Reset Form

Michigan Department of Treasury
496 (02/06)

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type	Local Unit Name	County
☐County ☐City ☐Twp ☐Village ☒Other	Grandvue Medical Care Facility	Charlevoix

Fiscal Year End	Opinion Date	Date Audit Report Submitted to State
December 31, 2007	March 24, 2008	April 7, 2008

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

	YES	NO	**Check each applicable box below**. (See instructions for further detail.)
1.	☒	☐	All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2.	☒	☐	There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3.	☒	☐	The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4.	☒	☐	The local unit has adopted a budget for all required funds.
5.	☒	☐	A public hearing on the budget was held in accordance with State statute.
6.	☒	☐	The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7.	☒	☐	The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8.	☒	☐	The local unit only holds deposits/investments that comply with statutory requirements.
9.	☒	☐	The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan,* as revised (see Appendix H of Bulletin).
10.	☒	☐	There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11.	☐	☒	The local unit is free of repeated comments from previous years.
12.	☒	☐	The audit opinion is UNQUALIFIED.
13.	☒	☐	The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14.	☒	☐	The board or council approves all invoices prior to payment as required by charter or statute.
15.	☒	☐	To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)
Financial Statements	☒	
The letter of Comments and Recommendations	☒	
Other (Describe)	☐	

Certified Public Accountant (Firm Name)	Telephone Number		
Plante & Moran, PLLC	616-774-8221		
Street Address	**City**	**State**	**Zip**
Bridgewater Place, 333 Bridge Street NW, Suite 600	Grand Rapids	MI	49504
Authorizing CPA Signature	**Printed Name**	**License Number**	
J. Eric Conway	J. Eric Conway, CPA, FHFMA	1101016760	

Grandvue Medical Care Facility

Financial Report
December 31, 2007

Contents

Plante & Moran, PLLC
Bridgewater Place
Suite 600
333 Bridge St. N.W.
Grand Rapids, MI 49504
Tel: 616.774.8221
Fax: 616.774.0702
plantemoran.com

Independent Auditor's Report

To the Department of Human
Services Board
Grandvue Medical Care Facility

We have audited the accompanying balance sheet of Grandvue Medical Care Facility, a component unit of Charlevoix County, as of December 31, 2007 and 2006 and the related statements of revenue, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Facility's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Grandvue Medical Care Facility at December 31, 2007 and 2006 and the results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements do not present a management's discussion and analysis, which would be an analysis of the financial performance for the year. The Governmental Accounting Standards Board has determined that this analysis is necessary to supplement, although not required to be a part of, the basic financial statements.

Plante & Moran, PLLC

March 24, 2008

Grandvue Medical Care Facility

Balance Sheet

	December 31, 2007	December 31, 2006
Assets		
Current Assets		
Cash and cash equivalents (Note 2)	$ 502,171	$ 422,160
Resident accounts receivable (Note 3)	1,368,365	1,254,955
Taxes receivable	1,482,885	1,307,926
Other current assets	135,389	6,447
Total current assets	3,488,810	2,991,488
Assets Limited as to Use (Note 2)	1,432,890	1,449,823
Property and Equipment - Net (Note 4)	10,835,403	10,772,187
Total assets	**$ 15,757,103**	**$ 15,213,498**
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	$ 503,838	$ 303,564
Funds held for residents	18,265	23,901
Estimated third-party payor settlements	94,001	94,001
Accrued liabilities and other:		
Accrued compensation and related liabilities	309,120	296,242
Accrued compensated absences	303,354	275,365
QAS liability	65,808	-
Deferred tax revenue	1,482,885	1,307,926
Other accrued liabilities (Note 5)	230,294	141,144
Total current liabilities	3,007,565	2,442,143
Net Assets		
Invested in capital assets - Net of related debt	10,835,403	10,772,187
Unrestricted	1,914,135	1,999,168
Total net assets	12,749,538	12,771,355
Total liabilities and net assets	**$ 15,757,103**	**$ 15,213,498**

Grandvue Medical Care Facility

Statement of Revenue, Expenses, and Changes in Net Assets

	Year Ended December 31 2007	2006
Operating Revenue		
Net service revenue	$ 9,370,374	$ 9,158,437
Quality assurance supplement	929,224	1,221,087
Other operating revenue	113,939	16,031
Proportionate share reimbursement	-	164,984
Total operating revenue	10,413,537	10,560,539
Operating Expenses		
Salaries and wage-related costs	8,445,145	7,917,092
Operating supplies and expenses	976,393	940,410
Professional services and consultant fees	533,640	549,977
Repairs and maintenance	72,699	41,758
Staff development, training, and education	29,412	26,882
Travel	15,398	11,002
Utilities	306,965	313,112
Maintenance of effort	51,391	8,651
Depreciation and amortization	439,053	429,080
Equipment	10,542	84,180
Quality assurance assessment	673,593	702,793
Other	255,030	242,459
Total operating expenses	11,809,261	11,267,396
Operating Loss	(1,395,724)	(706,857)
Other Income		
Interest income	84,664	62,226
Gain on sale of property	-	2,450
Contributions	12,406	21,774
Tax revenue	1,276,837	1,200,215
Total other income	1,373,907	1,286,665
(Decrease) Increase in Net Assets	(21,817)	579,808
Net Assets - Beginning of year	12,771,355	12,191,547
Net Assets - End of year	**$ 12,749,538**	**$ 12,771,355**

Grandvue Medical Care Facility

Statement of Cash Flows

	Year Ended December 31 2007	Year Ended December 31 2006
Cash Flows from Operating Activities		
Cash received from residents and third-party payors	$ 9,256,964	$ 8,603,019
Cash paid to employees and suppliers	(10,666,156)	(10,007,202)
Cash received from Proportionate Share Program	-	164,984
Other operating receipts	113,939	16,031
Cash received from quality assurance supplement	929,224	1,221,087
Cash paid for provider tax	(673,593)	(702,793)
Net cash used in operating activities	(1,039,622)	(704,874)
Cash Flows from Noncapital Financing Activities		
Resident trust (withdrawals) deposits	(5,636)	5,832
Due to County	-	(664,613)
Contributions	12,406	21,774
Net cash provided by (used in) noncapital financing activities	6,770	(637,007)
Cash Flows from Investing Activities - Interest received	84,664	62,226
Cash Flows from Capital Financing Activities		
Proceeds from sale of equipment	-	2,450
Purchase of property and equipment	(265,571)	(170,161)
Property taxes received	1,276,837	1,200,215
Net cash provided by capital financing activities	1,011,266	1,032,504
Net Increase (Decrease) in Cash and Cash Equivalents	63,078	(247,151)
Cash and Cash Equivalents - Beginning of year	1,871,983	2,119,134
Cash and Cash Equivalents - End of year	**$ 1,935,061**	**$ 1,871,983**
Balance Sheet Classification of Cash		
Current assets	$ 502,171	$ 422,160
Assets limited as to use	1,432,890	1,449,823
Total cash	**$ 1,935,061**	**$ 1,871,983**

Statement of Cash Flows (Continued)

	Year Ended December 31	
	2007	2006
Reconciliation of Operating Loss to Net Cash from Operating Activities		
Operating loss	$ (1,395,724)	$ (706,857)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation and amortization	439,053	429,080
Provision for bad debts	87,443	54,661
Change in assets and liabilities:		
Resident accounts receivable	(200,853)	(610,079)
Other current assets	(128,942)	(3,397)
(Decrease) increase in accounts payable	(36,424)	29,948
Increase in other accrued expenses	195,825	99,292
Increase in third-party settlement payables	-	2,478
Net cash used in operating activities	**$ (1,039,622)**	**$ (704,874)**

During 2007, there was one noncash capital and related financing transaction for accounts payable related to construction in progress in the amount of $236,698.

There were no significant noncash investing, capital, or financing transactions in 2006.

Note 1 - Nature of Business and Significant Accounting Policies

Organization - Grandvue Medical Care Facility (the "Facility") is a 113-bed, long-term care facility owned and operated by Charlevoix County (the "County"). The Facility is a component unit of the County. It is governed by the Department of Human Services Board. This board consists of three members, two of whom are appointed by the County Board of Commissioners and one is appointed by the Michigan governor. Further, the County Board of Commissioners approves the Facility's revenue and expenses as a line item in the County budget.

Basis for Presentation - The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments,* issued in June 1999. The Facility follows the "business-type" activities reporting requirements of GASB Statement No. 34, which provides a comprehensive look at the Facility's financial activities.

Enterprise Fund Accounting - The Facility uses Enterprise Fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting,* as amended, the Facility has elected not to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents - Cash and cash equivalents include certain investments in highly liquid debt instruments with original maturities of three months or less.

Assets Limited as to Use - Assets limited as to use consist of funds designated by the board for future capital purchases.

Property and Equipment - Property and equipment amounts are recorded at cost. Donated property and equipment are recorded at the estimated fair market value at the time of donation. Depreciation is computed principally on the straight-line basis over the estimated useful lives of the assets. Costs of maintenance and repairs are charged to expense when incurred.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Resident Funds - The Facility maintains various bank accounts for deposits and disbursements for the residents' personal expenses. These funds are assets of the residents. At December 31, 2007 and 2006, the funds totaled $18,265 and $23,901, respectively.

Compensated Absences - Compensated absences are charged to operations when earned. Unused benefits are recorded as a current liability in the financial statements.

Net Assets - Net assets of the Facility are classified in two components. Net assets invested in capital assets net of related debt consist of capital assets net of accumulated depreciation. Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets net of related debt.

Operating Revenue and Expenses - The Facility's statement of revenue, expenses, and changes in net assets distinguishes between operating and nonoperating revenue and expenses. Operating revenue results from exchange transactions associated with providing long-term care services. Nonexchange revenue, including taxes, interest, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenue. Operating expenses are all expenses incurred to provide long-term care services.

Service Revenue - The Facility's principal activity is operating a long-term health care facility for the elderly. Revenue is derived from participation in the Medicaid and Medicare programs, as well as from private-pay residents. Amounts earned under the Medicaid and Medicare programs are subject to review and audit by the third-party payors and make up a significant portion of revenue earned during each year, as follows:

	2007	2006
Medicaid	70 %	70 %
Medicare	14 %	16 %

The payment methodology related to these programs is based on cost and clinical assessments that are subject to review and final approval by Medicaid and Medicare. Any adjustment that is a result of this final review and approval will be recorded in the period in which the adjustment is made. In the opinion of management, adequate provision has been made for any adjustments that may result from such third-party review.

Services rendered to Medicare program beneficiaries are paid at prospectively determined rates based upon clinical assessments completed by the Facility that are subject to review and final approval by Medicare.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Medicaid reimburses the Facility for in-resident routine service costs on a per diem basis, prospectively determined.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Management believes it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoings. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

Proportionate Share Reimbursement Program - During the year ended December 31, 2006, the Facility participated in this program sponsored by the State of Michigan. Revenue was taken into income in the year it was received.

Quality Assurance Program - The Facility's Medicaid revenue has been partially funded by a program called Quality Assurance Assessment Program (QAAP). The current QAAP program was approved by the federal government during 2006 and was made effective retroactive to October 1, 2005. During the year ended December 31, 2007, the Facility received Medicaid revenue related to QAAP totaling $929,224. During the year ended December 31, 2006, the Facility received Medicaid revenues related to QAAP totaling $1,221,087, of which approximately $244,000 related to the retroactive period of October 1, 2005 through December 31, 2005.

During the year ended December 31, 2007, the Facility was assessed a "provider tax" totaling $673,593. During the year ended December 31, 2006, the Facility was assessed a provider tax totaling $702,793, of which approximately $149,000 related to the retroactive period of October 1, 2005 through December 31, 2005. This provider tax is based on the number of non-Medicare resident days of service provided during the years ended December 31, 2005 and 2004. During the year ended December 31, 2007, the State billed for the tax on a monthly basis. Therefore, approximately $57,000 of provider tax was due and is included in accounts payable at December 31, 2007. The State billed for the tax on a quarterly basis due on the fifth day following the end of a quarter for the year ended December 31, 2006. Therefore, approximately $160,000 was due and is included in accounts payable at December 31, 2006.

Maintenance of Effort - Maintenance of effort (M.O.E.) is a County obligation to the State of Michigan. Every month, the County receives a bill from the State of Michigan for each Medicaid resident day approved by the State during that month. M.O.E. is being paid by the Facility and is recorded in operating expenses. M.O.E. expense amounted to $51,391 and $8,651 for the years ended December 31, 2007 and 2006, respectively.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Property Taxes - Taxes are levied on December 1 and payable by February 15. The cities and townships within the County bill and collect the property taxes for the County. Property taxes billed during the month of December will be used to finance the following year's operations. As such, these taxes are recorded as deferred revenue at December 31.

Tax Status - The Facility is a governmental organization and, accordingly, no tax provision is reflected in the financial statements.

Reclassifications - Certain prior year classifications have been changed to correspond with 2007 classifications.

Note 2 - Deposits and Investments

The Facility's deposits and investments are composed of the following:

	2007		2006	
	Cash and Cash Equivalents	Assets Limited as to Use	Cash and Cash Equivalents	Assets Limited as to Use
Deposits - County treasurer	$ 501,571	$ 1,432,890	$ 421,560	$ 1,499,823
Petty cash	600	-	600	-
Total	$ 502,171	$ 1,432,890	$ 422,160	$ 1,499,823

These funds were under the control of the County treasurer, who deposited these funds with a bank.

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Facility is required to hold all cash or investments under the County treasurer. The County is responsible for adopting an investment policy to be in accordance with Public Act 196 of 1997.

Note 2 - Deposits and Investments (Continued)

Because the Facility's cash and investments are limited to bank deposits held by the County, they are subject to custodial credit risk, which is examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Facility's deposits may not be returned to it. The Facility does not have a specific deposit policy for custodial credit risk. The federal depository insurance coverage pertains to all of the deposits of the County; hence, the specific coverage pertaining to the Facility's deposits is not determinable.

Note 3 - Resident Accounts Receivable

The details of resident accounts receivable are set forth as follows:

	2007	2006
Resident accounts receivable	$ 1,478,365	$ 1,329,955
Uncollectible accounts	(110,000)	(75,000)
Net resident accounts receivable	$ 1,368,365	$ 1,254,955

The Facility provides services without collateral to its residents, most of whom are local residents and insured under third-party payor agreements. The mix of receivables from residents and third-party payors is as follows:

	2007	2006
Medicare	27 %	35 %
Medicaid	37 %	43 %
Other payors	36 %	22 %
Total	100 %	100 %

Note 4 - Property and Equipment

The costs of property and equipment and related depreciable lives for December 31, 2007 are summarized as follows:

	2006	Additions	Retirements	2007	Depreciable Life - Years
Land	$ 35,000	$ -	$ -	$ 35,000	-
Building	12,142,981	8,813	-	12,151,794	10-40
Fixed equipment	581,313	41,332	-	622,645	5-20
Movable equipment	792,443	34,630	-	827,073	5-20
Office equipment	293,645	54,018	-	347,663	3-20
Construction in progress	11,298	363,476	-	374,774	-
Total	13,856,680	502,269	-	14,358,949	
Less accumulated depreciation:					
Building	2,016,997	330,528	-	2,347,525	
Fixed equipment	539,020	14,177	-	553,197	
Movable equipment	298,447	58,401	-	356,848	
Office equipment	230,029	35,947	-	265,976	
Total	3,084,493	439,053	-	3,523,546	
Net carrying amount	$ 10,772,187	$ 63,216	$ -	$ 10,835,403	

The costs of property and equipment and related depreciable lives for December 31, 2006 are summarized as follows:

	2005	Additions	Retirements	2006	Depreciable Life - Years
Land	$ 35,000	$ -	$ -	$ 35,000	-
Buildings	12,010,126	132,855	-	12,142,981	10-40
Fixed equipment	570,793	10,520	-	581,313	5-20
Movable equipment	806,823	-	(14,380)	792,443	5-20
Office equipment	278,157	15,488	-	293,645	3-20
Construction in progress	-	11,298	-	11,298	-
Total	13,700,899	170,161	(14,380)	13,856,680	
Less accumulated depreciation:					
Building	1,691,114	325,883	-	2,016,997	
Fixed equipment	528,590	10,430	-	539,020	
Movable equipment	249,313	63,514	(14,380)	298,447	
Office equipment	200,776	29,253	-	230,029	
Total	2,669,793	429,080	(14,380)	3,084,493	
Net carrying amount	$ 11,031,106	$ (258,919)	$ -	$ 10,772,187	

Note 5 - Risk Management

The Facility is exposed to various risks of loss related to property loss, torts, and errors and omissions, as well as medical benefits provided to employees. The Facility has purchased commercial insurance to cover these risks. Settled claims have not exceeded the amount of insurance coverage in any of the past five fiscal years.

Note 5 - Risk Management (Continued)

The Facility, along with other employees of Charlevoix County, is self-insured for employee injuries (workers' compensation). The County is covered by a stop-loss policy that covers individual claims over $400,000 or total claims in excess of $853,501.

Changes in the estimated liability for the years ended December 31, 2007 and 2006 were as follows:

	2007	2006
Estimated liability - Beginning of year	$ 141,144	$ 119,000
Estimated claims incurred, including changes in estimates	(158,536)	(181,293)
Claim payments	247,686	203,437
Estimated liability - End of year	$ 230,294	$ 141,144

Note 6 - Retirement Benefits

Plan Description - The Facility participates in the Michigan Municipal Employees' Retirement System (MMERS), an agent multiple-employer defined benefit pension plan that covers all employees of the Facility through the County of Charlevoix. The Facility provides retirement, disability, and death benefits to plan members and their beneficiaries. MMERS issues a publicly available financial report that includes financial statements and required supplementary information for MMERS. That report may be obtained by writing to MMERS at 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy - Benefit provisions of MMERS, as well as employer and employee obligations to contribute, are outlined in Act No. 427 of the Public Acts of 1984, as amended. Pension expense consists of normal costs of the plan and amortization of prior service cost over a 40-year period, net of amortization of investment gains over a 10-year period. In previous years, the administrator of the MMERS plan reduced the Facility's funding requirements due to favorable actuarial experience. This resulted in a timing difference between the pension expense recorded and the amount funded. This difference has been reflected as a long-term pension liability.

Annual Pension Cost - The Facility's contributions to the union plan amounted to $302,965, $281,124, and $299,056 in 2007, 2006, and 2005, respectively. The Facility's contributions to the nonunion plan amounted to $273,411, $261,442, and $271,512 in 2007, 2006, and 2005, respectively. The actuarially determined contribution requirements have been met based on actuarial valuations performed at December 31, 2007, 2006, and 2005.

Note 6 - Retirement Benefits (Continued)

The Facility's retirement plan covers three divisions: facility plan, nonunion management plan, and administrative plan. To show the progress of the Facility's status for the combined plans regarding certain key indicators, three-year trend information is presented as follows:

	2006	2005	2004
Annual pension cost (APC)	$ 542,566	$ 570,568	$ 466,781
Actuarial value of assets	$ 7,100,256	$ 6,312,928	$ 5,564,810
Actuarial accrued liability (entry age)	$ 8,839,880	$ 7,970,991	$ 6,646,302
Unfunded actuarial accrued liability (UAAL)	$ (1,739,624)	$ (1,658,063)	$ (1,081,492)
Funded ratio	80.00 %	79.00 %	84.00 %
Covered payroll	$ 6,178,208	$ 5,407,850	$ 5,257,950
UAAL as a percent of covered payroll	(28.00)%	(31.00)%	(21.00)%

plante moran

Plante & Moran, PLLC
Bridgewater Place
Suite 600
333 Bridge St. N.W.
Grand Rapids, MI 49504
Tel: 616.774.8221
Fax: 616.774.0702
plantemoran.com

March 24, 2008

To the Department of Human Services Board
Grandvue Medical Care Facility
East Jordan, Michigan

Dear Board Members:

In planning and performing our audit of the financial statements of Grandvue Medical Care Facility as of and for the year ended December 31, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the Facility's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Facility's internal control. Accordingly, we do not express an opinion on the effectiveness of the Facility's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

- A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

- A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

We consider the following deficiencies to be significant deficiencies in internal control:

Medicaid Settlements

Two Medicaid cost report settlements were identified prior to year end, but the cash was not received prior to year end. The facility recorded the settlement as revenue and cash, rather than as revenue and a receivable as of December 31, 2007. We recommend the Facility use accrual basis accounting on a consistent basis to recognize revenue in the proper period.

Audit Adjustments

One entry was to record the $65,808 quality assurance settlement Another entry was to correct the posting of the Medicaid cost report settlements to accounts receivable for $119,000, since the cash had not been received prior to year end as discussed above. Another audit adjustment was to record approximately $89,000 of workers' compensation expense due to estimated claims incurred but not reported according to the third-party administrator. A fourth adjustment was made to record additional December 2007 health insurance expenses that were not paid until January. This resulted in an increase of expenses of approximately $61,500. The last significant adjustment was to reduce health insurance expense and related liability accounts due to the improper recording during the year which resulted in a decrease of expense of approximately $64,400. Overall, there were 17 audit adjustments identified and corrected by management, resulting in an overall decrease in income of $194,285.

County Cash Reconciliations

The December 31, 2007 operating cash balance per the Facility's trial balance was not reconciled to the balance per the County. While the cash reconciliations to the bank appear to have been performed on a timely basis, the cash reconciliations to the County should also be performed timely and accurately each month and should be reviewed by an appropriate individual.

Manual Journal Entries

During the audit, we noted the office manager is responsible for posting manual journal entries and signs checks and makes wire transfers. The controller is also responsible for posting manual journal entries, and no one reviews the entries posted by the controller or the office manager. Ideally, the person responsible for posting manual journal entries should not have the ability to sign checks or make wire transfers. We recommend the Facility revisit its procedures and incorporate a process by which manual journal entries are being reviewed.

Accounts Receivable

During the audit, we noted several items related to the accounts receivable process. First, during our testing of cash receipts, we noted the journal printed from the accounts receivable system in September was different than the amount posted to the general ledger for accounts receivable. It appears changes were made to the accounts receivable system after the entry was posted to the general ledger. Due to the system not automatically updating to the general ledger, it is very important that accurate information is being input into the general ledger and once the month has been closed within the accounts receivable system, the data cannot be changed.

Secondly, we noted the private pay rate of $220.50 was being used in December, but there was no documentation this pay rate was approved by the board. We recommend all private pay rate changes be approved at the board level.

Lastly, we noted the resident we selected for testing came into the Facility as a private payor and was later approved for Medicaid retroactive to the date of admission. In our testing of the change in status, we noted the entry was not made properly to reflect the change in revenue from private to Medicaid; thus, the revenue stayed classified as private as opposed to Medicaid. We recommend the Facility review its process to record retroactive adjustments and to incorporate a review process to ensure the recording is accurate.

Accounts Payable

We noted accounts payable was being identified based on invoice date, as opposed to date of service or date goods are received. A liability must be recognized based on when the service was performed or when the Facility took ownership of the goods received, regardless of when the invoice was dated or received. We recommend the Facility analyze invoices received near the end of the month and beginning of the following month to determine the proper period to which the expenses should be posted.

Wire Transfers

Our review of a specific wire transfer that occurred during the year indicated there was not a proper approval. The payroll clerk was able to initiate and make the wire transfer. We recommend the Facility follow the established procedures of the payroll clerk initiating the wire transfer and the office manager making the wire transfer.

Retirement Expense

During the audit, we identified a possible adjusting entry to record December 2007 retirement expense as a payable and expense in the December 31, 2007 financial statements. The Facility has inherently been one month behind in recording the retirement expense. There are 12 months of expense recorded each year; however, the December 2007 expense was not recorded until January 2008. In order to properly reflect liabilities at year end, the Facility should record a liability and an expense, thus recording 13 months of expense in 2007. We recommend the Facility ensure the December 2008 retirement expense be recorded properly in 2008 in order to properly account for the year-end liability.

Management's Discussion and Analysis

The financial statements do not include a management's discussion and analysis section, which is required of governmental entities. The Facility's financial statements are included within the audited financial statements of the County of Charlevoix, which does include the required management's discussion and analysis section.

<u>Other Items for Consideration</u>

We also identified the following other items considered to be significant deficiencies, control deficiencies, or reimbursement items.

Plant Cost Certification - We noted the Facility incurred significant costs associated with the generator project, which was completed in 2008. The Facility may want to consider filing a plant cost certification when the project is complete in order to increase the plant cost limit.

Capital Assets - Due to the Facility operating above the variable cost limit, it may be in the Facility's best interest to reduce the capitalization policy so there is some potential to recapture reimbursement in later years, and possibly help increase the plant cost limit.

New Audit Procedures

As a result of new auditing procedures, which expanded our review of internal controls during the year, we have identified several other controls, policies, and procedures we consider best practices the Facility should consider implementing. We have made available to management a list of internal control observations which will provide opportunity for additional improvements in accounting controls. The list includes controls we would typically expect to see in a similar environment, but it was either not one of the controls you have established or our minimal sample test found it to be ineffective.

This communication is intended solely for the information and use of management, members of the board, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Plante & Moran, PLLC

J. Eric Conway

J. Eric Conway, CPA, FHFMA
Partner

Internal Control Observations -
Control Deficiencies

What Could Go Wrong?	Control Item the Facility Should Consider Implementing
Cash	
Cash account activity and balances are misstated	Independent review of cash account reconciliations and related accounting entries
Accounts Receivable	
Revenue is not valid or is recognized in the incorrect period	Written revenue recognition policies exist and are followed
Revenue is recognized at incorrect amounts	Written charity care policy is followed
	Monthly revenue reasonable test is performed using rates and days
	Limited users can update applicable rates in system
Accounts receivable are not adjusted to net realizable value	Written valuation allowance policies exist and are followed
Incorrect recording of third-party settlements	Written identification, analysis, and recognition policies exist and are followed
Accounts Payable	
Obligations for goods and services received are not recognized in the proper period	Formal policies are utilized for identifying and recording obligations for goods and services
Expenditures are classified incorrectly	Independent review of expenditure classifications
Employee Compensation	
Payroll expenditures are recorded and distributed at incorrect amounts	Payroll exception and edit reports are reviewed by qualified individuals that are independent from the processing of payroll