

CITRUS COUNTY HOSPITAL BOARD

Prior Audit Follow-Up



Sherrill F. Norman, CPA
Auditor General

Board Members

The following individuals served as the Board of Trustees during the period of October 2021 through December 2022:

Deborah Ressler	Chair 10/01/21, through 3/15/22
Dr. Mark Fallows, D.O.	Chair From 3/21/22 Vice Chair 10/01/21, through 3/20/22
Dr. Jeffery Wallis, M.D.	Secretary-Treasurer 10/01/21, through 11/27/22 Trustee From 11/28/22
Allan Bartell	Trustee 10/01/21, through 3/20/22, Vice Chair 3/21/22, through 11/27/22, Vice Chair and Secretary-Treasurer From 11/28/22
Rick Harper	Trustee

The team leader was Walter K. Cunningham, CPA, and the audit was supervised by Gina Bailey, CPA.

Please address inquiries regarding this report to Derek H. Noonan, CPA, Audit Manager, by e-mail at dereknoonan@aud.state.fl.us or by telephone at (850) 412-2895.

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CITRUS COUNTY HOSPITAL BOARD

Prior Audit Follow-Up

SUMMARY

In our operational audit report No. 2022-001 of the Citrus County Hospital Board (Board), we noted 5 findings related to various functions and activities. This operational audit focused on the progress that the Board had made, or was in the process of making, in addressing the findings and recommendations in report No. 2022-001.

Our audit disclosed that, at the time of our applicable fieldwork, the Board had:

- Corrected 1 finding (Finding 2).
- Partially corrected 1 finding (Finding 5).
- Not corrected 1 finding (Finding 3).
- No occasion to correct 2 findings (Findings 1 and 4).

BACKGROUND

The Citrus County Hospital Board (Board) was created by the Legislature in 1949 as a special taxing district and a public nonprofit corporation for the purpose of acquiring, building, constructing, maintaining, and operating a public hospital in Citrus County. The creating State law¹ granted the Board authority to enter into leases or contracts with a not-for-profit Florida corporation for the purpose of operating and managing the hospital and any or all of its facilities. The Board is governed by five trustees who are each appointed to a 4-year term by the Governor, subject to Senate approval and confirmation. The trustees elect a chair, vice chair, and secretary-treasurer on an annual basis.

FINDINGS AND RECOMMENDATIONS

Finding 1: Hospital Valuation Contractor Selection Process

Previously Reported

Board records did not demonstrate that the Board utilized an effective and efficient process to select the hospital valuation contractor.

We recommended that the Board enhance proposal solicitation and evaluation procedures to ensure that:

- Request for proposals (RFPs) clearly define the criteria to be used to evaluate proposals and prescribe a methodology for scoring and ranking proposals based on the defined criteria.
- Individuals responsible for evaluating proposals are provided written instructions that address how to apply established criteria when scoring proposals.

¹ Chapter 25728-732, 1949 Laws of Florida, *Citrus County Hospital Act*.

- Records evidencing the evaluation and scoring of proposals and selection process are maintained.

Result of Follow-Up Procedures

The Board had no occasion to correct this finding. Our examination of Board records and discussions with Board personnel disclosed that, from October 2021 through December 2022, the Board did not solicit hospital valuation contractor services. However, in February 2021, the Board adopted competitive selection procurement policies and procedures that, among other things, require:

- RFPs to contain clearly defined criteria to be used to evaluate proposals.
- A prescribed methodology for scoring and ranking the proposals.
- Each member of the Board to complete and score the evaluation summary sheets which include the criteria for the award and relative weight for each relevant factor as listed in the RFP.
- The evaluation summary sheets to be maintained by the Board pursuant to Florida's Public Records laws.²

Finding 2: Transaction Broker Selection

Previously Reported

The Board did not always procure transaction broker services in an effective and transparent manner.

We recommended that the Board establish appropriate policies and procedures for acquiring professional services. In addition, we recommended that such policies and procedures ensure that:

- RFPs with specified evaluation criteria are used, as appropriate, to competitively procure professional services.
- RFPs are advertised to a broad audience of potential respondents.
- Sufficient time is provided for RFP responses.
- Records evidencing the process used to evaluate proposals and select the most favorable proposal are maintained.

Result of Follow-Up Procedures

The Board corrected this finding. As discussed in Finding 1, in February 2021, the Board adopted competitive selection procurement policies and procedures. The policies and procedures include guidelines for acquiring professional services and adequately addressed our recommendation.

Finding 3: Legal Services Procurement and Contract Monitoring

Previously Reported

Board policies and procedures needed to be established to ensure that, before payments are made to law firms, Board personnel verify that services and related rates charged by the firms agree with the Board-approved contracts.

² Chapter 119, Florida Statutes.

We recommended that the Board enhance policies and procedures to require:

- Competitive procurement of legal services.
- Board personnel to document verification that the services and related billing rates agree with established contract rates before payments are made for legal services.
- Changes to contract provisions, including hourly rates and assigned attorneys, be in writing and agreed to by all parties.

Result of Follow-Up Procedures

The Board had not corrected this finding. As discussed in Finding 2, the Board adopted a policy for competitive procurement of professional services, however; the policy explicitly excludes legal services. Although we requested in June 2023 and again in August 2023, Board personnel did not provide an explanation as to why the policy exempts legal services from competitive procurement. Absent Board policies that require use of a competitive selection process for all professional services, including legal services, there is an increased risk that such services may not be obtained at the lowest cost consistent with desired quality or that the selected firm may not have sufficient knowledge or experience.

Our examination of Board records disclosed that the Board did not have occasion to solicit legal services during the period October 2021 through December 2022, so the legal services obtained and amounts paid during that period were pursuant to contracts established prior to that period. According to Board records, during the period October 2021 through December 2022, the Board incurred legal fees totaling \$107,010 from three separate law firms, as shown in Table 1. In June 2023 and again in August 2023, we requested records supporting the entire amount paid. As of October 2023, Board personnel had provided records supporting paid legal fees totaling \$102,796, but had not explained why records supporting the remaining \$4,214 were not provided.

Table 1
Contractual Legal Services Paid
October 2021 Through December 2022

Contracted Firm	Amount Paid	Amount Supported by Records	Amount Not Supported
Law Firm 1	\$ 45,555	\$ 43,611	\$1,944
Law Firm 2	51,202	51,202	-
Law Firm 3	10,253	7,983	2,270
Totals	<u>\$107,010</u>	<u>\$102,796</u>	<u>\$4,214</u>

Source: Board records.

To determine if the legal services with available records supporting fees totaling \$102,796 were provided in accordance with the three law firms' contracts, we compared the contract-listed hourly rates and law firm personnel with those on the law firm invoices. As shown in Table 2, the results of our tests disclosed that the \$102,796 included \$4,534 paid by the Board in excess of contracted hourly rates. In addition, we noted that the Board paid \$33,100 to Law Firm 1 for services provided by individuals not listed in the contract:

Table 2
Contractual Legal Services Paid in Excess
October 2021 Through December 2022

Law Firm	Invoice Amounts	Amount Paid in Excess of Contracted Hourly Rates	Amounts Paid for Personnel Not Listed in Contract
Law Firm 1	\$ 43,611	\$4,484	\$33,100
Law Firm 2	51,202		-
Law Firm 3	7,983	50	-
Totals	<u>\$102,796</u>	<u>\$4,534</u>	<u>\$33,100</u>

Source: Board records.

Although we requested, Board personnel did not provide explanations as to why the billed rates and law firm personnel who provided the services differed from the rates, terms, and conditions in the contracts.

Documented authorization for hourly rate increases and changes in law firm personnel would provide the Board further assurance that legal services are procured at agreed-upon rates. In addition, absent invoice documentation supporting the amounts paid for legal services and evidence that the amounts billed and services provided agreed with the terms of the applicable contracts, Board records did not demonstrate that the legal services obtained and amounts paid by the Board were in accordance with the contract provisions.

Recommendation: We continue to recommend that the Board enhance policies and procedures to require:

- **Competitive procurement of legal services.**
- **Board personnel to document verification that the services and related billing rates agree with established contract rates before payments are made for legal services.**
- **Changes to contract provisions, including hourly rates and assigned attorneys, be in writing and agreed to by all parties.**

Finding 4: Capital Expenditure Monitoring

Previously Reported

The Board had not established policies and procedures to effectively ensure that the hospital lessee made all contractually required payments.

We recommended that the Board require and ensure that, for future agreements with similar spending conditions, Board personnel document verification of compliance with spending requirements through examination of supporting documentation.

Result of Follow-Up Procedures

The Board had no occasion to correct this finding. Our examination of Board records and discussions with Board personnel disclosed that the Board had not entered into any agreements with similar spending conditions during the period October 2021 through December 2022.

Finding 5: Monitoring of the Charitable Foundation

Previously Reported

The Board had not established policies and procedures to provide sufficient accountability and oversight over Citrus County Community Charitable Foundation (Charitable Foundation) disbursements, including grant awards to external organizations.

We recommended that the Board:

- Take appropriate actions to ensure that the Charitable Foundation enhance its policies and procedures regarding monitoring efforts to ensure that external organizations fully comply with the grant agreement terms and use the grant funds for intended purposes.
- Require the Charitable Foundation to revise its Report Form instructions to clarify instances in which audited, reviewed, and unaudited and unreviewed financial statements are to be provided.

Result of Follow-Up Procedures

The Board partially corrected this finding. Our examination of Board and Charitable Foundation records disclosed that the Board had enhanced its monitoring of Charitable Foundation activities. Specifically:

- A member of the Board attended the 15 Charitable Foundation Board meetings held during the period October 2021 through December 2022.
- According to Board personnel, they verbally contacted the Charitable Foundation to ensure that they implement our recommendations from report No. 2022-001 and those of the Citrus County Clerk of the Circuit Court and Comptroller's (Clerk), who has authority to audit Charitable Foundation records.³ Our examination of the Clerk's audit reports issued during the period March 2021 through May 2023, disclosed that the Charitable Foundation substantially corrected the findings included in those reports.

Our examination of Charitable Foundation records from the period October 2021 through December 2022 and discussions with Board and Charitable Foundation personnel disclosed that the Charitable Foundation did not revise its Report Form instructions to clarify instances in which audited, reviewed, and unaudited and unreviewed financial statements are to be provided by grantees. Although the Charitable Foundation did not revise its Report Form, it updated its policies and procedures to include monitoring requirements.

During the period October 2021 through December 2022, the Charitable Foundation awarded seven grants totaling \$395,209 to seven grantees. To evaluate the effectiveness of Charitable Foundation grant monitoring procedures, we requested and were provided evidence that grantees submitted to the Charitable Foundation the documentation required by to the grant agreements. Notwithstanding, absent clear grantee Report Form instructions, the Board has reduced assurance that Charitable Foundation grantees are complying with the grantee agreement terms and using the Charitable Foundation grant moneys for the intended purposes identified in the agreements.

³ Article 7, Section 7.04, *Bylaws of Citrus County Community Charitable Foundation*.

Recommendation: We continue to recommend that the Board require the Charitable Foundation to revise its Report Form instructions to clarify instances in which audited, reviewed, and unaudited and unreviewed financial statements are to be provided.

OBJECTIVES, SCOPE, AND METHODOLOGY

Pursuant to Section 11.45(3)(a), Florida Statutes, we conducted an operational audit of the Citrus County Hospital Board (Board) and issued our report No. 2022-001 in July 2021. Pursuant to Section 11.45(2)(j), Florida Statutes, the objective of this audit was to perform, no later than 18 months after the release of that report, appropriate follow-up procedures to determine the Board's progress in addressing the findings and recommendations contained within report No. 2022-001.

We conducted this follow-up audit from January 2023 through August 2023 in accordance with applicable generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

This audit was designed to identify, for those programs, activities, or functions included within the scope of the follow-up audit, weaknesses in management's internal controls, instances of noncompliance with applicable laws, rules, regulations, contracts, grant agreements, and other guidelines; and instances of inefficient or ineffective operational policies, procedures, or practices. The overall objective of this audit was to identify problems so that they may be corrected in such a way as to improve government accountability and efficiency and the stewardship of management. Professional judgment has been used in determining significance and audit risk and in selecting the particular transactions, legal compliance matters, records, and controls considered.

As described in more detail below, for those programs, activities, and functions included within the scope of our follow-up audit, our audit work included, but was not limited to, communicating to management and those charged with governance the scope, objectives, timing, overall methodology, and reporting of our audit; obtaining an understanding of the program, activity, or function; exercising professional judgment in considering significance and audit risk in the design and execution of the research, interviews, tests, analyses, and other procedures included in the audit methodology; obtaining reasonable assurance of the overall sufficiency and appropriateness of the evidence gathered in support of our audit's findings and conclusions; and reporting on the results of the audit as required by governing laws and auditing standards.

Our audit included transactions, as well as events and conditions, occurring during the audit period October 2021 through December 2022, and selected Board actions taken prior and subsequent thereto. Our audit included the examination of pertinent Board records and transactions, inquiry of Board personnel, observation of procedures in practice, and additional follow-up procedures as appropriate. Unless otherwise indicated in this report, records and transactions were not selected with the intent of projecting the results, although we have presented for perspective, where practicable, information concerning relevant population value or size and quantifications relative to the items selected for examination.

In conducting our audit, we:

- Reviewed applicable laws, rules, Entity policies and procedures, and other guidelines, and interviewed Entity personnel to obtain an understanding of applicable processes and administrative activities and the related requirements.
- Examined minutes of the 13 Board meetings and 15 Citrus County Community Charitable Foundation (Charitable Foundation) Board meetings held during the period October 2021 through December 2022 to determine the propriety and sufficiency of actions taken relative to the programs, activities, and functions included in the scope of the original audit.
- Examined Board records to determine whether the Board had enhanced its policies and procedures to address competitive proposal solicitation and evaluation procedures for goods and services, including legal services.
- Examined Board records to determine whether the Board had procured any goods or services, including legal services, that were subject to competitive selection.
- Inquired of Board personnel regarding Board procedures to verify that legal services invoices conformed to the terms and conditions of the legal services agreements.
- Requested for review records for legal fees paid during the period October 2021 through December 2022 and totaling \$107,010.
- From the 30 legal fees totaling \$107,010 to contracted legal counsel during the period October 2021 through December 2022, examined records to determine whether the payments were adequately supported and whether invoiced rates agreed with the contracted rates.
- Inquired of Board personnel and examined Board records to determine whether the Board entered into any agreements with spending earmarks during the period October 2021 through December 2022.
- Evaluated the effectiveness of Board oversight over Charitable Foundation activities to require that the Charitable Foundation:
 - Expend moneys in accordance with State law, Charitable Foundation bylaws, and good business practices.
 - Monitor grantee compliance with reporting requirements.
- Inquired of Charitable Foundation personnel and examined Charitable Foundation records to determine whether the Report Form had been updated to clarify instances in which audited, reviewed, and unaudited and unreviewed financial statements are to be provided.
- Examined Charitable Foundation records for the seven grants totaling \$395,209 awarded to external organizations during the period October 2021 through December 2022 to determine whether the grantees complied with all reporting requirements.
- Obtained the three internal audits of the Charitable Foundation issued by the Citrus County Clerk of Courts and Comptroller (Clerk) during the period March 2021 through May 2023 to evaluate the sufficiency of Board actions to compel the Charitable Foundation to correct the findings included in those reports.
- Reviewed Board records and inquired of Board personnel to determine whether the Board made any expenditures or entered into any contracts utilizing the authority granted by an applicable state of emergency.
- Communicated on an interim basis with applicable officials to ensure the timely resolution of issues involving controls and noncompliance.

- Performed various other auditing procedures, including analytical procedures, as necessary, to accomplish the objectives of the audit.
- Prepared and submitted for management response the findings and recommendations that are included in this report and which describe the matters requiring corrective actions. Management's response is included in this report under the heading **MANAGEMENT'S RESPONSE**.

AUTHORITY

Pursuant to the provisions of Section 11.45, Florida Statutes, I have directed that this report be prepared to present the results of our operational audit.

A handwritten signature in blue ink that reads "Sherrill F. Norman". The signature is written in a cursive style with a large initial 'S'.

Sherrill F. Norman, CPA
Auditor General

MANAGEMENT'S RESPONSE



CITRUS COUNTY HOSPITAL BOARD

123 N. APOPKA AVE. • P.O. BOX 1030 • INVERNESS, FL 34450

Telef.: 352-726-5111 • Fax: 352-726-7244

November 10, 2023

Ms. Sherill F. Norman, CPA
Auditor General of the State of Florida
Claude Denson Pepper Building, Suite G74
111 West Madison Street
Tallahassee, FL 32399-1450

VIA EMAIL ONLY (to flaudgen_audrpt_lg@aud.state.fl.us)

**Re: Citrus County Hospital Board's Response to Auditor General's
Preliminary and Tentative Audit Findings**

Dear Ms. Norman:

Please accept this letter as Citrus County Hospital Board's (the "CCHB") response to the Preliminary and Tentative Audit Findings and Recommendations in a report to be prepared on an operational audit of the CCHB conducted by your office. This operational audit focused on the progress that CCHB has made, or is in the process of making, in addressing the findings and recommendations from your prior report No. 2022-001, rather than on CCHB's general financial operations, and was transmitted to us via email by your letter dated October 19, 2023.

CCHB appreciates the detailed and thorough review of our work, which over the past year alone has provided millions of dollars in charitable contributions to agencies and projects that are consistent with our mission and objectives as spelled out in our enabling act to meet the medically related needs of citizens and residents of Citrus County.

The preliminary report shows that of the original five (5) findings, CCHB has corrected or partially corrected two of the findings (Findings 2 and 5), not corrected one of the findings (Finding 3) and has had no occasion to correct the remaining two findings (Findings 1 and 4), because the required agency actions that gave rise to those two findings have not been repeated. CCHB welcomes this scrutiny and will continue to embrace it as the agency continues the wind down process.

Each of the five (5) findings in the Preliminary and Tentative Audit Findings is specifically addressed in this response, which is being submitted electronically in accordance with your instructions in either source or PDF format(s) under my digitized signature. We want to thank you, as our State's Auditor General, for your painstaking and detailed review of CCHB's operations. We appreciate the guidance provided. As required by Florida Statute § 11.45(4)(d), enclosed below is a "written statement of explanation or rebuttal concerning all of the findings, including corrective action" CCHB has taken or plans to take to preclude a recurrence of all findings.

If you or your office requires any additional information from CCHB, please do not hesitate to contact us at any time.

Thank you.

Sincerely,



C. Mark Fallows, D.O., Chairman
Citrus County Hospital Board

cc: Citrus County Hospital Board Trustees
William J. Grant, General Counsel

CCHB's Response to Finding 1: Hospital Valuation Contractor Selection Process

CCHB agrees that there has been no occasion to correct this finding because the Citrus County Hospital property and facilities have been leased on a long-term basis to the Hospital Corporation of America since 2014, thus there has not been and will not be any reason to require the services of another hospital valuation contractor.

CCHB's Response to Finding 2: Transaction Broker Selection

CCHB agrees that this finding has been corrected but would note that for the same reasons that the circumstances giving rise to Finding 1 will not repeat themselves, Finding 2 will have no occasion to be repeated.

CCHB's Response to Finding 3: Legal Services Procurement and Contract Monitoring

As CCHB has explained, legal services are specifically carved out of its competitive procurement policy for professional services because of the specialized nature of the legal services it requires, and the relatively small number of firms qualified to provide those services. Additionally, the problem of securing qualified law firms is compounded by the frequent occurrence of conflicts or potential conflicts of interest which preclude certain otherwise qualified firms from being retained.

As for the alleged discrepancy between the legal services obtained and amounts paid by CCHB – a difference of 4% - CCHB would note that each of the contracts in question contain specific provisions allowing for rate increases by those firms. Nevertheless, moving forward CCHB will reconcile all legal invoices against the agreed upon rates for those firms.

CCHB's Response to Finding 4: Capital Expenditure Monitoring

CCHB agrees that there has been no occasion to correct this finding because CCHB did not enter into any agreements with similar spending conditions during the period being reviewed.

CCHB's Response to Finding 5: Monitoring of the Charitable Foundation

CCHB agrees that this finding has been partially corrected in that its monitoring of Charitable Foundation activities now includes the attendance of a CCHB board member at every Charitable Foundation Board Meeting and has since October 2021. Additionally, CCHB required that the Charitable Foundation implement the Auditor General's recommendations from report No. 2022-001 and those of the Citrus County Clerk of the Circuit Court and Comptroller's, who has authority to audit Charitable Foundation records. As a result of CCHB's increased monitoring, CCHB agrees that the Charitable Foundation substantially corrected the findings included in those reports.

Additionally, in response to these preliminary findings, CCHB has sent a letter to the Charitable Foundation requiring it to revise its Report Form Instructions to clarify instances in which audited, reviewed, and unaudited and unreviewed financial statements are to be provided. A copy of that letter is included with this response.



CITRUS COUNTY HOSPITAL BOARD

123 N. APOPKA AVE. • P.O. BOX 1030 • INVERNESS, FL 34450

Telef.: 352-726-5111 • Fax: 352-726-7244

November 2, 2023

Commissioner Holly Davis, Chairwoman
Citrus County Community Charitable Foundation, Inc.
P.O. Box 2706
Inverness, FL 34451

Via email: holly.davis@citrusbocc.com

RE: **CCHB REQUIREMENTS FOR CONTINUED CCCCF TRANSPARENCY**

Dear Chairwoman Davis,

The Citrus County Hospital Board Trustees respectfully requires the Charitable Foundation to revise its Report Form Instructions to clarify instances in which audited, reviewed, and unaudited and unreviewed financial statements are to be provided.

Thank you.

Sincerely,



William J. Grant, Esq.
General Counsel

Xc: C. Mark Fallows, D.O., Trustee, Chairman, via email
Allan Bartell, Trustee, Vice-Chairman, Secretary, Treasurer, via email
Jeffrey Wallis M.D., Trustee, via email
Rick Harper, Trustee, via email
Attorney Jennifer Rey, Esq. General Counsel of CCCCF, via jrey@hoganlawfirm.com
Crystal Barton, Executive Director of CCCCF, via executivedirector@cccf.us