Improvements have been made in developing estimates of collectibility. Additional efforts will be made by collection and accounting staff to improve the processes used to develop and document estimates of collectibility.

Independent Auditor's Report on the Financial Statements of Mendota Mental Health Institute

We have audited the accompanying balance sheet of the State of Wisconsin Mendota Mental Health Institute as of June 30, 2001, 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 auditing standards generally accepted in the United States 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 accounting principles generally accepted in the United States.

As discussed in Note 2, Mendota Mental Health Institute's reporting entity and fund structure changed with the addition of the power plant to the financial statements. Power plant activities had previously been accounted for as a separate fund in the State of Wisconsin's general purpose financial statements. During FY 2000-01, the State of Wisconsin reclassified the power plant activities as part of the Mendota Mental Health Institute enterprise fund.

As discussed in Note 13, the Mendota Mental Health Institute's beginning retained earnings balance was restated for a correction related to an overstatement of prior years' patient revenues and accounts receivable balances totaling \$3,663,271. Due to implementation of a new billing system and billing delays that followed, the need for additional write-offs for uncollectible accounts was not identified until billings were more current.

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, 2001, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 12, 2002, 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. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

LEGISLATIVE AUDIT BUREAU

August 12, 2002

by 
Diann Allsen
Audit Director

Mendota Mental Health Institute
Balance Sheet
June 30, 2001

	Patient Care Fund	Power Plant Fund	Patient Deposit Fund	Canteen Fund	Totals (Memorandum Only)
Assets					
Current Assets:					
Cash and cash equivalents (Note 3)	\$ 3,755	\$ 0	\$ 62,255	\$ 23,429	\$ 89,439
Net accounts receivable (Note 7)	4,332,669	92,410	0	1,679	4,426,758
Due from State of Wisconsin	1,321,847	0	0	0	1,321,847
Supplies inventory	198,337	68,712	0	3,615	270,664
Prepaid items	393,689	8,344	0	0	402,033
Total Current Assets	<u>6,250,297</u>	<u>169,466</u>	<u>62,255</u>	<u>28,723</u>	<u>6,510,741</u>
Property and Equipment (Note 4):					
Land	333,874	4,380	0	0	338,254
Land improvements	1,442,184	70,005	0	0	1,512,189
Buildings	22,686,429	4,674,250	0	0	27,360,679
Equipment	1,399,740	175,219	0	0	1,574,959
Accumulated depreciation	(12,501,102)	(3,026,221)	0	0	(15,527,323)
Construction in progress	1,824,163	0	0	0	1,824,163
Total Property and Equipment	<u>15,185,288</u>	<u>1,897,633</u>	<u>0</u>	<u>0</u>	<u>17,082,921</u>
Total Assets	<u>\$ 21,435,585</u>	<u>\$ 2,067,099</u>	<u>\$ 62,255</u>	<u>\$ 28,723</u>	<u>\$ 23,593,662</u>
Liabilities and Fund Equity					
Current Liabilities:					
Accounts payable	\$ 1,857,875	\$ 26,749	\$ 0	\$ 5,187	\$ 1,889,811
Settlement due to Medicaid/Medicare (Note 6)	61,913	0	0	0	61,913
Due to State of Wisconsin (Notes 5 & 8)	4,138,401	115,278	0	813	4,254,492
Accrued expenses	1,438,354	44,982	0	0	1,483,336
Capital leases—current maturities (Note 10)	43,691	0	0	0	43,691
Patient funds held in trust	0	0	62,255	0	62,255
Deferred revenue	0	0	0	12,327	12,327
Total Current Liabilities	<u>7,540,234</u>	<u>187,009</u>	<u>62,255</u>	<u>18,327</u>	<u>7,807,825</u>
Long-term Liabilities:					
Capital leases (Note 10)	<u>243,484</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>243,484</u>
Fund Equity:					
Contributed capital	27,326,189	3,647,251	0	0	30,973,440
Retained earnings—Reserved	7,256	0	0	10,396	17,652
Retained earnings—Unreserved	(13,681,578)	(1,767,161)	0	0	(15,448,739)
Total Fund Equity	<u>13,651,867</u>	<u>1,880,090</u>	<u>0</u>	<u>10,396</u>	<u>15,542,353</u>
Total Liabilities and Fund Equity	<u>\$ 21,435,585</u>	<u>\$ 2,067,099</u>	<u>\$ 62,255</u>	<u>\$ 28,723</u>	<u>\$ 23,593,662</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, 2001

	Patient Care Fund	Power Plant Fund	Canteen Fund	Totals (Memorandum Only)
Operating Revenues				
Net Revenue from Patient Care (Notes 1F & 1K)	\$ 21,118,356	\$ 0	\$ 0	\$ 21,118,356
Revenue from State of Wisconsin	26,992,839	0	0	26,992,839
Utility Sales	0	1,450,757	0	1,450,757
Miscellaneous Revenue	566,800	0	109,941	676,741
Total Operating Revenues	<u>48,677,995</u>	<u>1,450,757</u>	<u>109,941</u>	<u>50,238,693</u>
Operating Expenses				
Salaries	28,678,735	573,992	11,432	29,264,159
Fringe Benefits	9,978,106	216,432	0	10,194,538
Materials and Supplies	8,708,527	674,097	91,610	9,474,234
Depreciation	772,062	198,461	0	970,523
Total Operating Expenses	<u>48,137,430</u>	<u>1,662,982</u>	<u>103,042</u>	<u>49,903,454</u>
Operating Income (Loss)	<u>540,565</u>	<u>(212,225)</u>	<u>6,899</u>	<u>335,239</u>
Nonoperating Revenues				
Revenue from State of Wisconsin	334,608	258,131	0	592,739
Gain (Loss) on Sale of Fixed Assets	0	931	0	931
Canteen Commissions	0	0	9,084	9,084
Other Nonoperating Revenues	47,079	0	0	47,079
Total Nonoperating Revenues	<u>381,687</u>	<u>259,062</u>	<u>9,084</u>	<u>649,833</u>
Nonoperating Expenses				
Materials and Supplies	270,055	258,131	35,939	564,125
Interest Expense	43,370	0	0	43,370
Total Nonoperating Expenses	<u>313,425</u>	<u>258,131</u>	<u>35,939</u>	<u>607,495</u>
Income (Loss) before Operating Transfers	608,827	(211,294)	(19,956)	377,577
Operating Transfers Out (Note 8)	707,229	31,183	0	738,412
Net Income (Loss)	(98,402)	(242,477)	(19,956)	(360,835)
Retained Earnings				
Retained Earnings—July 1, 2000	(9,911,321)	(1,524,684)	30,352	(11,405,653)
Prior-period Adjustments (Note 13)	(3,664,599)	0	0	(3,664,599)
Retained Earnings—June 30, 2001	<u>\$ (13,674,322)</u>	<u>\$ (1,767,161)</u>	<u>\$ 10,396</u>	<u>\$ (15,431,087)</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, 2001

	<u>Year Ended</u> <u>June 30, 2001</u>
Cash Flows from Operating Activities	
Cash receipts for patient care	\$ 52,933,528
Cash payments to suppliers for goods and services	(8,311,981)
Cash payments to employees for services	(39,136,544)
Other sources (uses) of cash	61,679
Net Cash Provided (Used) by Operating Activities	<u>5,546,682</u>
Cash Flows from Noncapital Financing Activities	
Operating transfers out	(100,418)
Loan from State of Wisconsin	<u>(5,365,025)</u>
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(5,465,443)</u>
Cash Flows from Capital and Related Financing Activities	
Payments to vendors	(149,340)
Other cash flows from capital financing activities	<u>92,528</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(56,812)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	24,427
Cash and Cash Equivalents, Beginning of Year	<u>65,012</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 89,439</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, 2001

	Year Ended <u>June 30, 2001</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operations	
Operating Income	<u>\$ 335,239</u>
Adjustments to Reconcile Operating Income to Net Cash Provided by Operations:	
Depreciation	970,523
Miscellaneous nonoperating income (expense)	111,632
Changes in assets and liabilities:	
Decrease (Increase) in receivables	1,422,289
Decrease (Increase) in due from State of Wisconsin	641,032
Decrease (Increase) in supplies inventories	(40,724)
Decrease (Increase) in prepaid items	(29,515)
Increase (Decrease) in accrued expenses	(912,339)
Increase (Decrease) in Medicaid/Medicare Payable	61,913
Increase (Decrease) in accounts payable	1,596,629
Increase (Decrease) in due to State of Wisconsin	1,445,453
Increase (Decrease) in due to federal government	(70,116)
Increase (Decrease) in deferred revenue	(171)
Increase (Decrease) in patient funds held in trust	41,692
Increase (Decrease) in canteen fund	<u>(26,855)</u>
Total Adjustments	<u>5,211,443</u>
Net Cash Provided by Operating Activities	<u><u>\$ 5,546,682</u></u>
Noncash Investing, Capital, and Financing Activities:	
Contributions/transfer of fixed assets	\$1,837,493

The accompanying notes are an integral part of this statement

1. Summary of Accounting Policies

- A. Fund Accounting and Basis of Presentation - The accompanying financial statements of Mendota Mental Health Institute have been prepared in conformity with generally accepted accounting principles (GAAP) for governmental proprietary (enterprise) funds as prescribed by the Governmental Accounting Standards Board (GASB), with the exception of patient deposit 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. Patient Care Fund - The Patient Care Fund includes general operations of the Institute related to providing patient services. Receipt of funds, such as grants and gifts, where outside parties have placed user restrictions on their use are considered restricted assets and are reflected as a reservation of retained earnings.
- C. Power Plant Fund - The Power Plant Fund accounts for heat, electricity, water, and sewer services provided to the Institute and others. Revenue is derived from charges for these sales and services.
- D. Patient Deposit Fund - The Patient Deposit Fund represents amounts held by the Institute on behalf of the inmates and patients of the Institute. The Patient Deposit Fund is classified as an agency fund and uses the modified accrual basis of accounting. The modified accrual basis of accounting recognizes receivables when they become measurable and available, and payables when the related liability is incurred.
- E. Canteen Fund - The Canteen Fund reflects the operation of the canteen at the Institute.
- F. Use of Estimates - The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported assets, liabilities, revenues, and expenses during the reported period. For example, revenue from patient care and corresponding receivables are reported net of known and estimated contractual

adjustments for Medical Assistance and Medicare claims, which are subject to change as patient accounts are settled and actual contractual adjustments are determined. In addition, management makes estimates of collectibility for receivables from other third parties. The actual results could differ significantly from these estimates.

- G. Cash and Cash Equivalents - Cash and cash equivalents include bank accounts, petty cash, and cash in transit.
- H. Supplies Inventory - Inventory consists of stores and pharmacy items and is valued at cost.
- I. Property and Equipment - Property and equipment are valued at cost. 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, as follows:

Land improvements	5-25 years
Buildings	5-40 years
Equipment	3-20 years
- J. Contributed Capital - The contributed capital account reflects the value of the land, buildings, and equipment provided by the State of Wisconsin to the Institute. Most of these assets were financed with general obligation bonds.
- K. Net Patient Service Revenue - The Institute has agreements with third-party payers that provide for payments to the Institute at amounts that differ from its established rates. Revenue from patient care includes patient charges at realizable amounts, net of Medicare and Medical Assistance contractual adjustments and uncollectible amounts. A summary of the payment agreements is as follows:

Medicare - Services are reimbursed under the Tax Equity Fiscal Responsibility Act methodology. The federal Department of Health and Human Services' Centers for Medicare and Medicaid Services sets a target rate per discharge for each Institute. During the fiscal year, the Institute is reimbursed at an interim rate. A final settlement is determined after submission of the annual cost report by the Institute and audits thereof by the Medicare fiscal intermediary.

Medical Assistance - The Institute is reimbursed at an interim rate, with final settlement determined after submission of the annual cost report by the Institute and audits thereof by the Wisconsin Department of Health and Family Services. The interim rate is based on the prior year's rate and adjusted annually for changes in inflation, where such adjustments are made in accordance with the State's Medical Assistance plan.

Settlement amounts with Medicare and Medical Assistance are difficult to estimate. Proposed settlement amounts included in the annual cost report are subject to audit by fiscal intermediaries and are often revised. Therefore, estimated settlements from these third parties are not incorporated into the financial statements. When audits of the cost reports are completed and additional funding is granted, the amount is recorded as a miscellaneous revenue. When repayments are required, they are recorded as an addition to supplies and services expense.

- L. 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.

2. Changes in Reporting Entity and Fund Structure

The beginning FY 2000-01 retained earnings balance was adjusted for the addition of the power plant, which represents a change in fund structure. Power plant activities had previously been reported as a separate fund in the State of Wisconsin's general purpose financial statements. During FY 2000-01, the State of Wisconsin reclassified this fund as part of the Institute's operations.

In addition, balances included in funds formally entitled "Unrestricted Fund" and "Restricted Fund" have been consolidated within the Patient Care Fund for FY 2000-01. The net restricted assets are reflected as a reservation of retained earnings.

3. Deposits

The Institute's cash and cash equivalents include deposits of the Contingent Fund, Patient Deposit Fund, and Canteen Fund that are held in several financial institutions. The Contingent Fund is used to meet operating needs of the Institute. The Patient Deposit Fund includes deposits held on behalf of the Institute's inmates and patients, and the Canteen Fund includes cash received from operations. As of June 30, 2001, the carrying value of these deposits was \$85,136, and the bank balance was \$100,769.

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, 2001, all cash balances fall under risk category 1, which means that cash is insured or supported by collateral.

4. Property and Equipment

A summary of the property and equipment classification and the related accumulated depreciation at June 30, 2001 follows:

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net</u>
Land	\$ 338,254	\$ 0	\$ 338,254
Land improvements	1,512,189	945,359	566,830
Buildings	27,360,679	13,571,902	13,788,777
Equipment	1,574,959	1,010,062	564,897
Construction in progress	<u>1,824,163</u>	<u>0</u>	<u>1,824,163</u>
Total	\$32,610,244	\$15,527,323	\$17,082,921

Construction in progress consists of various projects to improve the facilities of the Institute.

5. Loan from the State of Wisconsin

The State of Wisconsin Treasury provided the Institute a loan of \$1,177,705 as of June 30, 2001, to cover cash overdrafts in its appropriations. The Institute is expected to repay this loan.

6. Third-Party Settlements

United Government Services conducted an audit of the FY 1997-98 Medicare cost report and concluded that the Institute owed \$361,526 to Medicare as a final settlement for services provided during FY 1997-98, which is reflected as an additional operating expense.

Subsequent to the audited fiscal year, audits of the FY 1996-97 and FY 1997-98 Medical Assistance cost reports were also finalized and required the return of \$883,003 for previous payments received, which is reflected as an additional operating expense for the current fiscal year. Concurrent with the settlement process, it was also determined that the State was entitled to \$821,090 as the result of income augmentation efforts related to Medical Assistance. The Legislature requires that income augmentation funds be deposited in the State of Wisconsin's General Fund. Since the income augmentation receipts were netted against the additional amount the Institute owed to Medical Assistance, the amount owed to the State is reflected in Due to State of Wisconsin, and the resulting net liability of \$61,913 is reported in the financial statements as of June 30, 2001.

The status of cost reports outstanding is as follows:

<u>Year</u>	<u>Medicare</u>	<u>Medical Assistance</u>
FY 1998-99	Submitted, not audited	Not submitted
FY 1999-2000	Submitted, not audited	Not submitted
FY 2000-01	Not submitted	Not submitted

7. Concentration of Credit Risk

The Institute grants credit without collateral to its patients, most of whom are state residents and are insured under third-party payer agreements. If payment is not received from third-party payers, the Institute can recover a portion of the outstanding gross charge from a secondary source. The outstanding gross charge attributable to patients who are determined to be the responsibility of the State will be reimbursed by GPR. The outstanding gross charge attributable to patients who are determined to be the responsibility of a county government will be reimbursed by the county government.

8. Reimbursements to the State

A. 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 27 bond issuances. The bonds have maturity dates ranging from April 15, 2002, to April 15, 2021. The principal balance outstanding as of June 30, 2001, attributable to the Institute is \$16,220,693. 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, 2001, are allocated as follows:

Principal	\$1,451,736
Interest	<u>994,425</u>
Total paid	\$2,446,161

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 Medical Assistance. The Institute owed \$315,973 to the General Fund as reimbursement of interest expense, which is included in the financial statements as operating transfers out.

- B. Overhead and Depreciation - The State of Wisconsin provided \$1,267,370 of administrative services, funded by GPR, to Mendota Mental Health Institute during FY 2000-01. A portion of the administrative overhead and depreciation on assets purchased by the State is later recovered through Medical Assistance patient revenue. The Institute includes overhead expense and depreciation in the Medical Assistance cost reports, which are used to determine the final Medical Assistance settlement for the year. During FY 2000-01, the Institute owed Medical Assistance payments related to overhead expense of \$227,549 and depreciation of \$91,594 to the State of Wisconsin General Fund as reimbursements for administrative services provided and for assets originally purchased by the State. The amount remitted is included in the financial statements as operating transfers out.
- C. Insurance Reimbursements for Forensic Patients - Throughout the year, forensic patients are committed to the Institute through the criminal justice system. The Institute receives GPR 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 GPR-earned appropriation at the State Treasury that 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, 2001, both the receivable from Medical Assistance, Medicare, and private insurers, less related contractual adjustments, and the related payable to the State of Wisconsin were \$1,169,133.

9. **Employee Retirement Plan**

Permanent, full-time employees 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 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. The State funds the employee's portion of required contributions. Mendota Mental Health Institute's contributions to the plan were \$4,058,843 for FY 2000-01. 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.

10. Obligations under Capital Leases

During FY 2000-01, Mendota Mental Health Institute leased a chemistry analyzer, leased a hematology analyzer, and participated in statewide master lease agreements to acquire energy-saving improvements. The terms of the leases for the chemistry analyzer and hematology analyzer are 60 months. The terms of the leases for the energy-saving improvements are 15 years. As of June 30, 2001, the value of the equipment and improvements under lease was \$445,584. The accumulated depreciation totaled \$156,813, resulting in a net book value of \$288,771.

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, 2001:

For the year ending:	
June 30, 2002	\$ 86,426
June 30, 2003	85,697
June 30, 2004	62,698
June 30, 2005	16,700
June 30, 2006	16,700
Thereafter	<u>167,000</u>
Total minimum lease payments	435,221
Less: amounts representing interest	<u>148,046</u>
Present value of minimum	
lease payments	287,175
Less: current maturities	<u>43,691</u>
Long-term portion of present value of	
minimum lease payments	\$243,484

11. Investments as a Lessor

Mendota Mental Health Institute leases excess space to other state agencies, nonprofit organizations, and a private company. The leases are classified as operating leases. The terms of the leases are for one to five years and may be renewed by mutual agreement.

The leased facilities are in buildings with the following costs:

Buildings	\$895,134
Less: accumulated depreciation	<u>584,982</u>
	\$310,152

Minimum future lease payments to be received during the year ended June 30, 2002, total \$367,737.

12. Obligations under Operating Leases

Mendota Mental Health Institute leases copiers, office space, and facsimile machines. Future minimum rental payments required under the operating leases as of June 30, 2001, are as follows for the year ended:

June 30, 2002	\$75,283
June 30, 2003	65,032
June 30, 2004	59,964
June 30, 2006	59,049
June 30, 2007	60,819
Thereafter	20,471

The composition of the total rental expense for the year ended June 30, 2001, is as follows:

Minimum rentals	\$69,867
Contingent rentals	0
Less: sublease rentals	<u>0</u>
Rental expense	\$69,867

13. Prior-Period Adjustments

The retained earnings balance was adjusted for corrections related to 1) an error in expenses related to the prior year in the amount of \$1,328, and 2) a correction related to an overstatement of accounts receivable in the amount of \$3,663,271. Due to implementation of a new billing system and billing delays that followed, the overstated accounts were not identified until most billings became current. After analyzing older accounts receivable balances, it was determined that additional write-offs should have been taken and that accounts receivable and patient revenues had been overstated in prior years.

Independent Auditor's Report on the Financial Statements of Winnebago Mental Health Institute

We have audited the accompanying balance sheet of the State of Wisconsin Winnebago Mental Health Institute as of June 30, 2001, 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 auditing standards generally accepted in the United States 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 accounting principles generally accepted in the United States.

As discussed in Note 2, Winnebago Mental Health Institute's reporting entity and fund structure changed with the addition of the power plant to the financial statements. Power plant activities had previously been accounted for as a separate fund in the State of Wisconsin's general purpose financial statements. During FY 2000-01, the State of Wisconsin reclassified the power plant activities as part of the Winnebago Mental Health Institute enterprise fund.

As discussed in Note 13, the Winnebago Mental Health Institute's beginning retained earnings balance was restated for a correction related to an overstatement of prior years' patient revenues and accounts receivable balances, totaling \$6,807,091. Due to implementation of a new billing system and billing delays that followed, the need for additional write-offs for uncollectible accounts was not identified until billings were more current.

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, 2001, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 12, 2002, 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. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

LEGISLATIVE AUDIT BUREAU

August 12, 2002

by 
Diann Allsen
Audit Director

Winnebago Mental Health Institute
Balance Sheet
June 30, 2001

	Patient Care Fund	Power Plant Fund	Patient Deposit Fund	Canteen Fund	Totals (Memorandum Only)
Assets					
Current Assets:					
Cash and cash equivalents (Note 3)	\$ 19,544	\$ 0	\$ 11,460	\$ 22,177	\$ 53,181
Investments (Note 3)	0	0	47,379	9,267	56,646
Net accounts receivable (Note 7)	6,819,595	177,944	2,932	2,539	7,003,010
Due from State of Wisconsin	1,283,990	0	0	0	1,283,990
Settlement due from Medicaid/Medicare (Note 6)	455,823	0	0	0	455,823
Supplies inventory	516,096	25,243	0	27,687	569,026
Prepaid items	414,904	5,231	0	0	420,135
Total Current Assets	<u>9,509,952</u>	<u>208,418</u>	<u>61,771</u>	<u>61,670</u>	<u>9,841,811</u>
Property and Equipment (Note 4):					
Land	230,340	800	0	0	231,140
Land improvements	511,746	0	0	0	511,746
Buildings	20,755,874	3,043,751	0	0	23,799,625
Equipment	1,187,168	6,098	0	7,100	1,200,366
Accumulated depreciation	(8,710,050)	(1,173,467)	0	(4,693)	(9,888,210)
Construction in progress	24,401	0	0	0	24,401
Total Property and Equipment	<u>13,999,479</u>	<u>1,877,182</u>	<u>0</u>	<u>2,407</u>	<u>15,879,068</u>
Total Assets	<u>\$ 23,509,431</u>	<u>\$ 2,085,600</u>	<u>\$ 61,771</u>	<u>\$ 64,077</u>	<u>\$25,720,879</u>
Liabilities and Fund Equity					
Current Liabilities:					
Accounts payable	\$ 1,747,627	\$ 19,862	\$ 0	\$ 383	\$ 1,767,872
Due to State of Wisconsin (Notes 5 & 8)	9,043,564	197,707	0	2,323	9,243,594
Accrued expenses	1,230,552	35,623	0	479	1,266,654
Capital leases—current maturities (Note 10)	24,745	2,567	0	0	27,312
Patient funds held in trust	0	0	61,771	0	61,771
Deferred revenue	0	0	0	174	174
Total Current Liabilities	<u>12,046,488</u>	<u>255,759</u>	<u>61,771</u>	<u>3,359</u>	<u>12,367,377</u>
Long-term Liabilities:					
Capital leases (Note 10)	<u>536,960</u>	<u>55,711</u>	<u>0</u>	<u>0</u>	<u>592,671</u>
Fund Equity:					
Contributed capital	25,760,442	3,083,667	0	0	28,844,109
Retained earnings—Reserved	29,003	0	0	60,718	89,721
Retained earnings—Unreserved	(14,863,462)	(1,309,537)	0	0	(16,172,999)
Total Fund Equity	<u>10,925,983</u>	<u>1,774,130</u>	<u>0</u>	<u>60,718</u>	<u>12,760,831</u>
Total Liabilities and Fund Equity	<u>\$ 23,509,431</u>	<u>\$ 2,085,600</u>	<u>\$ 61,771</u>	<u>\$ 64,077</u>	<u>\$25,720,879</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, 2001

	Patient Care Fund	Power Plant Fund	Canteen Fund	Totals (Memorandum Only)
Operating Revenues				
Net Revenue from Patient Care (Notes 1F & 1K)	\$ 22,660,950	\$ 0	\$ 0	\$ 22,660,950
Revenue from State of Wisconsin	19,100,254	0	0	19,100,254
Utility Sales	0	1,318,714	0	1,318,714
Miscellaneous Revenue	814,941	0	219,450	1,034,391
Total Operating Revenues	<u>42,576,145</u>	<u>1,318,714</u>	<u>219,450</u>	<u>44,114,309</u>
Operating Expenses				
Salaries	25,351,900	442,441	62,170	25,856,511
Fringe Benefits	8,783,596	150,046	0	8,933,642
Materials and Supplies	7,232,358	687,104	157,701	8,077,163
Depreciation	739,137	69,515	710	809,362
Total Operating Expenses	<u>42,106,991</u>	<u>1,349,106</u>	<u>220,581</u>	<u>43,676,678</u>
Operating Income (Loss)	<u>469,154</u>	<u>(30,392)</u>	<u>(1,131)</u>	<u>437,631</u>
Nonoperating Revenues				
Revenue from State of Wisconsin	208,698	24,791	0	233,489
Gain on Sale of Fixed Assets	3,479	0	0	3,479
Canteen Commissions	0	0	11,249	11,249
Other Nonoperating Revenues	100,427	0	859	101,286
Total Nonoperating Revenues	<u>312,604</u>	<u>24,791</u>	<u>12,108</u>	<u>349,503</u>
Nonoperating Expenses				
Materials and Supplies	152,670	24,791	6,585	184,046
Interest Expense	8,544	887	0	9,431
Total Nonoperating Expenses	<u>161,214</u>	<u>25,678</u>	<u>6,585</u>	<u>193,477</u>
Income before Operating Transfers	620,544	(31,279)	4,392	593,657
Operating Transfers Out (Note 8)	1,078,165	18,455	0	1,096,620
Net Income (Loss)	(457,621)	(49,734)	4,392	(502,963)
Retained Earnings				
Retained Earnings—July 1, 2000	(7,556,255)	(1,259,803)	56,326	(8,759,732)
Prior-period Adjustments (Note 13)	(6,820,583)	0	0	(6,820,583)
Retained Earnings—June 30, 2001	<u>\$ (14,834,459)</u>	<u>\$ (1,309,537)</u>	<u>\$ 60,718</u>	<u>\$ (16,083,278)</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, 2001

	Year Ended June 30, 2001
Cash Flows from Operating Activities	
Cash receipts for patient care	\$ 43,843,279
Cash payments to suppliers for goods and services	(7,401,513)
Cash payments to employees for services	(34,521,651)
Other sources (uses) of cash	<u>63,807</u>
Net Cash Provided (Used) by Operating Activities	<u>1,983,922</u>
Cash Flows from Noncapital Financing Activities	
Operating transfers out	(100,684)
Loan from State of Wisconsin	<u>(1,989,043)</u>
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(2,089,727)</u>
Cash Flows from Capital and Related Financing Activities	
Payments to vendors	(154,000)
Other cash flows from capital financing activities	<u>90,353</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(63,647)</u>
Cash Flows from Investing Activities	
Purchase of investment securities	(277)
Proceeds from sales of investments	35,103
Investment and Interest Receipts	<u>277</u>
Net Cash Provided (Used) by Investing Activities	<u>35,103</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(134,349)
Cash and Cash Equivalents, Beginning of Year	<u>187,530</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 53,181</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, 2001

	Year Ended June 30, 2001
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operations	
Operating Income (Loss)	\$ 437,631
Adjustments to Reconcile Operating Income to Net Cash Provided by Operations:	
Depreciation	809,361
Miscellaneous nonoperating income (expense)	156,455
Changes in assets and liabilities:	
Decrease (Increase) in receivables	142,367
Decrease (Increase) in due from State of Wisconsin	(90,151)
Decrease (Increase) in Medicaid/Medicare receivable	(455,823)
Decrease (Increase) in supplies inventories	(70,697)
Decrease (Increase) in prepaid items	(80,151)
Increase (Decrease) in accrued expenses	(803,191)
Increase (Decrease) in accounts payable	1,526,810
Increase (Decrease) in due to State of Wisconsin	584,583
Increase (Decrease) in due to federal government	(60,665)
Increase (Decrease) in deferred revenue	35
Increase (Decrease) in patient funds held in trust	(117,820)
Increase (Decrease) in canteen fund	5,178
Total Adjustments	<u>1,546,291</u>
Net Cash Provided by Operating Activities	<u>\$ 1,983,922</u>
Noncash Investing, Capital, and Financing Activities:	
Contributions/transfer of fixed assets	\$ 179,238

The accompanying notes are an integral part of this statement.

1. Summary of Accounting Policies

- A. Fund Accounting and Basis of Presentation - The accompanying financial statements of Winnebago Mental Health Institute have been prepared in conformity with generally accepted accounting principles (GAAP) for governmental proprietary (enterprise) funds as prescribed by the Governmental Accounting Standards Board (GASB), with the exception of patient deposit 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. Patient Care Fund - The Patient Care Fund includes general operations of the Institute related to providing patient services. Receipt of funds, such as grants and gifts, where outside parties have placed user restrictions on their use are considered restricted assets and reflected as a reservation of retained earnings.
- C. Power Plant Fund - The Power Plant Fund accounts for heat, electricity, water, and sewer services which is provided to the Institute and others, including other state agencies and local citizens. Revenue is derived from these sales and services.
- D. Patient Deposit Fund - The Patient Deposit Fund represents amounts held by the Institute on behalf of the inmates and patients of the Institute. The Patient Deposit Fund is classified as an agency fund and uses the modified accrual basis of accounting. The modified accrual basis of accounting recognizes receivables when they become measurable and available, and payables when the related liability is incurred.
- E. Canteen Fund - The Canteen Fund reflects the operation of the canteen at the Institute.
- F. Use of Estimates - The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported assets, liabilities, revenues, and expenses during the reported period. For example, revenue from patient care and corresponding

receivables are reported net of known and estimated contractual adjustments for Medical Assistance and Medicare claims, which are subject to change as patient accounts are settled and actual contractual adjustments are determined. In addition, management may make estimates of collectibility for receivables from other third parties. The actual results could differ significantly from these estimates.

- G. 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.
- H. Supplies Inventory - Inventory consists of stores and pharmacy items and is valued at cost.
- I. Property and Equipment - Property and equipment are valued at cost. 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, as follows:

Land improvements	5-25 years
Buildings	5-40 years
Equipment	3-20 years

- J. Contributed Capital - The contributed capital account reflects the value of the land, buildings, and equipment provided by the State of Wisconsin to the Institute. Most of these assets were financed with general obligation bonds.
- K. Net Patient Service Revenue - The Institute has agreements with third-party payers that provide for payments to the Institute at amounts that differ from its established rates. Revenue from patient care includes patient charges at realizable amounts, net of Medicare and Medical Assistance contractual adjustments and uncollectible amounts. A summary of the payment agreements is as follows:

Medicare - Services are reimbursed under the Tax Equity Fiscal Responsibility Act methodology. The federal Department of Health and Human Services' Centers for Medicare and Medicaid Services set a target rate per discharge for each Institute. During the fiscal year, the Institute is reimbursed at an interim rate. A final settlement is determined after submission of the annual cost report by the Institute and audits thereof by the Medicare fiscal intermediary.

Medical Assistance - The Institute is reimbursed at an interim rate with final settlement determined after submission of the annual cost report by the Institute and audits thereof by the Wisconsin Department of Health

and Family Services. The interim rate is based on the prior year's rate and adjusted annually for changes in inflation, where such adjustments are made in accordance with the State's Medical Assistance plan.

Settlement amounts with Medicare and Medical Assistance are difficult to estimate. Proposed settlement amounts included in the annual cost report are subject to audit by fiscal intermediaries and are often revised. Therefore, estimated settlements from these third parties are not incorporated into the financial statements. When audits of the cost reports are completed and additional funding is granted, the amount is recorded as a miscellaneous revenue. When repayments are required, this is recorded as an addition to supplies and services expense.

- L. 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.

2. Changes in Reporting Entity and Fund Structure

The beginning FY 2000-01 retained earnings balance was adjusted for the addition of the power plant, which represents a change in fund structure. Power plant activities had previously been reported as a separate fund in the State of Wisconsin's general purpose financial statements. During FY 2000-01, the State of Wisconsin reclassified this fund as part of the Institute's operations.

In addition, balances included in funds formally entitled "Unrestricted Fund" and "Restricted Fund" have been consolidated within the Patient Care Fund for FY 2000-01. The net restricted assets are reflected as a reservation of retained earnings.

3. Deposits and Investments

The Institute's cash and cash equivalents and investments include deposits of the Contingent Fund, Patient Care Fund, Patient Deposit Fund, and Canteen Fund in checking accounts and non-negotiable certificates of deposit that are held in several financial institutions. The Contingent Fund is used to meet operating needs of the Institute. The Patient Deposit Fund includes deposits held on behalf of the Institute's inmates and patients, and the Canteen Fund includes cash received from operations. As of June 30, 2001, the carrying value of these deposits was \$102,594, and the bank balance was \$124,508.

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, 2001, all cash and investment balances fall under risk category 1, which means that balances are insured or supported by collateral.

4. Property and Equipment

A summary of the property and equipment classification and the related accumulated depreciation at June 30, 2001, follows:

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net</u>
Land	\$ 231,140	\$ 0	\$ 231,140
Land improvements	511,746	304,365	207,381
Buildings	23,799,625	8,792,679	15,006,946
Equipment	1,200,366	791,166	409,200
Construction in progress	<u>24,401</u>	<u>0</u>	<u>24,401</u>
Total	\$25,767,278	\$9,888,210	\$15,879,068

Construction in progress consists of various projects to improve the facilities of the Institute.

5. Loan from the State of Wisconsin

The State of Wisconsin Treasury provided the Institute a loan of \$6,997,619 as of June 30, 2001, to cover cash overdrafts in its appropriations. The Institute is expected to repay this loan.

6. Third-Party Contractual Settlements

United Government Services conducted an audit of the FY 1997-98 Medicare cost report and concluded that the Institute owed \$483,396 to Medicare as a final settlement for services provided during FY 1997-98. That amount is reflected as an additional operating expense. Subsequent to the audited fiscal year, audits of the FY 1996-97 and FY 1997-98 Medical Assistance cost reports were also finalized and entitled the Institute to additional funding of \$455,823, which is recognized in miscellaneous revenue and as a receivable for the current fiscal year.

The status of cost reports outstanding is as follows:

<u>Year</u>	<u>Medicare</u>	<u>Medical Assistance</u>
FY 1998-99	Submitted, not audited	Not submitted
FY 1999-2000	Submitted, not audited	Not submitted
FY 2000-01	Not submitted	Not submitted

7. Concentration of Credit Risk

The Institute grants credit without collateral to its patients, most of whom are state residents and are insured under third-party payer agreements. If payment is not received from third-party payers, the Institute can recover a portion of the outstanding gross charge from a secondary source. The outstanding gross charge attributable to patients who are determined to be the responsibility of the State will be reimbursed by GPR. The outstanding gross charge attributable to patients who are determined to be the responsibility of a county government will be reimbursed by the county government.

8. Reimbursements to the State

A. 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 26 bond issuances. The bonds have maturity dates ranging from April 15, 2002, to April 15, 2020. The principal balance outstanding as of June 30, 2001, attributable to the Institute is \$13,387,229. 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, 2001, are allocated as follows:

Principal	\$ 964,735
Interest	<u>853,745</u>
Total paid	\$1,818,480

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 Medical Assistance. The Institute owed \$405,718 to the General Fund as reimbursement of interest expense, which is included in the financial statements as operating transfers out.

B. Overhead and Depreciation - The State of Wisconsin provided \$1,254,045 of administrative services, funded by GPR, to Winnebago Mental Health Institute during FY 2000-01. A portion of the administrative overhead and depreciation on assets purchased by the State is later recovered through Medical Assistance patient revenue. The Institute includes overhead expense and depreciation in the Medical Assistance cost reports, which are used to determine the final Medical Assistance settlement for the year. During FY 2000-01, the Institute owed Medical Assistance payments related to overhead expense of \$403,293 and depreciation of \$179,387 to the State of Wisconsin General Fund as reimbursements for administrative

services provided and for assets originally purchased by the State. The amount remitted is included in the financial statements as operating transfers out.

- C. Insurance Reimbursements for Forensic Patients - Throughout the year, forensic patients are committed to the Institute through the criminal justice system. The Institute receives GPR 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 GPR-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, 2001, both the receivable from Medical Assistance, Medicare, and private insurers, less related contractual adjustments, and the related payable to the State of Wisconsin were \$1,105,890.

9. **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. The

State funds the employee's portion of required contributions. Winnebago Mental Health Institute's contributions to the plan were \$3,358,747 for FY 2000-01. 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.

10. Obligations under Capital Leases

During FY 2000-01, Winnebago Mental Health Institute participated in statewide master lease agreements for energy-saving improvements. The terms of the leases are 15 years. The value of the improvements under lease as of June 30, 2001, was \$626,360.

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, 2001:

For the year ending:	
June 30, 2002	\$ 65,640
June 30, 2003	65,640
June 30, 2004	65,640
June 30, 2005	65,640
June 30, 2006	65,640
Thereafter	<u>623,588</u>
Total minimum lease payments	951,788
Less: amounts representing interest	<u>331,805</u>
Present value of minimum	
lease payments	619,983
Less: current maturities	<u>27,312</u>
Long-term portion of present value of	
minimum lease payments	\$592,671

11. Investments as a Lessor

Winnebago Mental Health Institute leases excess space to a nonprofit organization. The lease is classified as an operating lease. The lease is for one year and may be renewed annually 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, 2001, are \$1,200.

12. Obligations under Operating Leases

Winnebago Mental Health Institute leases copiers and facsimile machines. The terms of all leases are three years. Future minimum rental payments required under the operating leases as of June 30, 2001, are as follows for the year ended:

June 30, 2002	\$19,378
June 30, 2003	11,157
June 30, 2004	3,724

The composition of the total rental expense for the fiscal year ended June 30, 2001, is as follows:

Minimum rentals	\$23,644
Contingent rentals	0
Less: sublease rentals	<u>0</u>
Rental expense	\$23,644

13. Prior-Period Adjustments

The retained earnings balance was adjusted for corrections related to 1) a net overstatement of payables in prior years in the amount of \$13,492, and 2) a correction related to an overstatement of accounts receivable in the amount of \$6,807,091. Due to implementation of a new billing system and billing delays that followed, the overstated accounts were not identified until most billings became current. After analyzing older accounts receivable balances, it was determined that additional write-offs should have been taken and that accounts receivable and patient revenues had been overstated in prior years.

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

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, 2001, and have issued our reports thereon dated August 12, 2002. We conducted our audits in accordance with auditing standards generally accepted in the United States 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 Institutes' 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.

We believe that weaknesses in the Department's development of revenue and receivable estimates are reportable conditions. As discussed further in the section entitled "Management and Reporting of Institute Operations," the Department has encountered several problems in the implementation of a new billing and accounting system, which have resulted in a number of billing and collection problems and have reduced the reliability of financial information recorded on the system. The Department has taken the necessary steps to address the billing and collection problems, yet continued efforts are needed by the Department to address accounting issues related to developing and documenting its estimates of patient revenues and receivables.

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 conditions described above to be material weaknesses. We also noted other matters involving the internal control over financial reporting, which we have reported to management of the Department in a separate letter dated August 20, 2002.

This independent auditor's report is intended solely for the information and use of the Department's and the Institutes' management and the Wisconsin Legislature. This independent audit report, upon submission to the Joint Legislative Audit Committee, is a matter of public record and its distribution is not limited. 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.

August 12, 2002

LEGISLATIVE AUDIT BUREAU
by 
Diann Allsen
Audit Director



State of Wisconsin
Department of Health and Family Services

Scott McCallum, Governor
Phyllis J. Dubé, Secretary

August 7, 2002

Ms. Janice Mueller
State Auditor
Legislative Audit Bureau
22 E. Mifflin Street, Suite 500
Madison, WI 53703

Dear Ms. Mueller:

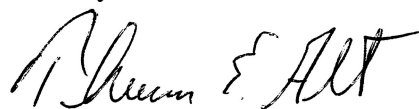
Thank you for the opportunity to respond to the Legislative Audit Bureau's audit of the Mendota Mental Health Institute and Winnebago Mental Health Institute for the period July 1, 2000 through June 30, 2001.

The reports included recommendations for improving the Department's collection activities and revenue collectability estimates. We agree with those recommendations and are continuing to make necessary change in these processes and the Insight system, which supports the billing and collection efforts. Some of the issues LAB noted in the 2000-01 audit reflect challenges that often arise when transferring account records to a new system. As such, we believe the problems will not be repeated.

LAB identified weaknesses in the Department's development of revenue and receivable estimates as reportable conditions and recommended continued efforts to improving our estimating of receivables. Estimating receivables is necessary because of the complexity of insurers' and other health care payers' payment processes. Improving the reliability of these estimates is important and the use of Insight is a major step forward in the Department's ability to account for and manage the billing and collections process. The analysis that LAB wants us to do to estimate and document receivables is made possible because of the features and analytic capabilities we have now implemented through the Insight system. In fact, these improvements made it possible to identify the adjustments to the 2000-01 accounts receivable. This confirms that we are now more capable than ever to provide timely and reliable information. We believe that we have taken appropriate steps to correct the reportable conditions for SFY 2002 and subsequent years.

Thank you, again for the opportunity to respond and for the time, effort and assistance provided by your staff during the audit.

Sincerely,


for Phyllis J. Dubé
Secretary