



**OFFICE OF AUDITOR OF STATE**  
**STATE OF IOWA**

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FOR RELEASE \_\_\_\_\_ December 23, 2010 \_\_\_\_\_ or Andy Nielsen  
515/281-5834

Auditor of State David A. Vaudt today released a reaudit report on Skiff Medical Center in Newton, Iowa for the period July 1, 2008 through June 30, 2009. The reaudit also covered certain items to determine practices applicable to the years ended June 30, 2007, June 30, 2008 and June 30, 2010. The reaudit was performed at the request of citizens pursuant to Chapter 11.6(4)(a)(3) of the Code of Iowa.

The reaudit report addressed concerns regarding compliance with the open meetings law, administrative salary increases and overall financial condition of the Medical Center, including clinics.

The Medical Center's responses to the recommendations are included in the reaudit report.

A copy of the reaudit report is available for review in the Medical Center's Business Office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/specials/0924-0469-T00Z.pdf>.

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**SKIFF MEDICAL CENTER**  
**AUDITOR OF STATE'S REPORT ON REAUDIT**  
**FOR THE PERIOD**  
**JULY 1, 2008 THROUGH JUNE 30, 2009**

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**Skiff Medical Center**

**Officials**

June 30, 2009

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>Board of Trustees</b>		
Gary Kahn	Chair	Jan 2010
John Lee	Vice Chair	Jan 2010
Jeff King, Ph.D	Board Member	Jan 2012
Nancy Noth, Ph.D	Board Member	Jan 2012
Debby Pence	Board Member	Jan 2012

**Medical Center Officials**

Francie Jahn	Interim President and Chief Executive Officer
Dave Brokow	Interim Chief Financial Officer

**Skiff Medical Center Reaudit**



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Auditor of State's Report on Reaudit

To the Board of Trustees  
of Skiff Medical Center:

We received a request to perform a reaudit of Skiff Medical Center (Medical Center) under Chapter 11.6(4)(a)(3) of the Code of Iowa. As a result, we performed a review of the fiscal year 2009 audit report and workpapers prepared by the Medical Center's certified public accounting firm to determine whether the CPA firm may have addressed any or all of the specific issues identified in the request for reaudit during the annual audit of the Medical Center. Based on this review and our review of the preliminary information available, we determined a partial reaudit was necessary to further investigate specific issues identified in the request for reaudit. Accordingly, we have applied certain tests and procedures to selected accounting records and related information of Skiff Medical Center for the period July 1, 2008 through June 30, 2009. We also inquired and performed procedures for certain items applicable to the years ended June 30, 2007, June 30, 2008 and June 30, 2010.

The procedures we performed are summarized as follows:

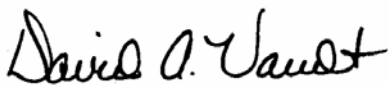
1. We obtained and reviewed the Medical Center's policy and procedures pertaining to open records requests and reviewed the policy for compliance with Chapter 22 of the Code of Iowa.
2. We obtained and reviewed the Medical Center Board minutes and inquired of Medical Center personnel regarding citizen record requests.
3. We reviewed the Medical Center Board minutes for compliance with Chapter 21 of the Code of Iowa regarding closed sessions.
4. We reviewed the Medical Center Board minutes pertaining to Board actions/authorization for salary agreements, benefits, raises, bonuses and severance agreements.
5. We analytically reviewed payroll for administrators, clinic personnel and professional services personnel for fiscal years 2008, 2009 and 2010.
6. We analytically reviewed employee health insurance benefits for fiscal years 2008, 2009 and 2010.
7. We obtained and reviewed contracts/agreements with Medical Center administrators, including the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO) for proper approval and compared contract amounts to actual amounts paid.
8. We reviewed and tested certain timesheets for proper approval.
9. We obtained and reviewed severance agreements for proper approval.
10. We reviewed and tested selected disbursement transactions for proper approval, support and compliance with public purpose criteria.
11. We reviewed net assets and unrestricted fund balances for the three years ended June 30, 2010.

12. We reviewed financial reports pertaining to the Medical Center's clinics and made inquiries regarding losses and corrective actions planned to address the Medical Center's declining financial condition.
13. We obtained and reviewed the Medical Center's policies pertaining to employee loan programs for certain purchases and salary advances.
14. We reviewed the Medical Center's contract with AmerisourceBergen Drug Corporation (Corporation) and the related prepaid balance held by the Corporation at June 30, 2009.
15. We reviewed the Medical Center's compliance with Chapter 15A of the Code of Iowa pertaining to the use of public funds to aid economic development.
16. We reviewed the Medical Center's compliance with Chapter 11.6(2)(a) pertaining to procurement of audit services utilizing a request for proposal process.
17. We reviewed the Medical Center's compliance with Chapter 384 of the Code of Iowa pertaining to local budgets.
18. We reviewed the Medical Center's compliance with Chapter 392.6(6) of the Code of Iowa pertaining to the publication of a condensed statement of receipts and disbursements.

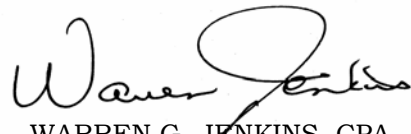
Based on the performance of the procedures described above, we identified instances of non-compliance and have developed various recommendations for the Medical Center. Our recommendations and the instances of non-compliance are described in the Detailed Findings of this report. Unless reported in the Detailed Findings, items of non-compliance were not noted during the performance of the specific procedures listed above.

The procedures described above are substantially less in scope than an audit of financial statements made in accordance with U.S. generally accepted auditing standards, the objective of which is the expression of an opinion on financial statements. Accordingly, we do not express an opinion. Had we performed additional procedures, or had we performed an audit of Skiff Medical Center, additional matters might have come to our attention that would have been reported to you. A copy of this report has been filed with the City of Newton for its review and information.

We would like to acknowledge the assistance extended to us by personnel of Skiff Medical Center. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



DAVID A. VAUDT, CPA  
Auditor of State



WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

October 12, 2010

## **Detailed Findings**



Skiff Medical Center

Detailed Findings

July 1, 2008 through June 30, 2009

- (A) Financial Condition – The Medical Center, including clinics, reported operating losses for the years ended June 30 2008 and June 30, 2009 of \$(1,300,044) and \$(2,471,204), respectively. Preliminary financial records for the year ended June 30, 2010 indicate the Medical Center continued to operate at a loss for the year ended June 30, 2010.

According to the Medical Center’s current CEO and Interim CFO, several factors have contributed to the Medical Center’s declining financial condition, including, but not limited to, the effects of the economic recession, including the loss of Maytag Corporation, a former major business/employer in Newton, and loss in investment values.

In addition, the Medical Center has experienced staff turnover, including the loss of physicians. According to the current CEO and Interim CFO, spending levels were not adjusted timely to coincide with the declining revenue, which depleted the Medical Center’s fund balance and contributed to the declining financial condition.

Recommendation – The Medical Center has implemented several corrective measures, including cutting costs and adjusting staff levels commensurate with patient volume. In addition, the Medical Center is recruiting physicians and attempting to address and improve its accounts receivable collections. The Medical Center should continue to investigate alternatives to eliminate operating losses and return the Medical Center and its clinics to a sound financial condition.

Response – Skiff Medical Center is committed to fulfilling the vision of being a “treasured community asset” and ensuring the communities we serve continue to have local access to high quality health care. Over the past 8 months, many steps have been taken to ensure the long-term financial viability of the organization. These included reductions in staffing, improved management of collections and bad debt, recruitment of new physicians, expanded marketing, development of a stable administrative team, and a heightened focus on quality and patient satisfaction improvements. Unfortunately, the poor economy nationally and locally has continued to reduce the number of patients seeking health care services, mitigating the impact of our efforts to date. Our new strategic plan has five focus areas aimed at further improvements in efficiency, quality, and growth, but these will take time to implement. Fortunately, there are very specific elements in the federal health care reform legislation passed earlier this year that will provide short-term financial support for Skiff Medical Center while we transition our cost structure and services to sustainable models in the future.

Conclusion – Response accepted.

- (B) Closed Sessions - Chapter 21.5 of the Code of Iowa states, in part, “A governmental body may hold a closed session only by affirmative public vote of either two-thirds of the members of the body or all of the members present at the meeting. A governmental body may hold a closed session only to the extent a closed session is necessary...” and lists 12 specific reasons a governmental body may hold a closed session.

The Board went into closed session on August 23, 2007, February 26, 2009 and June 16, 2009 to discuss “personnel issues” and “operational report”. These purposes are not included in Chapter 21.5 of the Code of Iowa as allowable reasons for holding a closed session.

Recommendation – The Medical Center should comply with Chapter 21.5 of the Code of Iowa.

Response – The Board of Trustees of Skiff Medical Center will make every effort to ensure future closed sessions comply with the requirements of Chapter 21.5 of the Code of Iowa.

Conclusion – Response accepted.

(C) Public Funds Loans and Salary Advance:

Employee Loan Program – The Medical Center provides an “Employee Purchase Program” which allows all full and part time employees to purchase Dell and Obagi products through a loan from the Medical Center which is repaid through payroll deductions over a maximum of 26 pay periods for Dell products and 13 pay periods for Obagi products. The balance on these loans receivable at June 30, 2009 was approximately \$42,000.

Salary Advance – During the year ended June 30, 2007, the Medical Center provided a \$60,000 educational assistance forgivable loan to an employee of the Medical Center. The salary schedule for the employee included a 5% annual premium for certain specified duties. The forgivable loan represented an advance of the annual premium payable over the next succeeding six years. In accordance with the loan agreement, no payments of principal or interest are required during the period the employee maintains employment with the Medical Center. Commencing August 3, 2006, for each full month the employee remains in active employment, the Medical Center forgives one full monthly installment of principal and interest. At June 30, 2009, the balance of the loan not yet forgiven was \$30,802.

Article III, Section 31 of the Constitution of the State of Iowa provides public funds may only be spent for the public benefit. This public benefit criterion is addressed in various court cases and opinions of the Attorney General, including an Attorney General’s opinion dated April 25, 1979.

Article VII, Section 1 of the Constitution of the State of Iowa provides “The credit of the state shall not, in any manner, be given or loaned to, or in aid of, any individual, association, or corporation...”. Also, in accordance with an Attorney General’s opinion (AGO) dated July 12, 1979, the credit of the State or its political subdivisions cannot be extended except for a public purpose, or to fulfill or liquidate a moral or legal obligation incurred by the State or its political subdivisions.

The loans made pursuant to the “Employee Purchase Program” and the salary advance appear to violate Article VII, Section 1 of the Constitution of the State of Iowa, which prohibits loaning public funds to individuals. The loans also do not appear to meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 because the public benefits to be derived have not been clearly documented.

Recommendation – The Board should establish policies and procedures prohibiting employee loans and salary advances in accordance with Article VII, Section 1 of the Constitution of the State of Iowa. The Medical Center should also consult legal counsel to determine the propriety and disposition of the current outstanding loan balances, including whether the loans should be called and all remaining balances paid in full.

Response – Skiff Medical Center appreciates the guidance offered in this finding and will develop policies and procedures related to this issue. Legal counsel will be sought in conjunction with this process and the appropriate action will be taken in relation to the existing balance of the salary advance. The “Employee Purchase program” related to computer purchases was ended in January 2010 and replaced with a program whereby employees can obtain a discount and financing directly from the Dell Corporation. Payroll deduction related to Obaji products was ended at the same time.

Conclusion – Response accepted.

- (D) Prepayment of Goods or Services – At June 30, 2009, the Medical Center had a \$78,400 prepaid balance held at AmerisourceBergen Drug Corporation (Corporation). Pursuant to the agreement with the Corporation, the Medical Center could choose from various payment options for product purchases. The Medical Center chose a thirty day pre-pay option under which the Medical Center must deposit into an account held at the Corporation funds to cover an average thirty days’ sales.

As previously noted, Article VII, Section 1 of the Constitution of the State of Iowa provides “The credit of the state shall not, in any manner, be given or loaned to, or in aid of, any individual, association, or corporation...”.

Recommendation – Claims for goods or services should not be paid until the goods or services have been received. Payment in advance would not guarantee receipt of the goods or services, thereby putting public funds at risk. The Board should establish policies to address prepayment of goods and services in accordance with Article VII, Section 1 of the Constitution of the State of Iowa. The Medical Center should also consult legal counsel regarding the propriety and disposition of the remaining prepaid balance.

Response – The agreement mentioned in this finding is no longer in place and there is no outstanding balance. Skiff Medical Center will ensure disbursement policies reference this issue.

Conclusion – Response accepted.

- (E) Economic Development – During the year ended June 30, 2009, the Medical Center paid \$2,500 to the Newton Development Corporation. This payment may not be an appropriate expenditure of public funds since the public benefits to be derived have not been clearly documented.

According to Chapter 15A of the Code of Iowa, government financing of economic development may, in appropriate circumstances, serve a public purpose. However, Chapter 15A.1 of the Code of Iowa requires “Before public funds are used for grants, loans, tax incentives, or other financial assistance to private persons or on behalf of private persons for economic development, the governing body of the state, city, county, or other public body dispensing those funds or the governing body's designee, shall determine that a public purpose will reasonably be accomplished by the dispensing or use of those funds.”

Recommendation – Consistent with the requirements of Chapter 15A of the Code of Iowa, the Medical Center should evaluate and document the public purpose served by the disbursement before authorizing further payments and should require documentation of how the funds were used to accomplish economic development activities.

Response – Skiff Medical Center has addressed this subject in a new board policy associated with authorizations for disbursements.

Conclusion – Response accepted.

- (F) Annual Audit – The Medical Center’s fiscal 2009 audit was not awarded through a request for proposals process. Chapter 11.6(2)(a) of the Code of Iowa states “A city, community college, school district, area education agency, entity organized under Chapter 28E, county, county hospital, or memorial hospital desiring to contract or employ certified public accountants shall utilize procedures which include a request for proposals.”

Recommendation – The Medical Center should comply with Chapter 11.6(2)(a) of the Code of Iowa and utilize a request for proposals process when seeking to contract with a certified public accounting firm for its annual audit. We do not believe a verbal agreement would satisfy this requirement.

Response – Skiff Medical Center will utilize the request for proposal process for selection of financial audit beginning with the current fiscal year.

Conclusion – Response accepted.

- (G) Certified Budget – The Medical Center annually submits a budget to the City of Newton to be included in the City of Newton’s certified budget in accordance with Chapter 384.16 of the Code of Iowa. Based on review of the City of Newton’s fiscal year 2009 budget submitted to the Iowa Department of Management, it appears the City has included the Medical Center as part of the City’s General Fund (a governmental fund) budget. This is inconsistent with external reporting of the Medical Center’s activity, including the audited financial report, which reflects activity as an enterprise (proprietary) fund.

In addition, Medical Center disbursements during the year ended June 30, 2009 exceeded the amount budgeted.

Recommendation - The Medical Center should clarify the proper classification of the Medical Center’s activity for budgeting purposes with the City to ensure consistency between the budget and the audited financial statements.

In addition, the Medical Center should have contacted the City to determine whether the City’s certified budget needed to be amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – Skiff Medical Center will communicate to the City the improper classification of the hospital budget in the City’s budget. Skiff Medical Center’s actual financial performance is highly correlated with volume and it is possible that increases in volume and revenue will be correlated with increased expenses that may exceed budgeted amounts. In the future, the City of Newton will be contacted if expenses are reasonably expected to exceed the budgeted amount submitted to the City.

Conclusion – Response accepted.

- (H) Disbursements – We reviewed selected disbursements for the year ended June 30, 2009 and noted the following four disbursements did not include evidence of approval prior to payment as required by the Medical Center’s disbursement policy. Approval requirements were not clear in Medical Center policies. However, except as noted below, other invoices tested included evidence of department head approval.

Paid to	Purpose	Amount
Newton Development Corporation	Annual pledge	\$ 2,500
B.E. Smith, Inc.	Consulting services	115,000
Slavin Management Consultants	Professional fees associated with CEO search	4,641
Allied Van Lines	Moving expenses for new CEO	8,884

Recommendation – The Board should clarify its expectations and requirements for disbursement approval in a written policy and establish procedures to ensure all disbursements are properly approved prior to disbursement.

Response – The Skiff Medical Center Board of Trustees has approved a new authorization for disbursement policy which should address this issue in the future.

Conclusion – Response accepted.

- (I) Condensed Statement of Receipts and Disbursements – Chapter 392.6 of the Code of Iowa states, in part, “The board of trustees...shall annually prepare a condensed statement of the total receipts and expenditures for the hospital or health care facility and cause the same to be published in a newspaper of general circulation in the city in which the hospital or health care facility is located.”

Skiff Medical Center is required to be audited annually. Upon completion of the annual audit, Chapter 11.19 of the Code of Iowa requires notice of the completed audit report be “forwarded immediately to each newspaper, radio station or television station located in the city, school district or township which is under investigation or audit; except that if there is no newspaper, radio station or television station located therein, the notice shall be sent to the official newspapers of the county.”

A sample audit report news release is prepared annually by the State Auditor’s Office to facilitate the audit report media notification required by Chapter 11.19 of the Code of Iowa. A copy of the Medical Center’s fiscal year 2009 audit report news release is included as Exhibit 1.

Medical Center personnel indicated the audit report news release required by Chapter 11.19 of the Code of Iowa represented the statement required by Chapter 392.6 of the Code of Iowa. We did not determine whether the audit report news release was published or not. However, we do not believe the audit report news release meets or fulfills the Medical Center’s requirements in Chapter 392.6 of the Code of Iowa requiring publication of a condensed statement of total receipts and expenditures. Although the Medical Center provides monthly financial reports to the media, the Medical Center has not published the condensed statement of receipts and disbursements.

Recommendation – The Medical Center should comply with Chapter 392.6 and annually publish a condensed statement of receipts and disbursements, as required.

Response – Skiff Medical Center will revise the process for publication of audit results as noted in the finding above.

Conclusion – Response accepted.

**Skiff Medical Center Reaudit**

## **Exhibits**



Skiff Medical Center

Audit Report News Release

Exhibit 1



204 NORTH FOURTH AVENUE EAST  
NEWTON, IA 50208

P.O. BOX 1006  
641-792-1273

NEWS RELEASE

Contact: Brett Altman  
Interim Chief Executive Officer

FOR RELEASE DECEMBER 16, 2009

Denman & Company, LLP of West Des Moines, Iowa, today released an audit report on Skiff Medical Center, Newton, Iowa.

The Medical Center's revenues totaled \$35,440,140 for the year ended June 30, 2009; a .3 percent decrease from the prior year. The revenues included \$33,868,364 in net patient revenue and \$1,571,776 in other revenue.

Operating expenses for the year totaled \$37,911,344; a 2.9 percent increase from the prior year, and included \$12,559,696 for nursing service, \$11,880,965 for other professional service and \$7,557,981 for fiscal and administrative service and unassigned expenses.

Nonoperating gains and losses totaled (\$894,163) for the year, and included \$35,710 of contribution income, \$842,147 of investment losses, and \$24,596 of interest expense.

A copy of the audit report is available for review in the Office of Auditor of State and the Medical Center Chief Executive Officer's Office.

AN ACCREDITED HEALTHCARE ORGANIZATION

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Skiff Medical Center

Staff

This reaudit was performed by:

Susan D. Battani, CPA, Director  
Marlys K. Gaston, CPA, Manager  
Lesley R. Geary, CPA, Senior Auditor II  
Keith C. Kistenmacher, Staff Auditor

A handwritten signature in black ink that reads "Andrew E. Nielsen". The signature is written in a cursive style with a large initial "A" and "N".

Andrew E. Nielsen, CPA  
Deputy Auditor of State