

AN AUDIT

*Wisconsin Mental  
Health Institutes*

*Department of Health and Family Services*

*01-14*

*September 2001*

**2001-2002 Joint Legislative Audit Committee Members**

Senate Members:

Gary R. George, Co-chairperson  
Judith Robson  
Brian Burke  
Mary Lazich  
Joanne Huelsman

Assembly Members:

Joseph K. Leibham, Co-chairperson  
Samantha Starzyk  
John Gard  
David Cullen  
Barbara Gronemus

---

---

## LEGISLATIVE AUDIT BUREAU

The Bureau is a nonpartisan legislative service agency responsible for conducting financial and program evaluation audits of state agencies. The Bureau's purpose is to provide assurance to the Legislature that financial transactions and management decisions are made effectively, efficiently, and in compliance with state law and that state agencies carry out the policies of the Legislature and the Governor. Audit Bureau reports typically contain reviews of financial transactions, analyses of agency performance or public policy issues, conclusions regarding the causes of problems found, and recommendations for improvement.

Reports are submitted to the Joint Legislative Audit Committee and made available to other committees of the Legislature and to the public. The Audit Committee may arrange public hearings on the issues identified in a report and may introduce legislation in response to the audit recommendations. However, the findings, conclusions, and recommendations in the report are those of the Legislative Audit Bureau. For more information, write the Bureau at 22 E. Mifflin Street, Suite 500, Madison, WI 53703, call (608) 266-2818, or send e-mail to [Leg.Audit.Info@legis.state.wi.us](mailto:Leg.Audit.Info@legis.state.wi.us). Electronic copies of current reports are available on line at [www.legis.state.wi.us/lab/windex.htm](http://www.legis.state.wi.us/lab/windex.htm).

---

---

State Auditor - Janice Mueller

Editor of Publications - Jeanne Thieme

Audit Prepared by

Diann Allsen, Director and Contact Person  
Sherry Haakenson  
Michelle Hinnendael  
Jessica Lange

## CONTENTS

<b>Letter of Transmittal</b>	1
<b>Summary</b>	3
<b>Introduction</b>	5
<b>Financial Operations of the Institutes</b>	7
Financial Status of the Institutes	7
Implementation of the New Billing and Accounting System	8
Billing and Collection Concerns	8
Accounting Issues	10
<b>Independent Auditor's Report on the Financial Statements of Mendota Mental Health Institute</b>	13
<b>Financial Statements of Mendota Mental Health Institute</b>	
Statement 1 - Balance Sheet as of June 30, 2000	15
Statement 2 - Statement of Revenues, Expenses, and Changes in Retained Earnings for the Year Ended June 30, 2000	16
Statement 3 - Statement of Cash Flows for the Year Ended June 30, 2000	17
<b>Notes to the Financial Statements of Mendota Mental Health Institute</b>	19
<b>Independent Auditor's Report on the Financial Statements of Winnebago Mental Health Institute</b>	27
<b>Financial Statements of Winnebago Mental Health Institute</b>	
Statement 1 - Balance Sheet as of June 30, 2000	29
Statement 2 - Statement of Revenues, Expenses, and Changes in Retained Earnings for the Year Ended June 30, 2000	30
Statement 3 - Statement of Cash Flows for the Year Ended June 30, 2000	31

**Notes to the Financial Statements of Winnebago Mental Health Institute** 33

**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** 41

\*\*\*\*



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

September 5, 2001

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, 1999 through June 30, 2000. 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 net income of \$2.8 million and Winnebago had net income of \$3.0 million, which represents a significant improvement in the Institutes' financial performance. The Department eliminated its unsupported cash deficit in the Institutes' appropriations, largely because it was able to increase daily patient billing rates and federal Medical Assistance reimbursement levels for the Institutes.

For several years, the Department did not have an adequate system to accumulate and summarize information on patient revenues and accounts receivable. In January 1999, the Department began implementing a new \$525,000 billing and accounting system; however, its automated billing functions are not yet properly working, which has resulted in delays in billing and collection activities. The Department is taking reasonable steps to solve the problems with the system and to reduce the delays, which we will continue to monitor in our future audits of the Institutes. In addition, we recommend improvements for the Department's process for developing and documenting estimates of patient revenues and receivables.

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

Respectfully submitted,

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

Janice Mueller  
State Auditor

JM/DA/ao



---

## 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. Combined, the Institutes, which have over 1,300 authorized full-time equivalent positions, served an average daily population of 543 patients during fiscal year (FY) 1999-2000.

The Department requested 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 FY 1999-2000 financial statements, and reviewed compliance with statutory provisions. We are able to express an unqualified opinion on each Institute's financial statements. We also reviewed the Institutes' financial status and the Department's progress in implementing a new billing and accounts receivable system for the Institutes.

The Institutes' patient care revenues are intended to cover the full cost of providing patient care services. However, for several years prior to FY 1996-97, the Institutes' revenues did not keep pace with their expenses, and the Institutes spent more cash than they generated. The Institutes' combined unsupported negative cash balance peaked at \$10.9 million as of June 30, 1996.

The Department has taken steps to address the unsupported negative cash balances and to improve the Institutes' financial position. The Department reported that as of June 30, 2000, it had eliminated the unsupported cash deficit in the Institutes' appropriations, largely because it was able to increase daily patient billing rates and federal Medical Assistance levels for the Institutes. The Department also has improved the overall financial position of the Institutes. During FY 1999-2000, Mendota Mental Health Institute reported net income of \$2.8 million, and Winnebago Mental Health Institute reported net income of \$3.0 million.

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. The Department has encountered several problems in the implementation of this system, which have resulted in billing, collection, and accounting problems.

Problems with two system functions in generating accurate patient bills have resulted in delays in billing and collection activities, which may have reduced the amount of reimbursement received from third parties such as commercial insurance providers, Medicare, and Medical Assistance to cover the costs of patient care and treatment. The Department is working with the software company to complete and test programming changes that will allow the system to generate accurate bills. By September 2001, the

Department anticipates that bills to patients will be accurately generated by the system, and it is currently testing another version of the system's software to resolve other system problems.

As a result of problems encountered in implementing the system and of the limited historical data available, the Department had limited documentation to support its estimates of revenues that will be collected from the different parties funding patient care and treatment. Therefore, we performed additional audit steps to assess the reasonableness of the Department's estimates and recommend improvements for the Department's process for developing and documenting estimates of patient revenues and receivables.

\*\*\*\*



---

## Introduction

---

---

**The Institutes' average daily population has increased slightly in recent years.**

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 Institutes cannot refuse to treat patients who have been denied care in other facilities. As shown in Table 1, the average daily population of both Mendota and Winnebago decreased early in the 1990s. However, since then there has been a slight upward trend in population.

---

Table 1

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

	<u>1991</u>	<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>Average Daily Population</u>										
Mendota	264	262	260	244	241	244	268	258	263	269
Winnebago	264	252	245	239	252	242	249	258	267	274
<u>Capacity</u>										
Mendota	317	317	312	305	295	275	300	300	293	293
Winnebago	330	330	330	330	330	330	330	330	313	313

---

---

**The Institutes have  
over 1,300 authorized  
positions.**

In fiscal year (FY) 1999-2000, the two Institutes had a total of 1,355.72 authorized full-time equivalent positions. Beginning in FY 2000-01, the Department reallocated 34.15 nursing staff positions from its centers for the developmentally disabled so that the Institutes could comply with a change in federal regulations that restrict the use of seclusion and restraints to manage patient behavior. Furthermore, during May and June 2001, the Legislature's Joint Committee on Finance authorized an additional 34.5 positions in response to the Department's request under s. 16.505, Wis. Stats., for additional positions to address recent population growth.

The Department requested 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 FY 1999-2000 financial statements, and reviewed compliance with statutory provisions. We also reviewed the Institutes' financial status and the Department's progress in implementing a new billing and accounting system for the Institutes.

\*\*\*\*

---

## Financial Operations of the Institutes

---

The Institutes' financial operations are complex because the mix of patients they accommodate is supported by a number of different funding sources. For several years, the Department has worked to address two areas that have adversely affected the Institutes' financial operations: an unsupported cash deficit position, and a billing and accounting system that did not adequately address their needs. During our current audit, we found that significant progress has been made to improve the financial position of the Institutes. While the Department has also made progress in implementing a new billing and accounting system, continued efforts are needed to address delays in billing and collection activities and associated accounting issues.

### Financial Status of the Institutes

---

#### Care for forensic patients is funded by general purpose revenue.

The costs of providing care for forensic patients, who are referred to the Institutes through the criminal justice system, are financed by general purpose revenue (GPR). The Legislature appropriated \$42.1 million for the care of forensic patients at the Institutes in FY 1999-2000. Forensic patients 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.

The costs of providing care for patients committed through civil proceedings or by voluntary placement are funded primarily through program revenues generated by daily charges for patient care. These charges are paid by counties; the Medical Assistance program, which is funded jointly by the State and the federal government; Medicare; and private payers. Average daily rates for patient care currently are \$580 for Mendota and \$510 for Winnebago.

The Institutes' patient care revenues are intended to cover the full cost of providing patient care services. However, for several years prior to FY 1996-97, the Institutes' revenues did not keep pace with their expenses, and the Institutes spent more cash than they generated. Typically, state agencies may spend in excess of the cash they receive, but only to the extent they have current assets, such as accounts receivable, to support the negative cash balance. The Institutes' combined unsupported negative cash balance peaked at \$10.9 million as of June 30, 1996.

---

**As of June 30, 2000,  
the unsupported cash  
deficit was eliminated  
in the Institutes'  
appropriations.**

The Department has taken steps to address the unsupported negative cash balance and to improve the Institutes' financial position, including increasing daily patient billing rates for the non-Medical Assistance and non-forensic population and working with the Department of Administration and the federal Health Care Financing Administration to increase federal Medical Assistance reimbursement based on the Institutes' actual costs of care provided to children under the Medical Assistance program. In addition to these funding changes, 1997 Wisconsin Act 27 required that the Institutes reduce the accumulated deficit by at least \$500,000 per year and that the Department submit an annual report on the status of the deficit to the Joint Committee on Finance. The Department reported that as of June 30, 2000, it had eliminated the unsupported cash deficit in the Institutes' appropriations. Based on the Department's preliminary estimates, it appears an unsupported cash deficit has not returned as of June 30, 2001.

The Department also has improved the overall financial position of the Institutes. During FY 1999-2000, Mendota Mental Health Institute reported net income of \$2.8 million, and Winnebago Mental Health Institute reported net income of \$3.0 million.

### **Implementation of the New Billing and Accounting System**

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. The Department has encountered several problems in the implementation of this system, which have resulted in billing, collection, and accounting problems.

### **Billing and Collection Concerns**

For care provided to patients eligible for Medical Assistance, who are primarily individuals under the age of 21, the Department bills the Medical Assistance program directly. The care for other patients generally is funded initially by the county in which the patient resides, or by GPR in the case of forensic patients. The Department attempts to collect from third parties, such as Medicare, commercial insurance providers, or the patients and their families, in order to reimburse the counties or the State for GPR support. The Department also contracts with a third-party billing contractor to assist in the billing process. However, difficulties encountered in the Department's implementation of the system have resulted in billing and collection delays and could ultimately reduce the amount the Department is able to collect from third parties.

---

**Problems with the Department's implementation of a new billing and accounting system have caused billing and collection delays.**

The Department's Institution Billing, Collection, and Accounting Unit services over 35,000 patient accounts for the Institutes; the centers for the developmentally disabled; and the Wisconsin Resource Center, which provides specialized mental health treatment, rehabilitation, training, and supervision to inmates serving criminal sentences who are transferred from the Department of Corrections. Traditionally, the efforts of billing and collection staff have focused primarily on collection activities. Most billing issues were resolved by a third-party contractor. However, problems with the implementation of the new system are delaying the automation of certain billing functions, which has temporarily increased the billing and collection staff's responsibility and their efforts to ensure that accurate bills are sent. Furthermore, the Department's change in its third-party billing contractor is requiring unit staff to devote more time to following up on billing issues that a previous contractor had handled in the past. The new billing contractor was selected because of its ability to process Medical Assistance billings, which allowed the Department to use this contractor's services for the centers for the developmentally disabled as well as for the Institutes. However, other billing services that the previous contractor had provided have not been automated under the system, as had been expected.

---

**Two automated billing functions are not working properly.**

The billing and collection staff's activities have been significantly affected by problems in implementing two automated billing functions. One function creates the bills that are sent to patients or their families. After partial payments or denials are received from other sources, the Department determines the amount that patients or their families are required to contribute to the cost of care, based on available resources. However, the system-generated patient bills inappropriately reflect all outstanding charges, without considering the predetermined liability. The system was also intended to automatically bill secondary payers when a full or partial denial of charges is received from the primary payer. However, the system has not accurately calculated the amounts due from the secondary payers.

As a result of the failure of these automated billing functions, the Department's billing and collection staff must manually review accounts and initiate billings to patients and secondary payers. In addition to manually processing billings that were expected to have been processed automatically, the billing and collection staff were also required to manually process payment information until the system was programmed to record electronic Medical Assistance payments in November 2000. At the time of our audit, Medicare payments were still not being automatically recorded in the system, although testing of this function was underway.

The manual processing required because of the system problems continues to delay the billing and collection of patient reimbursements. During our FY 1998-99 audit, we noted a six-month delay in initial

patient billings. During our current audit, we found that progress had been made to provide timely initial billings. However, delays continued for re-billing of charges, which must be manually processed by the billing and collection staff after denials of initial billings. The most significant backlog was related to Medicare. The Department reports that in May 2001, it initiated a concerted effort to become current in Medicare billings, which included reviewing charges incurred as far back as October 1999. It should be noted that more recent Medicare charges cannot be billed until claims from prior periods are settled.

Timely billing and collection of patient charges is important for good cash management. Furthermore, third parties typically have deadlines by which claims must be submitted. Therefore, billing delays could be reducing the amount that the Department is ultimately able to collect from the various parties, which increases the amount of support needed from the counties and GPR. Third-party deadlines are generally 18 months for Medicare, although extensions are granted if necessary, and 12 months for both Medical Assistance and private insurers, although private insurers' deadlines can vary. Medical Assistance billings are further complicated because some claims require evidence of denial by a private insurer before they will be paid by the program. Because of the complexities of the billing and reimbursement policies of the third parties, the Department is unable to estimate the amount of potential third-party payments that may have been lost because of delays.

---

**The Department is taking reasonable steps to correct the system problems.**

The Department has assigned a project manager to act as a liaison and actively work with the software company to complete and test programming changes that will allow the system to generate accurate bills. By September 2001, the Department anticipates that bills to patients will be accurately generated by the system. It is currently testing another version of the billing system, which it anticipates will eliminate the manual processing to bill secondary payers when a full or partial denial of charges is received from the primary payer. It has also assigned additional staff resources to assist in data entry and has provided an accountant position to improve its understanding and use of the system. We believe the Department is taking reasonable steps to solve the system problems and reduce the delays in billing and collection activities, and we will continue to monitor the Department's progress in our future audits of the Institutes.

### **Accounting Issues**

To properly present revenue and receivable balances in the Institutes' financial statements, the Department estimates the amount of revenues that will be collected from the different parties funding patient care and treatment. Because of the problems encountered in implementing the system and the limited historical data available, the Department had

limited documentation to support its estimates. Therefore, we performed additional audit steps to assess the reasonableness of the Department's estimates. While we found the Department's estimates acceptable, we offer steps for the Department to improve its estimation process and provide more complete documentation to support its estimates in the future.

---

**The Department needs to improve its process and documentation for developing estimates of revenue collections.**

First, the Department needs to develop and document historical trends based on the age and type of the receivable. In addition, management should consider current conditions that may not be fully incorporated into historical information, such as current billing delays to third parties. The Department's estimates of collectibility were based on the experience of collection staff, yet there was limited documentation of collection data or examples to support these estimates. In addition, the estimates were considered on a cumulative projection of collectibility. It is common industry practice to determine different rates of collectibility based on the age of the receivable. At a minimum, assessments of the collectibility between current and prior-year receivables should be made.

Second, the Department needs to consider developing additional system reports to assist it in estimating uncollectible accounts. Although an accounts receivable report is created, additional information by payer type would be useful in assessing the reasonableness of revenue and receivable balances. For example, a report that differentiates between prior-year and current year receivables by payer type would be useful in estimating uncollectible amounts. Other reports, such as one that differentiates between the collection of current charges and the collection of prior balances, could be used by the Department to further refine estimates based on historical trends.

Third, the Department needs to promote increased communication between its accounting and collection staff. In addition to obtaining information from the Department's billing system, accounting staff need to consider other factors in evaluating the completeness of the system information. For example, one component of evaluating the reasonableness of system data is understanding the collection staff's progress of maintaining timely and accurate information on the system. During our audit, we found that accounting staff were not consistently aware of collection activities, and progress in this area was not reflected in the financial statements. Changes to the financial statements to reflect collection activities were subsequently made by the accounting staff at our request.

To improve the billing and collection process, *we 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 ages and types of receivables;
- considering additional system reports that may assist in understanding outstanding receivable balances and adjustments that may be needed; and
- increasing communication between the collection and accounting staff to ensure that the financial statements appropriately reflect current collection activities.

Agency Response: On June 4, 2001, staff from both the billing and collections and the accounting units in the Bureau of Financial Services met with the Bureau of Information Systems to discuss additional information that could be generated from the new billing and accounting system and to refine methodologies for determining collectibility estimates. Reports are currently being developed to segregate the charges by board group (GPR, county board) and payer code (Medicaid, Medicare, commercial insurance). In addition, it is anticipated reports will be designed to look at subsequent period collections and capture historical data. The Bureau of Financial Services will also pursue the development of a report that will document trends based on the age and type of the receivables.

\*\*\*\*



---

# 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, 2000, 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.

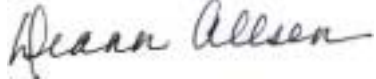
We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform 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.

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, 2000, 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 3, 2001, 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.

August 3, 2001

LEGISLATIVE AUDIT BUREAU  
by   
Diann Allsen  
Audit Director



**Mendota Mental Health Institute**  
**Balance Sheet**  
June 30, 2000

	Unrestricted Fund	Restricted Fund	Inmate/Patient Fund	Canteen Fund	Totals (Memorandum Only)
<b>Assets</b>					
Current Assets:					
Cash and cash equivalents (Note 2)	\$ 3,972	\$ 0	\$ 20,563	\$ 40,477	\$ 65,012
Net accounts receivable	11,113,046	728	0	855	11,114,629
Due from State of Wisconsin	1,412,452	43,143	0	0	1,455,595
Supplies inventory	190,008	0	0	3,820	193,828
Prepaid items	360,601	252	0	0	360,853
Total Current Assets	<u>13,080,079</u>	<u>44,123</u>	<u>20,563</u>	<u>45,152</u>	<u>13,189,917</u>
Property and Equipment:					
Land	333,874	0	0	0	333,874
Land improvements	1,442,184	0	0	0	1,442,184
Buildings	22,382,775	0	0	0	22,382,775
Equipment	1,372,438	0	0	0	1,372,438
Accumulated depreciation (Note 3)	(11,729,040)	0	0	0	(11,729,040)
Construction in progress	190,090	0	0	0	190,090
Total Property and Equipment	<u>13,992,321</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>13,992,321</u>
Total Assets	<u>\$ 27,072,400</u>	<u>\$ 44,123</u>	<u>\$ 20,563</u>	<u>\$ 45,152</u>	<u>\$ 27,182,238</u>
<b>Liabilities and Fund Equity</b>					
Current Liabilities:					
Accounts payable	\$ 153,069	\$ 0	\$ 0	\$ 1,519	\$ 154,588
Due to federal government	70,032	84	0	0	70,116
Due to State of Wisconsin (Notes 4 & 6)	8,776,654	36,860	0	783	8,814,297
Accrued expenses	2,325,917	1,096	0	0	2,327,013
Capital leases--current maturities (Note 8)	48,844	0	0	0	48,844
Patient funds held in trust	0	0	20,563	0	20,563
Deferred revenue	0	0	0	12,498	12,498
Total Current Liabilities	<u>11,374,516</u>	<u>38,040</u>	<u>20,563</u>	<u>14,800</u>	<u>11,447,919</u>
Long-term Liabilities:					
Obligations under capital leases (Note 8)	<u>126,592</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>126,592</u>
Fund Equity:					
Contributed capital	25,488,696	0	0	0	25,488,696
Retained earnings--unreserved	(9,917,404)	6,083	0	30,352	(9,880,969)
Total Fund Equity	<u>15,571,292</u>	<u>6,083</u>	<u>0</u>	<u>30,352</u>	<u>15,607,727</u>
Total Liabilities and Fund Equity	<u>\$ 27,072,400</u>	<u>\$ 44,123</u>	<u>\$ 20,563</u>	<u>\$ 45,152</u>	<u>\$ 27,182,238</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, 2000

	Unrestricted Fund	Restricted Fund	Canteen Fund	Totals (Memorandum Only)
<b>Operating Revenues</b>				
Net Revenue from Patient Care (Note 1F & 1K)	\$ 19,265,003	\$ 0	\$ 0	\$ 19,265,003
Revenue from State of Wisconsin	26,384,598	0	0	26,384,598
Miscellaneous Revenue	892,009	1,430	108,569	1,002,008
Total Operating Revenues	<u>46,541,610</u>	<u>1,430</u>	<u>108,569</u>	<u>46,651,609</u>
<b>Operating Expenses</b>				
Salaries	26,248,753	5,424	9,576	26,263,753
Fringe Benefits	9,182,081	1,324	0	9,183,405
Materials and Supplies	6,957,275	47,766	82,539	7,087,580
Depreciation	640,206	0	0	640,206
Total Operating Expenses	<u>43,028,315</u>	<u>54,514</u>	<u>92,115</u>	<u>43,174,944</u>
Operating Income (Loss)	<u>3,513,295</u>	<u>(53,084)</u>	<u>16,454</u>	<u>3,476,665</u>
<b>Nonoperating Revenues</b>				
Revenue from State of Wisconsin	468,588	53,576	0	522,164
Gain (Loss) on Sale of Fixed Assets	(1,329)	0	0	(1,329)
Canteen Commissions	0	0	10,069	10,069
Other Nonoperating Revenues	0	0	178	178
Total Nonoperating Revenues	<u>467,259</u>	<u>53,576</u>	<u>10,247</u>	<u>531,082</u>
<b>Nonoperating Expenses</b>				
Materials and Supplies	468,588	0	12,834	481,422
Interest Expense	51,139	0	0	51,139
Total Nonoperating Expenses	<u>519,727</u>	<u>0</u>	<u>12,834</u>	<u>532,561</u>
Income (Loss) before Operating Transfers	3,460,827	492	13,867	3,475,186
Operating Transfers Out (Note 6)	638,809	0	0	638,809
Net Income	2,822,018	492	13,867	2,836,377
<b>Retained Earnings</b>				
Retained Earnings--Unreserved July 1, 1999	(14,256,384)	5,591	16,485	(14,234,308)
Prior-period Adjustments (Note 11)	1,516,962	0	0	1,516,962
Retained Earnings--Unreserved June 30, 2000	<u>\$ (9,917,404)</u>	<u>\$ 6,083</u>	<u>\$ 30,352</u>	<u>\$ (9,880,969)</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, 2000

	<u>Year Ended</u> <u>June 30, 2000</u>
Cash Flows from Operating Activities:	
Cash receipts for patient care	\$ 45,838,734
Cash payments to suppliers for goods and services	(7,032,642)
Cash payments to employees for services	(35,469,651)
Other sources (uses) of cash	<u>33,543</u>
Net Cash Provided (Used) by Operating Activities	<u>3,369,984</u>
Cash Flows from Noncapital Financing Activities:	
Operating transfers out	(69,879)
Loan from State of Wisconsin	<u>(3,175,544)</u>
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(3,245,423)</u>
Cash Flows from Capital and Related Financing Activities:	
Payments to vendors	(338,286)
Other cash flows from capital financing activities	<u>213,256</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(125,030)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(469)
Cash and Cash Equivalents, Beginning of Year	<u>65,481</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 65,012</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, 2000

	<u>Year Ended</u> <u>June 30, 2000</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operations	
Operating Income	<u>\$ 3,476,665</u>
Adjustments to Reconcile Operating Income to Net Cash Provided by Operations:	
Depreciation	640,206
Miscellaneous nonoperating income (expense)	53,576
Changes in assets and liabilities:	
Decrease (Increase) in receivables	(1,720,006)
Decrease (Increase) in due from State of Wisconsin	(170,251)
Decrease (Increase) in supplies inventories	(15,655)
Decrease (Increase) in prepaid items	(31,269)
Increase (Decrease) in accrued expenses	264,883
Increase (Decrease) in accounts payable	(140,216)
Increase (Decrease) in due to State of Wisconsin	1,016,272
Increase (Decrease) in due to federal government	14,366
Increase (Decrease) in deferred revenue	(11,851)
Increase (Decrease) in patient funds held in trust	(4,149)
Increase (Decrease) in canteen fund	<u>(2,587)</u>
Total Adjustments	<u>(106,681)</u>
Net Cash Provided by Operating Activities	<u>\$ 3,369,984</u>
Noncash Investing, Capital, and Financing Activities:	
Contributions/Transfer of fixed assets	\$378,912

The accompanying notes are an integral part of this statement.

---

## Notes to the Financial Statements of Mendota Mental Health Institute

---

### 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 inmate/patient activity, which is classified as an agency fund, as discussed in Note 1D. Proprietary funds are accounted for on the accrual basis of accounting: revenues are recognized when earned, and expenses are recognized when incurred. Enterprise funds account for operations that are financed and operated in a manner similar to private business enterprises, where the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis is financed primarily through user charges. These statements do not represent the State as a whole, but instead are only part of the State of Wisconsin financial reporting entity.
- B. Unrestricted Fund - The unrestricted fund consists of funds that are not restricted by donors or grantors and are available for general operations.
- C. Restricted Fund - The restricted fund is used to segregate funds on which outside parties have placed user restrictions, or funds that have restrictions placed on them as a result of operations of the Institute. Included in the restricted fund are the federal revenues received by the Institute during FY 1999-2000.
- D. Inmate/Patient Fund - The inmate/patient fund represents amounts held by the Institute on behalf of the inmates and patients of the Institute. The inmate/patient fund is classified as an agency fund and uses the modified accrual basis of accounting, which records 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 generally accepted accounting principals 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 - The inventory 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, and are as follows:

Land Improvements	15-20 years
Buildings	10-40 years
Equipment	4-20 years
- J. 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.
- 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 Health and Human Services—Health Care Financing Administration 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 Service. 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.



- 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. 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, 2000, the carrying value of these deposits was \$63,102 and the bank balance was \$69,041.

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, 2000, all cash balances fall under risk category 1, which means that cash is insured or supported by collateral.

**3. Property and Equipment**

A summary of the property and equipment classification and the related accumulated depreciation at June 30, 2000, follows:

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net</u>
Land	\$ 333,874	\$ 0	\$ 333,874
Land improvements	1,442,184	803,000	639,184
Buildings	22,382,775	10,171,965	12,210,810
Equipment	1,372,438	754,075	618,363
Construction in progress	<u>190,090</u>	<u>0</u>	<u>190,090</u>
Total	\$25,721,361	\$11,729,040	\$13,992,321

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

**4. Loan from State of Wisconsin**

The State of Wisconsin Treasury provided the Institute a loan of \$6,184,770 as of June 30, 2000, to cover cash overdrafts in its appropriations. The Institute is expected to repay this loan.

**5. Third-Party Settlements**

The audit of the FY 1997-98 Medicare cost report, conducted by United Government Services, has been completed, and a final settlement was received in FY 2000-01 in the amount of \$330,329. A review of the settlement determined that the entire amount received was the result of income augmentation efforts. Income augmentation receipts are deposited in the State of Wisconsin General Fund as required by the Legislature. Therefore, the settlement amount was not included on the financial statements. A Medical Assistance cost report has been submitted to the third-party contractor for FY 1997-98.

The FY 1998-99 and FY 1999-2000 Medicare cost reports have been submitted but not audited by United Government Services, while the Medical Assistance cost reports for FY 1998-99 and FY 1999-2000 have not been submitted. Therefore, no third-party settlements resulting from these reports had been received or paid by year-end. The proposed settlement amounts in these reports are subject to audit and are often revised after the completion of the financial statement audit. Further, the settlement amounts are difficult to estimate. Therefore, the proposed settlement amounts are not included in the financial statements.

**6. 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 25 bond issues. The bonds have maturity dates ranging from April 15, 2002, to April 15, 2020. The principal balance outstanding as of June 30, 2000, attributable to the Institute is \$16,970,139. 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, 2000, are allocated as follows:

Principal	\$1,515,979
Interest	<u>910,157</u>
Total paid	\$2,426,136

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 owed \$290,538 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 \$1,321,705 of administrative services, funded by general purpose revenues, to Mendota Mental Health Institute during FY 1999-2000. 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 1999-2000, the Institute owed Medical Assistance payments related to overhead expense of \$212,672 and depreciation of \$64,823 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 general purpose revenue from the State of Wisconsin to cover the costs associated with care of forensic patients. In some cases, forensic patients qualify for medical insurance. Any medical insurance collections covering the charges of forensic patients are used to reimburse the State. These collections are deposited in a general purpose revenue-earned appropriation at the State Treasury, which is not controlled by the Institute. The statements reflect expected reimbursements as a receivable and as a payable to the State of Wisconsin. For the year ending June 30, 2000, both the receivable from Medical Assistance, Medicare, and private insurers, less related contractual adjustments, and the related payable to the State of Wisconsin were \$344,637.

## 7. **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, Wisconsin 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 employees' portion of required contributions. Mendota Mental Health Institute's contributions to the plan were \$3,821,432 for FY 1999-2000. 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.

## 8. Obligations Under Capital Leases

During FY 1999-2000, Mendota Mental Health Institute leased a chemistry analyzer and a hematology analyzer. The terms of the leases are 60 months. The value of the equipment under lease as of June 30, 2000, was \$285,000. The accumulated depreciation on the equipment totaled \$105,708, resulting in a net book value of \$179,292.

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, 2000:

For the year ending:	
June 30, 2001	\$ 92,213
June 30, 2002	70,932
June 30, 2003	68,997
June 30, 2004	<u>45,998</u>
Total minimum lease payments	278,140
Less: amounts representing interest	<u>102,704</u>
Present value of minimum lease payments	175,436
Less: current maturities	<u>48,844</u>
Long-term portion of present value of minimum lease payments	\$126,592

**9. Investments as a Lessor**

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

The leased facilities are in buildings with the following costs:

Buildings	\$618,242
Less: accumulated depreciation	<u>402,276</u>
	\$215,966

Minimum future lease payments to be received during the year ended June 30, 2001 total to \$301,166.

**10. Obligations Under Operating Leases**

Mendota Mental Health Institute leases copiers and security equipment. The terms of all leases are three years. Future minimum rental payments required under the operating leases as of June 30, 2000, are as follows for the year ended:

June 30, 2001	\$18,576
June 30, 2002	16,731
June 30, 2003	4,154

The composition of the total rental expense for the year ended June 30, 2000, is as follows:

Minimum rentals	\$16,668
Contingent rentals	0
Less: sublease rentals	<u>0</u>
Rental Expense	\$16,668

**11. Prior-Period Adjustments**

The beginning FY 1999-2000 retained earnings balance was adjusted for corrections related to 1) a net overstatement of depreciation in prior years in the amount of \$5,076, and 2) an overstatement in the write-offs previously recognized for receivables in the amount of \$1.5 million.

\*\*\*\*



---

## 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, 2000, 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.

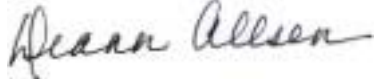
We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform 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.

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, 2000, 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 3, 2001, 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.

August 3, 2001

LEGISLATIVE AUDIT BUREAU  
by   
Diann Allsen  
Audit Director





**Winnebago Mental Health Institute**  
**Balance Sheet**  
June 30, 2000

	Unrestricted Fund	Restricted Fund	Inmate/Patient Fund	Canteen Fund	Totals (Memorandum Only)
<b>Assets</b>					
Current Assets:					
Cash and cash equivalents (Note 2)	\$ 13,377	\$ 3,379	\$ 94,178	\$ 19,798	\$ 130,732
Investments (Note 2)	0	0	82,481	8,991	91,472
Net accounts receivable	15,402,289	6,004	16,221	1,913	15,426,427
Due from State of Wisconsin	1,157,148	33,603	0	0	1,190,751
Supplies inventory	444,265	0	0	28,821	473,086
Prepaid items	339,428	556	0	0	339,984
<b>Total Current Assets</b>	<b>17,356,507</b>	<b>43,542</b>	<b>192,880</b>	<b>59,523</b>	<b>17,652,452</b>
Property and Equipment:					
Land	230,340	0	0	0	230,340
Land improvements	485,198	0	0	0	485,198
Buildings	20,205,210	0	0	0	20,205,210
Equipment	1,091,703	0	0	7,100	1,098,803
Accumulated depreciation (Note 3)	(8,020,847)	0	0	(3,983)	(8,024,830)
<b>Total Property and Equipment</b>	<b>13,991,604</b>	<b>0</b>	<b>0</b>	<b>3,117</b>	<b>13,994,721</b>
<b>Total Assets</b>	<b>\$ 31,348,111</b>	<b>\$ 43,542</b>	<b>\$ 192,880</b>	<b>\$ 62,640</b>	<b>\$ 31,647,173</b>
<b>Liabilities and Fund Equity</b>					
Current Liabilities:					
Accounts payable	\$ 160,595	\$ 0	\$ 0	\$ 560	\$ 161,155
Due to federal government	60,588	76	0	0	60,664
Due to State of Wisconsin (Notes 4 & 6)	11,073,485	10,273	0	2,264	11,086,022
Accrued expenses	2,001,027	2,824	0	3,350	2,007,201
Patient funds held in trust	0	0	192,880	0	192,880
Deferred revenue	0	0	0	140	140
<b>Total Current Liabilities</b>	<b>13,295,695</b>	<b>13,173</b>	<b>192,880</b>	<b>6,314</b>	<b>13,508,062</b>
Fund Equity:					
Contributed capital	25,639,040	0	0	0	25,639,040
Retained earnings--unreserved	(7,586,624)	30,369	0	56,326	(7,499,929)
<b>Total Fund Equity</b>	<b>18,052,416</b>	<b>30,369</b>	<b>0</b>	<b>56,326</b>	<b>18,139,111</b>
<b>Total Liabilities and Fund Equity</b>	<b>\$ 31,348,111</b>	<b>\$ 43,542</b>	<b>\$ 192,880</b>	<b>\$ 62,640</b>	<b>\$ 31,647,173</b>

The accompanying notes are an integral part of this statement.

**Winnebago Mental Health Institute**  
**Statement of Revenues, Expenses, and Changes in Retained Earnings**  
for the Year Ended June 30, 2000

	Unrestricted Fund	Restricted Fund	Canteen Fund	Totals (Memorandum Only)
<b>Operating Revenues</b>				
Net Revenue from Patient Care (Note 1F & 1K)	\$ 21,389,323	\$ 0	\$ 0	\$ 21,389,323
Revenue from State of Wisconsin	18,861,103	0	0	18,861,103
Miscellaneous Revenue	344,891	17,434	206,299	568,624
Total Operating Revenues	<u>40,595,317</u>	<u>17,434</u>	<u>206,299</u>	<u>40,819,050</u>
<b>Operating Expenses</b>				
Salaries	22,712,674	22,052	55,056	22,789,782
Fringe Benefits	7,641,977	6,010	0	7,647,987
Materials and Supplies	5,738,183	47,334	148,712	5,934,229
Depreciation	723,103	0	710	723,813
Total Operating Expenses	<u>36,815,937</u>	<u>75,396</u>	<u>204,478</u>	<u>37,095,811</u>
Operating Income (Loss)	<u>3,779,380</u>	<u>(57,962)</u>	<u>1,821</u>	<u>3,723,239</u>
<b>Nonoperating Revenues</b>				
Revenue from State of Wisconsin	45,568	58,542	0	104,110
Gain on Sale of Fixed Assets	1,674	0	0	1,674
Canteen Commissions	0	0	10,794	10,794
Other Nonoperating Revenues	0	0	758	758
Total Nonoperating Revenues	<u>47,242</u>	<u>58,542</u>	<u>11,552</u>	<u>117,336</u>
<b>Nonoperating Expenses</b>				
Materials and Supplies	45,568	0	1,957	47,525
Total Nonoperating Expenses	<u>45,568</u>	<u>0</u>	<u>1,957</u>	<u>47,525</u>
Income before Operating Transfers	3,781,054	580	11,416	3,793,050
Operating Transfers Out (Note 6)	833,966	0	0	833,966
Net Income	2,947,088	580	11,416	2,959,084
<b>Retained Earnings</b>				
Retained Earnings--Unreserved July 1, 1999	(13,450,458)	29,789	44,910	(13,375,759)
Prior-period Adjustments (Note 10)	2,916,746	0	0	2,916,746
Retained Earnings--Unreserved June 30, 2000	<u>\$ (7,586,624)</u>	<u>\$ 30,369</u>	<u>\$ 56,326</u>	<u>\$ (7,499,929)</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, 2000

	<u>Year Ended</u> <u>June 30, 2000</u>
Cash Flows from Operating Activities:	
Cash receipts for patient care	\$ 38,401,483
Cash payments to suppliers for goods and services	(6,114,140)
Cash payments to employees for services	(30,318,790)
Other sources (uses) of cash	<u>44,160</u>
Net Cash Provided (Used) by Operating Activities	<u>2,012,713</u>
Cash Flows from Noncapital Financing Activities:	
Operating transfers out	(71,344)
Loan from State of Wisconsin	<u>(1,822,475)</u>
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(1,893,819)</u>
Cash Flows from Capital and Related Financing Activities:	
Payments to vendors	(154,234)
Other cash flows from capital financing activities	<u>88,589</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(65,645)</u>
Cash Flows from Investing Activities:	
Purchase of investment securities	(82,926)
Proceeds from sales of investments	<u>0</u>
Net Cash Provided (Used) by Investing Activities	<u>(82,926)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(29,677)
Cash and Cash Equivalents, Beginning of Year	<u>160,409</u>
Cash and Cash Equivalents, End of Year	<u>\$ 130,732</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, 2000

	<u>Year Ended</u> <u>June 30, 2000</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operations	
Operating Income (Loss)	<u>\$ 3,723,239</u>
Adjustments to Reconcile Operating Income to Net Cash Provided by Operations:	
Depreciation	723,813
Miscellaneous nonoperating income (expense)	58,542
Changes in assets and liabilities:	
Decrease (Increase) in receivables	(3,021,716)
Decrease (Increase) in due from state of Wisconsin	(107,234)
Decrease (Increase) in supplies inventories	(115,706)
Decrease (Increase) in prepaid items	(49,508)
Increase (Decrease) in accrued expenses	182,859
Increase (Decrease) in accounts payable	(92,234)
Increase (Decrease) in due to State of Wisconsin	638,366
Increase (Decrease) in due to federal government	11,178
Increase (Decrease) in deferred revenue	(9)
Increase (Decrease) in patient funds held in trust	51,528
Increase (Decrease) in canteen fund	9,595
Total Adjustments	<u>(1,710,526)</u>
Net Cash Provided by Operating Activities	<u><u>\$ 2,012,713</u></u>
Noncash Investing, Capital, and Financing Activities:	
Contributions/Transfer of fixed assets	\$ 89,549

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 inmate/patient activity, which is classified as an agency fund, as discussed in Note 1D. Proprietary funds are accounted for on the accrual basis of accounting: revenues are recognized when earned, and expenses are recognized when incurred. Enterprise funds account for operations that are financed and operated in a manner similar to private business enterprises, where the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis is financed primarily through user charges. These statements do not represent the State as a whole, but instead are only part of the State of Wisconsin financial reporting entity.
- B. Unrestricted Fund - The unrestricted fund consists of funds that are not restricted by donors or grantors and are available for general operations.
- C. Restricted Fund - The restricted fund is used to segregate funds on which outside parties have placed user restrictions, or funds that have restrictions placed on them as a result of operations of the Institute. Included in the restricted fund are the federal revenues received by the Institute during FY 1999-2000.
- D. Inmate/Patient Fund - The inmate/patient fund represents amounts held by the Institute on behalf of the inmates and patients of the Institute. The inmate/patient fund is classified as an agency fund and uses the modified accrual basis of accounting, which records 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 generally accepted accounting principals 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 - The inventory 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, and are as follows:

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

J. 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.

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 Health and Human Services—Health Care Financing Administration 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 Service. 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.

- 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. 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 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 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, 2000, the carrying value of the deposits was \$213,542. The bank balance of the deposits of the inmate/patient fund, canteen fund, and contingent fund was \$242,647.

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, 2000, all cash and investment balances fall under risk category 1, which means that balances are insured or supported by collateral.

**3. Property and Equipment**

A summary of the property and equipment classification and the related accumulated depreciation at June 30, 2000, follows:

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net</u>
Land	\$ 230,340	\$ 0	\$ 230,340
Land improvements	485,198	279,554	205,644
Buildings	20,205,210	7,065,679	13,139,531
Equipment	<u>1,098,803</u>	<u>679,597</u>	<u>419,206</u>
Total	\$22,019,551	\$8,024,830	\$13,994,721

**4. Loan from State of Wisconsin**

The State of Wisconsin Treasury provided the Institute a loan of \$8,973,169 as of June 30, 2000, to cover cash overdrafts in its appropriations. The Institute is expected to repay this loan.

**5. Third-Party Contractual Settlements**

The audit of the FY 1997-98 Medicare cost report, conducted by United Government Services, has been completed, and a final settlement was received in FY 2000-01 in the amount of \$949,998. A review of the settlement determined that the entire amount received was the result of income augmentation efforts. Income augmentation receipts are deposited in the State of Wisconsin General Fund as required by the Legislature. Therefore, the settlement amount was not included on the financial statements. A Medical Assistance cost report has been submitted to the third-party contractor for FY 1997-98.

The FY 1998-99 and FY 1999-2000 Medicare cost reports have been submitted but not audited by United Government Services, while the Medical Assistance cost reports for FY 1998-99 and FY 1999-2000 have not been submitted. Therefore, no third-party settlements resulting from these reports had been received or paid by year-end. The proposed settlement amounts in these reports are subject to audit and are often revised after the completion of the financial statement audit. Further, the settlement amounts are difficult to estimate. Therefore, the proposed settlement amounts are not included in the financial statements.

**6. 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 25 bond issues. The bonds have maturity dates ranging from April 15, 2002, to April 15, 2020. The principal balance outstanding as of June 30, 2000, attributable to the Institute is \$12,998,549. 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, 2000, are allocated as follows:

Principal	\$1,047,700
Interest	<u>796,569</u>
Total paid	\$1,844,269

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 owed \$367,652 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 \$1,289,155 of administrative services, funded by general purpose revenues, to Winnebago Mental Health Institute during FY 1999-2000. 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 1999-2000, the Institute owed Medical Assistance payments related to overhead expense of \$275,211 and depreciation of \$127,911 of 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 general purpose revenue from the State of Wisconsin to cover the costs associated with the care of forensic patients. In some cases, forensic patients qualify for medical insurance. Any medical insurance collections covering the charges of forensic patients are used to reimburse the State. These collections are deposited in a general purpose revenue-earned appropriation at the State Treasury, which is not controlled by the Institute. The statements reflect expected reimbursements as a receivable and as a payable to the State of Wisconsin. For the year ending June 30, 2000, both the receivable from Medical Assistance, Medicare, and private insurers, less related contractual adjustments, and the related payable to the State of Wisconsin were \$229,525.

## 7. **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, Wisconsin 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 employees' portion of required contributions. Winnebago Mental Health Institute's contributions to the plan were \$3,079,536 for FY 1999-2000. 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.

**8. Investments as a Lessor**

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

The portion of the building being leased has an original cost of \$21,855 and has been fully depreciated. Minimum future lease payments to be received during the year ended June 30, 2000, are \$1,200.

**9. Obligations Under Operating Leases**

Winnebago Mental Health Institute leases copiers. The terms of all leases are three years. Future minimum rental payments required under the operating leases as of June 30, 2000, are as follows for the year ended:

June 30, 2001	\$18,219
June 30, 2002	10,981
June 30, 2003	3,937

The composition of the total rental expense for the fiscal year ended June 30, 2000, is as follows:

Minimum rentals	\$19,408
Contingent rentals	0
Less: sublease rentals	<u>0</u>
Rental Expense	\$19,408

Winnebago Mental Health Institute is not obligated under any capital leases as of June 30, 2000.

**10. Prior-Period Adjustments**

The beginning FY 1999-2000 retained earnings balance was adjusted for a correction related to an overstatement in the write-offs previously recognized for receivables in the amount of \$2.9 million.

\*\*\*\*



---

# **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, 2000, and have issued our reports thereon dated August 3, 2001. 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**

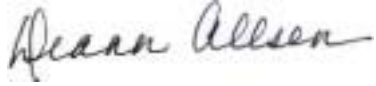
In planning and performing our audit, we considered the Institutes' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. 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 issues with the Department's billing and collection activities and its development of revenue estimates are reportable conditions. As discussed further in the section entitled "Implementation of the New Billing and Accounting System," 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 reliability of financial information recorded on the system. The Department is taking several steps to address the billing and collection problems. Continued efforts are also 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. However, we believe that none of the reportable conditions described above is a material weakness.

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's Joint Legislative Audit Committee. 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 3, 2001

LEGISLATIVE AUDIT BUREAU  
by   
Diann Allsen  
Audit Director