

**Examination of Certain Policies, Procedures, Controls,
and Financial Activity of
Lexington-Fayette County Health Department**



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The Auditor Of Public Accounts Ensures That Public Resources Are Protected, Accurately Valued, Properly Accounted For, And Effectively Employed To Raise The Quality Of Life Of Kentuckians.

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October 17, 2011

Gary R. Wallace, MD, Chair
Lexington-Fayette County Board of Health
650 Newtown Pike
Lexington, Kentucky 40508-1197

Thomas Lester, Chair
Board of Directors
HealthFirst Bluegrass, Inc.
650 Newtown Pike
Lexington, Kentucky 40508-1197

RE: Examination of Certain Policies, Procedures, Controls, and Financial Activity of Lexington-Fayette County Health Department

Dear Chairman Wallace and Chairman Lester:

The enclosed report, *Examination of Certain Policies, Procedures, Controls, and Financial Activity of Lexington-Fayette County Health Department*, contains our observations, findings, and a number of recommendations made to improve the Department's oversight and the effectiveness of its operation. Though the report identifies progress made in many areas since the examination was initiated, the report includes six specific and essential steps the Board of Health and the Primary Care Governing Council, HealthFirst, need to take to clarify their roles and to ensure continued federal support, including an \$11.7 million grant, is secured.

This examination included a comparison of Health Board policies to the 32 Recommendations for Public and Non-Profit Boards developed by this office, a review of the organizational structure of the Health Department, an analysis of the Health Department's expenditures, a review of annual external financial statement audits, and the status of federal grant funding. Our examination procedures included interviews of over 20 individuals and reviews of documents including policies, financial documents, auditing standards, board meeting minutes, state law, and federal grant requirements.

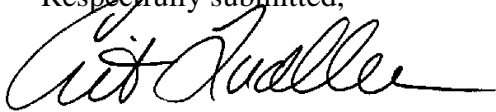


Chairman Wallace and Chairman Lester
October 17, 2011
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The Auditor of Public Accounts requests a response from the Board of Health and the HealthFirst Board of Directors on the implementation of audit recommendations within 60 days of the issuance of the final report. If you wish to discuss this report further, please contact Brian Lykins, Executive Director of the Office of Technology and Special Audits, or me.

We greatly appreciate the courtesies and cooperation extended to our staff during the audit.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", written in a cursive style.

Crit Luallen
Auditor of Public Accounts

Chapter 1

Introduction and Background

Scope

On April 11, 2011, the Auditor of Public Accounts (APA) announced that it would conduct an independent examination of the Lexington-Fayette County Health Department (Health Department) in response to a request from the Health Department's Commissioner of Health. This examination was designed to address the Board of Health's oversight and its ability to ensure the effective operation of the Health Department. To accomplish this examination, the APA developed the following objectives:

- Compare the APA's "Recommendations for Public and Nonprofit Boards" to the policies and other governing documents of the Health Department;
- Review the organizational structure of the Health Department;
- Perform an analysis of Health Department expenditure categories;
- Review the financial audits of the Health Department; and,
- Evaluate other operational areas as needed based on our review.

To address these objectives, the APA interviewed over 20 individuals. Those interviewed included members of the Board of Health and HealthFirst Bluegrass (HealthFirst) Board of Directors, as well as employees of the Health Department, Lexington-Fayette Urban County Government, Kentucky Department of Public Health, the federal Health Resources and Services Administration (HRSA), and the Louisville Family Health Centers. We also reviewed the Health Department's operational policies, financial audits, board meeting minutes, and organizational documents. In addition, we examined a sample of credit card expenditures and vendor/contractor payments. Documents and expenditures reviewed were primarily from July 1, 2009 to the present date; however, certain documents and policies reviewed were from an earlier time period.

The objectives did not include a review of the allegations related to the Primary Care Center pharmacy. It was determined that this issue was being addressed through a separate investigation by the Cabinet for Health and Family Services' Office of Inspector General (OIG) and its findings had been referred to law enforcement agencies. The investigation resulted in criminal charges. The APA reviewed investigative information received from the OIG in order to be aware of the details related to this issue.

Organizational Background

The Health Department was founded as an urban-county department of health in 1977. The Health Department is governed by a 13 member Board of Health, which consists primarily of healthcare professionals and the Mayor of Lexington. According to KRS 212.632, Board of Health members are to be appointed by the Mayor of Lexington and comprised of one Urban County Council member, three physicians, one dentist, one registered nurse, and six at-large members. The Health Department provides services for disease prevention, health/wellness promotion, immunizations, health inspections, and basic clinical services.

Chapter 1

Introduction and Background

Local health departments are regulated by the Kentucky Department of Public Health, which conducts annual reviews of various health department services. The Department of Public Health also acts as a pass through body for federal and state grant funding for public health programs.

In 1981, the Health Department created a Primary Care Center to provide comprehensive medical care to those who have difficulty in obtaining medical services. This may include Medicaid and Medicare recipients or individuals that cannot afford health insurance. The Primary Care Center provides a full complement of services, including adult and pediatric medical care, dental services, and a pharmacy.

The addition of a Primary Care Center by the Health Department makes it unique among most other health departments in the nation. Primary care centers are typically not associated with health departments and are more likely to be separate stand-alone non-profit entities. These types of centers can be regulated as Federally Qualified Health Centers (FQHC) by HRSA, which allows these centers to receive Public Health Service Act Section 330 federal grant funding for operations. As a FQHC, the Primary Care Center typically receives nearly \$2.3 million annually in operating funds from HRSA, and is eligible for other one time grants as well. The Primary Care Center must abide by 19 program requirements established by HRSA to continue to qualify for these funds.

One of the underlying themes within the 19 program requirements is that an FQHC be operated autonomously and independently by a governing body. Requirements for the governing body are designated by HRSA, which requires that a majority of the governing body be comprised of individuals that have been served by the FQHC. Because the Board of Health did not meet these requirements, a separate governing body was developed to oversee the Primary Care Center. The governing body was originally known as the Primary Care Governing Council (Governing Council) that is comprised of 11 to 15 members. The membership will consist of 51 percent consumers, health care professionals, and other non-consumers.

For the FQHC to receive Public Health Service Act Section 330 funding, while operating under the umbrella of the Board of Health, a co-applicant agreement was established between the Board of Health and the Governing Council. This co-applicant agreement sets forth the autonomy of the Governing Council and defines it as a committee operating under the auspices of the Board of Health.

**Organizational
Structure Changes**

In December 2010, HRSA conducted an operational assessment of the Primary Care Center. This assessment was prompted by the hiring of a new Executive Director of Primary Care in August 2010, concerns that the Health Department was not complying with the co-applicant agreement, and the fact that the entity was approved to receive a capital development grant of \$11.7 million in October 2010. HRSA issued an assessment report with recommendations in January 2011. For a summary of issues and concerns identified in the HRSA report see Exhibit 1. In response to the report recommendations, a “Final Site Visit Response” was approved by the Governing Council in July 2011 and submitted to HRSA. See Exhibit 2 for a copy of the Governing Council’s response. On August 30, 2011, HRSA issued a revised Notice of Grant Award indicating their acceptance of this response by continuing HRSA grant funding without restriction.

To achieve the autonomy required by the HRSA assessment report, an organizational change was made in May 2011 to create a non-profit organization, known as HealthFirst, to oversee the operations of the primary care function. After this organization was created, the co-applicant agreement was revised to be an agreement between the Board of Health and HealthFirst. It is basically the same as the original agreement with the new co-applicant agreement no longer considering Primary Care’s Governing Council a committee under the auspices of the Board of Health. Instead, the new agreement states that, “HealthFirst is a Kentucky corporation established to act as the co-applicant governing board...” Primary Care’s Governing Council is also now referred to as the “Board of Directors.”

Comparison of APA Board Recommendations to Health Department Policies

Findings and Recommendations Related to Health Department Policies

As part of our examination of the Health Department, we performed a comparison of certain Health Department policies, procedures and practices to the APA's "Recommendations for Public and Nonprofit Boards." Presented below are the findings and recommendations that resulted from this comparison.

1. The Board should have a well defined, clear mission statement to serve as a platform for policies, operational plans, and resource allocations that further the interest of its organization's members.

The Health Department appears to have adequately complied with this recommendation.

2. The Board should facilitate the development of an annual orientation program and manual for new and returning Board members to ensure an understanding of the Board's structure, operations, and their legal and fiduciary responsibilities. An explanation of the budget and accounting structure, as well as revenue and investment information should also be included. If possible, the orientation should be facilitated by a knowledgeable, independent party, such as a Board attorney or consultant.

The Health Department has adopted an orientation program that appears to comply with this recommendation; however, further strengthening of board member training is recommended. We recommend that the Health Department request annual training from the Kentucky Department of Public Health, who provides orientation training to health departments upon request. To address their legal and fiduciary responsibility, the orientation program should be facilitated by a knowledgeable, independent party, such as a Board of Health attorney or consultant if possible. Further, we recommend the orientation program be provided within 30 days of appointing a new Board of Health member and attendance documentation should be retained.

3. The Board should ensure that its organizational structure maintains a flexibility that allows for multiple sources of information. The Board should request reports from individuals having responsibility for various program areas rather than from just the chief executive.

The Health Department appears to have adequately complied with this recommendation.

4. The Board meeting minutes should document the exact nature of the financial reviews conducted by the Board. Any issues that result from these reviews and action taken to resolve the issues should also be documented.

The Health Department does not appear to have complied with this recommendation. While financial information is provided to the Finance Committee of the Board of Health, the exact nature of the financial review is unknown because no Board of Health committees record and maintain meeting minutes. KRS 61.835 requires all public agencies record meetings and KRS 61.805 defines a public agency as pertaining to a board and its subcommittees. We recommend the Board of Health maintain committee meeting minutes and document the details of all financial reviews and actions taken.

5. For Boards who fall under the open meetings law, sessions closed to the public should be entered into in accordance with KRS 61.810. Any conclusions or decisions reached during a session closed to the public must be documented in the Board meeting minutes as stated in KRS 61.815, clarified in OAG 81-387.

Starting with the February 2011 meeting, the Board of Health appears to have adequately complied with this recommendation. However, the Board of Health's committees do not document meeting minutes, so it is not clear that they are meeting their requirements under KRS 61.810. We recommend the Board of Health maintain committee meeting minutes that document compliance with Kentucky's open meetings law.

6. The Board should establish an independent process to receive, analyze, investigate, and resolve concerns related to the organization including anonymous concerns. Employees, business associates, customers, or the general public may have significant, beneficial information that they are uncomfortable reporting directly to the Board. A toll-free complaint number or an advertised email and postal address for feedback would allow the transmission of this information. In addition, where applicable, the Board's policy should include a reference to Kentucky law (KRS 61.102) notifying employees, as defined in KRS 61.101, of their rights to protection against retaliation for reporting violations to certain authorities. A whistleblower policy should be adopted and distributed to employees. The policy should include reporting procedures and management's responsibility to address issues reported.

Comparison of APA Board Recommendations to Health Department Policies

The Health Department does not appear to have fully complied with this recommendation. The Health Department added a third party call line in September 2011 to receive anonymous complaints and concerns from employees; however, this addition was not added to the policy manual and will only be advertised to employees. We recommend the newly established third party call line be added to the policy manual and be expanded to include complaints or concerns from outside sources. In addition, a whistleblower policy has not been implemented, nor does any other policy reference KRS 61.102 to notify employees of their protection from retaliation. We recommend the whistleblower protections under KRS 61.102 be disclosed to employees and be included within the policy manual.

7. An internal audit function could be used to ensure that Board concerns are independently investigated. The individual designated to perform internal audits should be given the authority to investigate and examine any area designated by the Board and the responsibility to report the audits findings directly to the Board.

The Health Department does not have a formal internal audit department. While accounting staff members have periodically conducted internal audits, this function is not a requirement of their job descriptions nor is it required by Health Department policies. If the duties of the accounting staff are modified to include an internal audit function, we recommend that the Health Department formalize the internal audit function by developing policies that describe the selection of internal audit topics and the process to conduct internal audits. These policies should allow for staff to have the needed independence to conduct these audits, which may include a direct administrative link between the staff conducting internal audits to the Board of Health's Finance Committee.

8. A Board audit committee should appoint and compensate the audit firm and ensure the rotation of the lead audit partner and the audit partner reviewing the audit, as required by the Sarbanes Oxley Act (SOX) for companies with publicly traded stock. The Board should also consider whether rotating audit firms would be beneficial given the facts and circumstance of the organization. Further, if possible, the Board audit committee should be comprised of at least one member who has an understanding of generally accepted accounting principles and financial statements, experience with internal controls and in preparing or auditing financial statements, and an understanding of audit committee functions, as suggested in Section 407 of SOX. In addition, reviews of internal controls should be conducted to ensure that controls are functioning as designed or needed. The review of internal controls could be conducted by an internal auditor, Board designee, or included in the engagement of an auditing firm. Any concerns noted by the Board should be disclosed to the auditor and included in the audit scope for review.

Comparison of APA Board Recommendations to Health Department Policies

The Health Department appears to have adequately complied with this recommendation.

9. The Board should adopt a code of ethics that includes standards of conduct for its Board members, officers, and employees related to business conduct, integrity, and ethics. The policy should include the requirement to sign a form stating that the individuals have received and understand the code of ethics. The code should include statements regarding moral and ethical standards, confidentiality, conflicts of interest, nepotism, gifts, honoraria, and assistance with applicable audits and investigations. Violations of the code of ethics should be reported to the Board or designated committee of the Board.

The Health Department does not appear to have complied with this recommendation because the code of ethics policy applies only to employees, not Board of Health members. While 902 KAR 8:150, Section 7, regarding conflict of interest, is incorporated into the Health Department's policies, this only includes basic conflict of interest requirements and not a complete code of ethics. We recommend the Board of Health adopt a code of ethics similar to that of the employees that includes components such as statements of moral and ethical standards, confidentiality, gifts, and honoraria.

10. The Board should adopt a financial disclosure policy for Board members and executive management. A policy should also be developed requiring Board members and executive management to disclose any conflicts of interests. The disclosure form should be completed by a specified date and returned to the appropriate committee of the Board.

The Health Department does not appear to have complied with this recommendation because there is no financial disclosure policy. A conflict of interest statement is signed by Board of Health members but financial disclosure is not required except for those items that the member believes is a conflict. We recommend the Health Department develop a policy that requires Board of Health members and executive management to annually complete a financial disclosure statement similar to those required by the Kentucky Executive Branch Ethics Commission under the authority of KRS 11A.050. This policy should also include a review process to ensure compliance with additional financial disclosure requirements that may be implemented.

11. The Board should establish and approve a detailed, equitable personnel and compensation policy. The policy should include that the Board or a designated Board committee annually review the salary increases and bonus payments made to all staff. This review should be documented in the Board meeting minutes.

Comparison of APA Board Recommendations to Health Department Policies

The Health Department does not appear to have fully complied with this recommendation because the policy does not require the Board of Health or a designated committee to review the actual salary increases of all employees. We recommend the Health Department include a policy requirement that the Board of Health should review all salary increases or other compensation and ensure that this process is documented.

12. The Board should define and document all employee benefits in a fair and equitable manner. Benefits received that result in taxable income should be properly accounted for and accrued to each applicable employee. Employee benefits should also be reviewed to ensure they provide a reasonable business purpose. Also, membership fees to organizations or associations should provide a reasonable business benefit.

The Health Department appears to have adequately complied with this recommendation.

13. The Board should approve the compensation package of the organization's primary executive and be aware of the compensation provided to other Executive Staff. In determining the compensation for the primary executive, the Board should consider the organizations financial resources, current economic conditions, employee performance, and salary data for similar positions at relevant organizations within the region.

The Health Department does not appear to have complied with this recommendation because the Board of Health meeting minutes do not document specific compensation issues that occurred during our audit period. The Board of Health meeting minutes do not document any discussion or final vote concerning the compensation of the current Commissioner of Health or the severance agreement with the former Commissioner of Health. Given that the Board of Health's committees do not keep meeting minutes, any decisions by those groups are not documented. We recommend the full Board of Health approve the compensation package of the Commissioner of Health and document their votes in meeting minutes. This includes any severance agreements in which a Commissioner of Health or other employee would receive any form of compensation. Recommendations from committees made in open meetings regarding personnel issues should be documented in the committee's meeting minutes.

14. The Board should ensure a well-defined employee evaluation system is implemented within the organization to consistently assess employee performance. The results of the employee's evaluation should be used for employee advancement or salary adjustments.

Comparison of APA Board Recommendations to Health Department Policies

The Health Department does not appear to have fully complied with this recommendation. While there is a well-defined employee evaluation system, we recommend the Health Department's policies include the use of employee evaluation results to support employee advancements or salary adjustments.

15. The Board should adopt policies to ensure all forms of employee leave are properly approved and accurately recorded.

The Health Department appears to have adequately complied with this recommendation.

16. The Board should have sick and vacation leave policies that address the accrual, use, and the payment to employees for any unused sick, vacation, or compensatory time.

The Health Department appears to have adequately complied with this recommendation.

17. The Board policy should include a transparent, competitive selection process for the procurement of goods and services. The policy should outline the circumstances under which quotes or competitive bids are required and the process to be followed. The Board should have policies that require a formal contract for purchases over a specified amount and that all contracts over a specified dollar amount require Board approval.

The Health Department appears to have adequately complied with this recommendation.

18. A review of budget to actual expenditures should be performed regularly by the Board or a designated Board Committee to monitor costs in each account. The name and number of budget categories or line items should provide transparency and sufficient detail to allow Board members to accurately identify the types of expenses being attributed to each category. If expenditures occur at an unexpected rate, additional detail should be requested to ensure that incurred expenditures are reasonable and necessary.

The Health Department appears to have adequately complied with this recommendation.

19. At least quarterly, the Board or a designated Board committee should receive and review a listing of payments that includes, at a minimum, the payee, dollar amount, and the date of each expenditure. This review would assist in identifying inappropriate, unusual, or excessive expenditures.

The Health Department does not appear to have complied with this recommendation because there is no evidence documenting that the Board of Health or a designated committee receives and reviews a quarterly vendor expense report. We recommend the Health Department's accounting staff provide a vendor expenditure listing to the Board of Health, or the Finance Committee, at least quarterly for its review and discussion. If a Board of Health member identifies any activity believed to be questionable; then the member should follow up by asking for more information and appropriate documentation.

20. Executive management traveling out of state should present their plans and estimated costs to the Board for prior approval. The approval of these activities and associated costs should be addressed at the Board meetings to ensure proper documentation in the minutes. Subsequent to attending approved conferences or activities, the amount expended should be reported to the Board.

The Health Department appears to have adequately complied with this recommendation.

21. To minimize and control the cost of travel, a travel expense policy should be developed that specifically defines the allowable costs related to lodging, meals, entertainment, personal mileage reimbursement, rental cars, and airfare. The travel expense policy should state the invoice requirements for the reimbursement of certain expenditures such as taxi fees, tips, parking, or tolls. The policy should provide examples of expenditures that are to be paid for by the employee, such as costs incurred by family members or the attendance at events not approved by the Board. This policy should explicitly state that expenses not in compliance with the travel expense policy would not be reimbursed or paid by the Board.

The Health Department does not appear to have fully complied with this recommendation because this policy does not define maximum allowances for rental cars. We recommend the Health Department's travel policy include specific reimbursement guidelines related to rental cars. In general, the travel expense policy should also include an explicit statement that expenses not in compliance with the travel expense policy will not be reimbursed or paid by the Board of Health.

22. In lieu of credit cards, the Board should consider the following:
- The use of purchasing cards that would allow the Board to restrict the types of purchases that can be made on the card based on industry codes. Casinos, specialty retail outlets, and food and beverage establishments are examples of these restrictions. The amount spent on a single purchase can also be restricted through the use of a purchasing card.

- Reimburse employees personal credit card charges when the use is necessary. Procedures and supporting documentation requirements should be developed to facilitate this type of reimbursement.

The Health Department does not use purchasing cards; however, the department does use select vendor cards in order to control where purchases are made by employees. See Recommendation 23.

23. If the use of credit cards is needed, the Board should implement the following oversight controls:
- A Board member or committee of the Board should be assigned to review, at a minimum, credit card statements of Executive Staff prior to payment.
 - Credit card charges should be supported by detailed receipts, documented business purpose, and supervisory approval. The employee should be responsible for the timely payment of any unsupported credit card charges or disallowed expenses.
 - Policies established by the Board should ensure that all review procedures are performed in a timely manner to avoid late fee and finance charges.

The Health Department does not appear to have fully complied with this recommendation. The credit card policies do not require a Board of Health review of executive staff credit card statements prior to payment. Also, further strengthening of the procurement policy, which includes credit cards, is needed to document the consequences of a lack of compliance. We recommend that the Board of Health or designated committee review executive staff credit card statements prior to payment. We further recommend the Health Department's policy section on credit cards explicitly state that noncompliant or unsupported expenses will not be reimbursed or paid by the Health Department.

24. Expenses classified as gifts or entertainment should be documented to include the name and title of the person(s) involved and a description of why the expense was needed and how it relates to business operations.

The Health Department appears to have adequately complied with this recommendation.

25. A policy related to reimbursements made by employees to the organization should be developed to ensure that any expenses that should be paid by an employee are monitored. This policy should include the timeframe allowed for making the reimbursement and the alternative actions that will be taken if reimbursement is not made.

Comparison of APA Board Recommendations to Health Department Policies

The Health Department does not appear to have fully complied with this recommendation because the travel policy allows for employee travel advances without specifying reimbursement guidelines to repay amounts advanced in excess of allowed expenses. The travel policy states that travel advances are generally not paid but exceptions may be approved by the Commissioner or designee. We recommend the Health Department's policy define a procedure and require documentation be maintained for prior approval of travel advances, the timeframe allowed for the employee to make reimbursement, and any alternative actions that will be taken against the employee if reimbursement is not made.

26. Business expense reimbursements requested by executive management should be reviewed by the Board or a designated Board committee to ensure supporting documentation is provided. This documentation should be retained to ensure that duplicate payments are not made to the employee.

The Health Department does not appear to have complied with this recommendation because there is no specific policy requiring a Board of Health review of reimbursements requested by executive management. While not excessive, during fiscal year (FY) 2010 and FY 2011, the former Commissioner of Health was reimbursed for fuel and car wash expenses totaling \$2,211 for the two-year period. These expenses were not reviewed by the Board of Health or a designated committee. We recommend the Board of Health's Finance Committee review the expense reimbursement requests of executive management at each meeting.

27. Specific marketing goals should be developed to monitor the success of any business promotions approved by the Board. Marketing expenditures incurred should be coded to that goal so that Board members will know the expenses involved in a specific marketing promotion. Further, documentation should be maintained detailing the recipients of promotional prizes including tickets, trips, or merchandise.

The Health Department does not appear to have complied with this recommendation. While the Health Department does have an employee that presents marketing information to the Board of Health monthly, it does not have a unified formal marketing plan and does not track marketing expenses as a separate cost center. We recommend the Health Department develop a marketing plan to include marketing goals and planned activities. As part of the marketing plan, expenses should be included in the budget process as either a unique cost center or submitted to the Board of Health as a separate aggregate amount for informational purposes only.

28. A Board policy should be developed to address the authorization process to purchase vehicles and the method used to dispose of vehicles. The use and assignment of vehicles owned by the organization should be addressed within this policy. In addition, the practice of providing a vehicle should be reviewed and monthly vehicle allowances considered. The policy should include following the IRS guidelines for personal use of a vehicle.

The Health Department does not appear to have fully complied with this recommendation because the policy on the use and assignment of fleet vehicles is not sufficient. We recommend the Health Department adopt a more complete vehicle usage and assignment policy that establishes more specific guidelines on the usage of vehicles, including the use of tracking logs for vehicle mileage, allowable payments for fuel and maintenance, and accident/emergency procedures. The policy should also define how vehicles are assigned. The former Commissioner of Health was assigned a vehicle, but it is not clear under what authority this was done. It is possible this was part of the compensation package approved by the Board of Health, but no minutes documented this decision. See Finding 1 for further discussion and recommendations.

The Health Department policy does discuss the tax implications of employees assigned vehicles due to IRS guidelines; however, it is limited in scope and does not include a tax assessment method for “control employees.” See Finding 2 for further discussion and recommendations.

29. The personal use of business equipment should be addressed within Board policy to determine when appropriate. The policy should require that equipment being used inappropriately or that is missing should be reported directly to the Board.

The Health Department does not appear to have fully complied with this recommendation. While there are separate policies that outline the usage of various types of equipment, we recommend the Health Department establish a policy to address the personal use of all business equipment. These policies should also contain a requirement that the Board of Health or a designated committee will be informed if equipment is used inappropriately or missing.

30. The Board should establish a policy detailing the process to report lost or missing financial information or records. To avoid lost or stolen financial information, electronic images of financial records should be created and retained, if possible.

Comparison of APA Board Recommendations to Health Department Policies

The Health Department does not appear to have fully complied with this recommendation because the records retention and management policy does not address reporting lost or missing financial information. We recommend the Health Department establish a policy to detail the process to report lost or missing financial information or records.

31. A formal policy should be developed that identifies what equipment is a fixed asset and should be included as inventory. Once this designation has been made, the existing inventory listing should include the following identifying information related to each piece of equipment:

- The name of the individual in receipt of equipment;
- Description of equipment;
- Vendor name;
- Model number;
- Serial number;
- Acquisition date; and,
- Acquisition cost.

Once the inventory listing has been validated, any acquisitions and dispositions of computer equipment that fall within the fixed asset policy should cause an appropriate update to the inventory listing.

The Health Department does not appear to have fully complied with this recommendation because the asset management policy does not specify the type of information that should be retained for each item. We recommend the Health Department develop a policy that identifies the specific type of identifying information that should be retained for each piece of equipment deemed an asset of the Health Department.

32. An information system policy should be developed that explicitly defines a user's responsibilities as they relate to information system resources and applications. These policies should cover, at a minimum:

- Securing of user id and password;
- Protection against computer virus or mal-ware infection;
- Legal notice at logon indicating system is to be used for authorized purposes only;
- Securing unattended workstations; and,
- Securing portable devices, such as laptops, Blackberries, cell phones, etc.

The Health Department appears to have adequately complied with this recommendation.

Observations, Findings, and Recommendations

**Organizational
Issues Yet to be
Resolved**

Due to organizational changes needed to comply with HRSA requirements and receive the significant grant funds of \$11.7 million, we conducted an extensive review of the work accomplished thus far by the Health Department and HealthFirst and evaluated the additional steps planned for the future. We identified certain areas that require additional consideration to ensure the operations of both the Health Department and HealthFirst function as independent organizations, yet still support the missions of each organization.

**Observation 1:
Service Level
Agreement
between the Health
Department and
HealthFirst has
not been finalized.**

While HealthFirst has been created as a separate non-profit organization to operate the primary care services, all employees providing direct medical care services through HealthFirst are part of the Health Department's personnel system. The costs incurred by employees providing HealthFirst services can be easily identified and allocated to the new organization; however, an agreement has not yet been finalized detailing the method for allocating the costs incurred by general administrative staff that serve both the Health Department and HealthFirst. Administrative staff functions include accounting, human resources, information technology, and facilities management.

Currently, a draft of a service level agreement exists between the Health Department and HealthFirst, but it does not appear that both parties fully agree with the details of the agreement and no final action to ratify this agreement has occurred. This agreement is necessary to ensure that HealthFirst, as a separate non-profit entity, has a clear understanding of how administrative services will be provided and the costs associated with those services.

Recommendations

We recommend that discussions between these organizations be completed to finalize a service level agreement as soon as possible. This agreement should detail the services that will be provided to HealthFirst, as well as the costs that will be incurred by HealthFirst. In addition, the agreement should clearly reference the policies and procedures that administrative staff will follow when administering the accounts or other activities of HealthFirst. The period covered by the agreement and the process required to amend the agreement should also be defined.

**Observation 2:
HealthFirst should
adopt financial
policies.**

To comply with HRSA requirements, a separate bank account is being established for the HealthFirst organization. Since HealthFirst will use the accounting staff of the Health Department, accounting staff should be informed of the financial management policies and controls that HealthFirst expects to be implemented regarding its accounts.

Recommendations

We recommend that HealthFirst develop and adopt written policies, procedures, and controls regarding the administration of the newly established bank account. The service level agreement signed by the Health Department and HealthFirst should incorporate by reference these policies, procedures, and controls.

Observations, Findings, and Recommendations

**Observation 3:
Public health tax
appropriation for
HealthFirst should
be determined.**

For HealthFirst to maintain primary care services at the current level for indigent and underserved populations, the Board of Health must continue to allocate a portion of the public health tax funds to HealthFirst. Under the rules established in KRS 212.755, the Board of Health annually requests a special ad valorem public health tax at a rate of \$.028 on each \$100 of all real and personal property in Fayette County. This tax is approved by the Lexington-Fayette Urban County Council. According to the approved ordinance, these funds are to be used solely for the support of the Health Department and the payment of its debts and expenses.

As part of the Health Department, primary care services has always received a portion of the public health tax. Prior to the current year, the practice followed by the Health Department was to allocate a sufficient amount of public health tax dollars to cover primary care expenditures in excess of revenues. This approach resulted in the primary care having an equal amount of expenditures and revenue at the end of each fiscal year.

After the organizational changes implemented for the current fiscal year, the Board of Health agreed to provide \$1.2 million of the public health tax dollars to HealthFirst. This amount was based on the amount typically allocated for primary care services in past years. However, the Board of Health has not provided assurance of continued support for future years through an allocation of the public health tax to HealthFirst.

Considering cutbacks in state and federal funding for public health services, it is understandable that the Board of Health has concerns about committing its public health tax dollars for an indefinite time period. However, as HealthFirst moves forward as a separate organization, funding assurances are needed to allow HealthFirst to plan and budget its future primary care services. The public health tax funding is what connects these entities and ensures that services are provided to those that do not have the ability to pay. Likewise, this funding will allow the Board of Health to require financial and programmatic information that documents the services provided to those that are considered underserved and vulnerable.

Recommendations

We recommend that the Board of Health inform HealthFirst in a timely manner whether it intends to allocate a portion of the public health tax. If the Board of Health intends to provide this financial support, the Board of Health should enter into a written agreement with HealthFirst specifying the amount and time period of funding that will be provided. The level of funding could be based on a percentage of the taxes received or a flat rate based on the average funding amounts allocated in the past. This agreement should also outline the required documentation and information that HealthFirst should submit to the Board of Health with specific deadlines. Provisions should be established as to the repercussions if either party does not meet the conditions of the agreement. The procedures required to make future amendments should also be specified in this funding agreement.

Observations, Findings, and Recommendations

**Observation 4:
Board of Health
and HealthFirst
should form a
permanent joint
committee.**

The Board of Health is empowered to operate the Health Department and provide medical care to medically underserved populations, while the Board of Directors for HealthFirst, formerly the Primary Care Governing Council, is responsible for providing primary care services to the same population. These services can overlap and it would be beneficial for the organizations to coordinate their efforts.

Ad hoc joint committees have been formed in the past to accomplish very specific tasks, but these committees stopped meeting once the task was completed. The services provided by both the Health Department and HealthFirst are ongoing; therefore, the coordination of the two governing bodies should be constant as well.

Recommendations

We recommend that the Board of Health and the HealthFirst Board of Directors enter into an agreement to form a permanent joint committee between the two governing bodies. The agreement should outline how meetings will be scheduled and communicated, how committee membership will be chosen, how chairs or co-chairs will be elected or appointed, and provide the mission or purpose of the committee. It should also assign staff positions from both the Health Department and HealthFirst to assist with the joint committee.

**Observation 5:
Board of Health
and HealthFirst
should coordinate
strategic planning.**

Both the Health Department and HealthFirst have some form of strategic plans in place, yet neither of these plans provide specific provisions for coordinating with each other. This may be expected considering the relatively recent nature of the creation of HealthFirst and the greater autonomy of primary care services.

Recommendations

We recommend that through a joint committee of the Board of Health and the HealthFirst Board of Directors a coordinated strategic plan be developed to ensure that both organizations are providing efficient and effective medical and public health services to Fayette County. The coordinated plan developed by the joint committee should be integrated into the long-term strategic plans of both entities.

**Observation 6:
Board of Health
and HealthFirst
should make
decisions to ensure
the \$11.7 million
HRSA grant is not
lost.**

In October 2010, through joint application, the Health Department and the Primary Care Center were awarded an \$11.7 million federal grant through HRSA to be used for the construction of a new building or the renovation of an existing structure to provide primary care services. According to HRSA requirements, this grant must be used by a FQHC with its governing board given the authority to make the final determinations as to the building's location and how the grant funds are used. This requirement prompted the current organizational structure change that led to the formation of HealthFirst so that its Board of Directors will make the final decision related to how these grant funds will be spent.

Observations, Findings, and Recommendations

Originally, the grant was going to fund the construction of a 60,000 square foot facility in close proximity to the current Health Department. In April 2011, the Primary Care Governing Council requested a change for the use of this grant because the Governing Council believed the original plan was not supported by further due diligence research performed by Primary Care. It was determined that multiple service sites better meet their strategic mission of providing services. The amended request was to use the funds to renovate a 20,000 square foot facility on Georgetown Road (close to the current location) and a 55,000 square foot building shell on Harrodsburg Road.

Once this change was approved, the newly formed HealthFirst Board of Directors requested the Board of Health to co-sign a lease-to-buy agreement to obtain the building on Harrodsburg Road. The Board of Health was needed to co-sign the agreement because HealthFirst is a new organization and had no credit history.

After several meetings and the development of business plans, the Board of Health decided not to co-sign the lease-to-buy agreement due to a desire to ensure the safety of public health funds. The Board of Health's concern was that if HealthFirst could not make its rent payments, the Board of Health would be liable and this would endanger its ability to provide mandatory public health services. To avoid an outside leasing agreement, the Board of Health has offered HealthFirst the use of a property (located on the same road as the current Health Department) that is already owned by the Health Department. However, HealthFirst does not believe this location will meet their needs and would like to use the grant funds to secure a more desired location and larger facility. Currently, HealthFirst's Board of Directors is attempting to secure the building shell on Harrodsburg Road without the Board of Health's guarantee.

The funding for the \$11.7 million grant is scheduled to expire September 30, 2012. This means that construction or renovation is supposed to be completed by this time; however, a building has not yet been secured nor have any renovations taken place. The grant does allow for a one year extension, but progress must be made toward a completed project prior to any extension being given by HRSA. If the project does not progress, the grant funding could be jeopardized.

Recommendations

We recommend that the Board of Health and HealthFirst work cooperatively to expedite a timely resolution to this issue so that a property can be selected and renovations initiated, with each party fulfilling their fiduciary duties to their respective organizations. The Board of Health should determine the financial or other assistance it can provide to HealthFirst without endangering public health services. Timely and accurate information from the Board of Health is needed by HealthFirst to make decisions to ensure the \$11.7 million in grant funds are not lost.

Observations, Findings, and Recommendations

Finding 1: The Former Commissioner of Health received reimbursement without proper oversight or documentation.

The former Commissioner of Health received \$2,211 in reimbursements for fuel and car washes during FY 2010 and FY 2011, with no documentation demonstrating it was for a Health Department business purpose. The former Commissioner was assigned a Health Department owned vehicle and routinely submitted reimbursement requests for fuel, presumably for the assigned vehicle. No documentation was maintained for reimbursement requests that demonstrated the fuel and car wash expenses were for the Health Department owned vehicle. While there is no policy prohibiting reimbursing an individual for fleet vehicle fuel, the current CFO has stated that this is not the accepted practice at the Health Department currently and that reimbursements to employees for fuel should not occur.

According to the current Health Department CFO, a contract is held with a local gas station where fleet vehicles are typically fueled. The bill is sent directly to the Health Department. The CFO also stated that some Health Department fleet vehicles had gas cards, although the former Commissioner’s assigned vehicle did not.

It should also be noted that the state government regulations governing local health departments prohibits the use of health department vehicles for personal use, including commuting. 902 KAR 8:170 Section 5(10)(b) states that, “[r]outine personal use of a health department vehicle, including commuting use, shall not be an allowable public expenditure.”

Recommendations

We recommend that the Health Department develop and enforce a vehicle usage policy including fueling procedures to ensure that employees follow expected business practices. To ensure greater accountability, the Health Department may consider the use of gas cards assigned to each fleet vehicle so that expenses may be individually associated with the vehicles. For monitoring purposes, the vehicle mileage should be recorded when fueling the vehicle. In order to comply with all 32 APA “Recommendations for Public and Nonprofit Boards,” the Board of Health should also ensure that any reimbursement requests for the Commissioner of Health are reviewed by the Board or designated Board Committee. We also recommend that the Health Department ensure that vehicle usage policies are in compliance with 902 KAR 8:170 Section 5(10)(b) and other applicable regulations.

Observations, Findings, and Recommendations

Finding 2: The former Commissioner of Health’s W-2 did not properly reflect the benefits of using a Health Department vehicle.

Upon review of the former Commissioner of Health’s W-2 forms issued by the Health Department, no dollar amount associated with the benefit of using a Health Department vehicle for personal use was included. According to Health Department accounting staff, the former Commissioner of Health was assigned a Health Department vehicle, and that the former Commissioner used this vehicle, at a minimum, to commute between her home and office. The extent of other personal use of the vehicle was not known by staff; however, Health Department policies do not place restrictions on the personal use of assigned vehicles.

IRS Publication 15-B states, “[a]ny fringe benefit you provide is taxable and must be included in the recipient’s pay unless the law specifically excludes it.” While an assigned vehicle was not formally part of the former Commissioner’s compensation and fringe benefit package, it was a personal benefit as long as it was being used for commuting purposes, which is considered personal use by the IRS. Because the value of this benefit was not determined by the Health Department and added to the former Commissioner’s W-2, the taxable income of the Commissioner was not fully stated.

In May 2011, the Health Department updated vehicle usage policies to include the addition of a new section on the tax implications for employees assigned a vehicle for both personal and business use. It assumes a \$3.00 tax liability per day for those using Health Department vehicles for commuting, which is based on the IRS “Commuting Rule” discussed in Publication 15-B. This policy is not sufficient to ensure that the Commissioner of Health’s benefit will be properly assessed because the Commissioner position is classified as a “control employee” under the IRS Publication 15-B, which is excluded from the \$3.00 “Commuting Rule.”

Recommendations

According to 902 KAR 8:170 Section 5(10)(b), as discussed in Finding 1, “routine personal use of a health department vehicle, including commuting use, shall not be an allowable public expenditure.” However, given that the Health Department assigned a vehicle for such use, we recommend that the Health Department ensure that all fringe benefits offered to employees are properly accounted for and fully stated for tax purposes. The assignment of a vehicle to employees for both personal and business use, including commuting, should be considered a fringe benefit and properly accounted for to ensure taxable amounts accrue to the employee. We also recommend that the Health Department update the “Tax Implication” section of the “Vehicles” policy to ensure that the value of the benefit for the Commissioner of Health be allocated based on IRS requirements.

Observations, Findings, and Recommendations

Finding 3: Patient account receivables are written off as uncollectible without efforts made to collect fees.

Approximately half of the amounts charged to patient account receivables were written off as uncollectible for FY 2009 and FY 2010 with no collection efforts. According to the Health Department's policy on Patient/Client Accounts Receivable, an aged accounts receivable listing will be generated to monitor individual accounts and, based on this listing, delinquent accounts will be sent to collections after 60 days unless the amount is less than \$15. According to staff interviews and notes to the independent financial statements, this policy is not used to administer patient accounts receivable. We were informed that this decision was made at year end by the former Chief Operating Officer (COO) and that a collection agency was not used. Without a process to monitor and a method to collect patient accounts receivable, the Health Department is not able to maximize patient revenue to assist with the rising costs of health care.

The Patient/Client Accounts Receivable policy states that good communication is needed so that the policy is administered firmly, fairly, and with the desired flexibility. It also states that all patients will be given the opportunity to have their bills adjusted with the sliding fee schedule based on verifiable income documents. Once the patients accounts are established based on their ability to pay, an aged accounts receivable list will be generated to monitor the status of patient revenue. Based on this list, it will be determined which accounts will be written off and which ones will be referred to a collection agency. Per policy, this decision is required to be approved by a Billing Manager. The general purpose of the policy is that, "consequences of excessive debt write-off, large numbers of patients contacted by the collection agency, and large numbers of delinquent accounts are avoided."

According to the Health Department's CFO, patient accounts receivable were written off after a period of six months based on estimates made by the former COO and no other efforts were made to collect these fees. One staff person expressed a concern that Board of Health members thought the use of collection agencies would not be "dignified." From a review of the independent financial statements for FY 2009 and FY 2010, Patient Accounts Receivable had a large allowance for uncollectible accounts. The following provides the details of each year:

- For FY 2009, Patient Accounts Receivable was \$1,235,306 and 45 percent of that, \$556,404, was considered uncollectible.
- For FY 2010, Patient Accounts Receivable was \$1,442,332 and 46 percent of that, \$666,358, was considered uncollectible.

The CFO stated that efforts are now being made to collect large balances and add back unpaid balances to a patient's account if the individual comes back for additional services. The Health Department is also in the process of developing a workable aged accounts' receivable plan where overdue notices can be sent out monthly, but nothing has been definitely decided. As of July 1, 2011, the applicable patient accounts receivables were transferred to HealthFirst for management and collection purposes.

Observations, Findings, and Recommendations

Considering the economy and reductions in funding to health departments, patient accounts receivable is an important source of revenue that should not be discounted as uncollectible until monitoring and collection efforts are made. Monitoring accounts receivable should start with ensuring that the amount charged is a realistic amount based on the income information provided by the patient. If this step is not performed, this number could be inflated and meaningless. Steps should be taken to ensure that this number is as accurate as possible and that efforts are being made to collect this money.

Recommendations We recommend the Health Department ensure compliance with an approved accounts receivable policy. Patient accounts receivables should be accurately presented and based on actual income information provided by the patient. If an individual has been deemed to have the ability to pay, collection efforts should be instituted to ensure that these payments are received. The approved policy should outline what steps should be taken before receivables are considered uncollectible. Collection efforts should include overdue notices and possible collection agency referrals before the account is deemed uncollectible. The use of an outside collection agency should be considered because these agencies are typically paid a percentage of the amounts collected, which will not require additional revenue from the Health Department.

EXHIBITS

BUREAU OF PRIMARY HEALTH CARE SITE VISIT REPORT
Consolidated Team Report

Primary Compliance Issues, Concerns, and/or Performance Improvement Opportunities Addressed During Visit:

- Non-compliance with co-applicant agreement and Governing Board Bylaws which also reflect co-applicant agreement
 New co-applicant agreement has been approved and signed. Compliance has been addressed with a separate non-profit corporation for the Primary Care Center.
- Lack of authority for the Governing Board to fulfill its responsibilities as required by law and regulation and as specified in the co-applicant agreement and Governing Board Bylaws
 Separate nonprofit provides full authority to the Primary Care Center.
- All staff including the CEO are employees of the LFCHD and they are not responsible to the Governing Board for accountability
 The CEO is accountable to the Governing Board of the Primary Care Center. All Primary Care Center employees employed by the Health Department, are directly and exclusively accountable to the Primary Care Center.
- No contracts are issued for the CEO, COO and medical providers, only employment letters again confirming employment by the LFCHD
 Contracts for providers and executive staff will be put in place in July.
- Governing Board Bylaws do not provide a mechanism for credentialing/privileging of all medical providers of the Primary Care program according to PIN 2002-22.
 This was addressed in January/February 2011.
- CEO does not have authority delegated to this position by the Governing Board to operate the FQHC according to law and regulations governing an FQHC.
 New nonprofit corporation identifies delegated authority in the bylaws and recognizes such authority in the co-applicant agreement.
- Primary compliance issues within the clinical area are:
 - Lack of consistent documentation of primary source verification of provider education/training Completed by HR in February, 2011.
 - Less than optimal level of quality improvement/risk management activities This continues to evolve. Quality improvement consultant from Kentucky PCA will evaluate our processes and make recommendations in July, 2011. Plan to hire Quality Improvement Coordinator.
 - Potential risks of confidentiality breaches due to unattended paper medical records Conversion to EMR has eliminated this concern. Staff received training on HIPPA compliance on February 2, 2011.
 - Performance improvement opportunities are provided for most program requirements as mechanisms for strengthening clinical functions and patient perception/quality of care. Insituting a high performance cultural change with Lean process and standardized work flows.



This report has been prepared for the exclusive use of the Health Resources and Services Administration, Bureau of Primary Health Care (HRSA/BPHC) to assist in providing guidance and oversight of the HRSA/BPHC grantee. Information provided in this report is restricted to HRSA/BPHC use and cannot be distributed, copied, shared, and/or transmitted without written permission from HRSA/BPHC and the Review Team.

BUREAU OF PRIMARY HEALTH CARE SITE VISIT REPORT**Consolidated Team Report**

- Governing Board is not equipped to perform strategic planning responsibilities for the grant. Board approved the strategic plan in June, 2011. Grant application is being moved up to a September submission with a request to change the grant year to 1/1-12/31.
- Additionally, identifying the program income impact upon LFCHD cannot be identified beyond the current period. The Board of Health approved a fixed amount of health tax funding and the budgeting process has changed to reflect a separate approval process with a unique fiscal year.



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HRSA Site Visit Report Response - NOT MET Conditions
 Primary Care Governing Council Approved Plan – July 8, 2011

3. STAFFING REQUIREMENT

Key Action Steps/Activities	Target Completion Dates	Person(s) Responsible	Status/Progress Update
Review all provider credential files for primary source documentation of education and training.	2/28/11	M. Donaghy	Completed This document.
Obtain primary source documentation as required.	2/28/11	M. Donaghy	Completed This document.
Develop a procedure to include a “health fitness statement” that addresses mental and physical health from providers who apply for credentialing and recertification to include third-party verification as required.	4/21/11	D. Stanley	Completed Addressed in response and not included in the notice of grant award conditions.

7. SLIDING FEE DISCOUNTS

Key Action Steps/Activities	Target Completion Dates	Person(s) Responsible	Status/Progress Update
Review current policies regarding sliding fee discounts	1/31/11	K Black	Completed Attach current sliding fee discount policy.
The language in the current policy uses the term “nominal” in reference to the minimal fee for service.			
Review updated PIN for guidance as to how to address fee discounts based on time of payment for access barriers	4/30/11	W North	Completed. Review completed and language related to the sliding scale suggests no violation of the policy with our current language.
Updated Sliding Fee PIN has not been released as of July 7, 2011.			
Edit policy and schedule of discounts for Governing Council approval	6/30/11	W North	Completed. Due to the anticipated changes in our current operating structure, we will be reviewing all of our policies. We anticipate changing the fee schedule and scale during this review. We will also review the new PIN when it is released and respond at that time. Make note of the PIN which is still outstanding.
On January, 13, 2011, Michelle Saborit, Kyle Black, William North and Carolyn Bull discussed the sliding fee scale policy. At that time Mrs. Bull stated that the Lexington Fayette County Health Department – Primary Care Center should not take action on this finding until the Policy Information Notice (PIN) was released regarding “minimum fee vs. nominal fee” as it relates to the sliding fee discount. As of July 8, 2011, this PIN has still not been released. The Lexington Fayette County Health Department – Primary Care Center intends to continue to operate using the current Sliding Fee Policy that was approved on March 8th, 2010 by the Governing Council (see attachment). As recommended by Mrs. Bull, once the PIN regarding this finding is released the Primary Care Management Team will review the PIN and take any necessary actions to be in compliance with the PIN.			

HRSA Site Visit Report Response - NOT MET Conditions
 Primary Care Governing Council Approved Plan – July 8, 2011

8. QUALITY IMPROVEMENT/ASSURANCE PLAN

Key Action Steps/Activities	Target Completion Dates	Person(s) Responsible	Status/Progress Update
Update Governing Council-approved Quality Improvement Plan with calendar of events for the year	1/20/10	D. Stanley	Completed.
See attached QI plan and calendar.			
Implement monthly training for Governing Council to include quality improvement activities	12/13/10	W. North	Completed. Calendar of training approved and monthly trainings in process as documented in Governing Council board meeting minutes. Attach minutes with training calendar approved.
Attached minutes with training calendar approved. The training calendar outlines the topics to be covered over the course of the year and actual training is reflected in the minutes of the Board.			
Implement a CQI management philosophy in governance, management, fiscal, and clinical areas of operations.	6/30/11	W. North	Completed. Introduce a quality management philosophy for Governing Council approval. New Strategic Plan approved in June and process is part of new nonprofit corporation status.
Pages 1 and 2 of the May 2011 Governing Council meeting minutes references CQI management philosophy training provided for the Council.			
Develop a risk manager/safety/compliance responsibility and function in the Primary Care Center, integrate within the QI Plan, and coordinate with the Health Department as appropriate. Develop reports and process for Governing Council approval.	9/30/11	D Stanley	Completed. Health Department had delayed hiring a compliance manager. Decision has been made to incorporate compliance into quality processes within management structure with reporting to the Board of Directors.
The center has designated a person over the Risk Management/Safety/Compliance responsibilities. This position will become more formal as the center actualizes the 501c (3). The Quality Improvement Plan (attached) references the role of the Risk Manager reporting to the QI Committee which reports to the Board. Responsibilities of the Risk Manager are outlined on pages 5 and 6 of the QI attachment.			
Develop a more comprehensive peer practitioner review process. Implement, with EMR a comprehensive medical, behavioral and dental chart review process for addressing deficiencies. Report findings and resolution through the QI Plan and process.	6/30/11	D. Stanley J. Landis	Completed. Research being undertaken to identify best approach within the context of the EMR implementation.
Currently, as outline in the QI Calendar attachment, peer review is conducted twice annually, in May in October. Reference the QI calendar which points out the schedule for peer review. If there are any forms that could be used to support this, they would make nice attachments as well.			

HRSA Site Visit Report Response - NOT MET Conditions
 Primary Care Governing Council Approved Plan – July 8, 2011

9. KEY MANAGEMENT STAFF

Key Action Steps/Activities	Target Completion Dates	Person(s) Responsible	Status/Progress Update
Review of the co-applicant agreement is underway to identify changes required for full compliance with Site Visit Report recommendations.	6/30/11	Joint BOH/PCGC Committee	Completed. 6/27/11 Board of Health approved and executed new co-applicant agreement. 5-31 – BOH approval of a new co-applicant agreement is set for resolution in June. 4/30 - New operating structure being developed will address this program expectation
See the attached co-applicant agreement. Sections 1-3 discuss individual and joint responsibilities of the respective Boards. Section 1.2.2 addresses the Health Center Board's responsibility to hire, fire and evaluate the Executive Director. Section 1.2.1 addresses the responsibility of the Board for other staff of the Health Center, separate from the Health Department.			
An interim operating process has been implemented at the executive management level during the interim to obtain compliance with the co-applicant agreement.	3/21/11	R. Leach W. North	Completed. Processes have been established to recognize the independence and autonomy of the Primary Care Governing Council and Center.
Processes have been established to recognize the independence and autonomy of the Primary Care Governing Council and Center. The attached May 2011 Board of Health meeting minutes direct the Commissioner of Health, Dr. Leach, to work with the Executive Director, William North, on resolving the co-applicant agreement.			

12. FINANCIAL MANAGEMENT AND CONTROL POLICIES

Key Action Steps/Activities	Target Completion Dates	Person(s) Responsible	Status/Progress Update
Separate bank accounts have been set up for the Primary Care Center	4/30/2011	W. North R. Hall	Completed. New bank accounts have been authorized and will be set up when the corporate identification numbers are received. Account will not be setup until a new nonprofit corporation has been created, which is pending the approval of the co-applicant agreement.
A plan has been developed and implemented for setting up a separate accounting system for Primary Care Center and developing financial management policies and procedures An interim operating process has been implemented at the executive management level during the interim to obtain compliance with the co-applicant agreement.	6/30/11 3/21/11	W. North R. Hall R. Leach W. North	Completed. A schedule of events with deadlines is currently in place. A separate accounting system has been established for the Primary Care Center. Completed. Addressed in response and not included in the notice of grant award conditions.

HRSA Site Visit Report Response - NOT MET Conditions
 Primary Care Governing Council Approved Plan – July 8, 2011

14. BUDGET

Key Action Steps/Activities	Target Completion Dates	Person(s) Responsible	Status/Progress Update
The mid-year budget adjustments were approved in February by the Governing Council based on recommendations made to and approved by the Board of Health.	5/9/11	Governing Council	Completed. Board of Health finalized its Mid-Year Budget for FY 2011. Budget process for FY 2012 is being developed within new operating structure.
The attached February Governing Council meeting minutes show the approval of the mid-year budget. This approval was prior to the Board of Health budget approval. (In previous years the budget was “accepted” versus approved by the Governing Council.)			
An interim operating process has been implemented at the executive management level during the interim to obtain compliance with the co-applicant agreement.	3/21/11	R. Leach W. North	Completed. Other than legal issues that arise from the inability of the Primary Care Center to enter into contractual agreements, this is in effect.
See the attached Board of Health meeting minutes directing Dr. Leach, the Commissioner of Health, to work with Mr. North on resolving the co-applicant agreement.			
Approval of a fixed allocation of local tax dollars based on historical numbers was approved by the Board of Health for completion in April, 2011.	4/11/11	Board of Health	Completed. A fixed health tax funding amount was allocated to Primary Care for FY 2012 and is included in the budget beginning in July.
See the attached March 2011 Governing Council Meeting Minutes, page 2.			
Budget process for FY 2012 is under the control of Primary Care and the Governing Council.	5/19/11	Governing Council W. North	Completed. Primary Care is preparing its own budget and will obtain approval from the Primary Care Governing Council. FY will be changed to coincide with calendar and grant cycle.
Section 1.2.3 of the attached co-applicant agreement names the center’s Governing Council as responsible for the budget process.			
Space planning, service delivery plan, number of patients served and other volume and rate analysis will be included in the operating plan.	5/19/11	Governing Council W. North	Completed. Primary Care Governing Council approval of the Operating Plan and budget was completed in June 2012.
See the attached budget.			

HRSA Site Visit Report Response - NOT MET Conditions
 Primary Care Governing Council Approved Plan – July 8, 2011

17. BOARD AUTHORITY

Key Action Steps/Activities	Target Completion Dates	Person(s) Responsible	Status/Progress Update
The Governing Council approved setting up a non-profit corporation as a first step in implementing a new structure for Primary Care to assure compliance with Program Expectations. Maintaining the relationship with the Health Department was also approved as part of this process	05/19/11	Governing Council W North	Completed. Develop a transition plan and process that encompasses the new construction and/or renovation of new medical office space
Page 4 of the attached May 2011 Governing Council meeting minutes documents approval of the non-profit and collaborative work between the Commissioner of Health and the Executive Director to resolve outstanding issues in regards to meeting 330 compliance.			
The Governing Council Bylaws will be updated for changes in governance and board authority in coordination with final changes in the legal structure TBD	05/19/11	Governing Council W North	Completed. New nonprofit corporation will create separate legal entity for the Primary Care Center and governance and board authority will not need to be coordinated with the Board of Health.
See May 2011 Governing Council meeting minutes, page 4.			
Primary Care Governing Council bylaws were revised to include provision for credentialing/privileging all clinical staff per PIN 2002-22 with final approval in April.	4/21/11	Governing Council W. North D. Stanley	Completed. New nonprofit corporation will create the need for final approval of new bylaws that will incorporate these changes.
See the attached By-laws, page 13, section 11. Section 9 on page 13 addresses approval of the entire grant application.			
An interim operating process has been implemented at the executive management level during the interim to obtain compliance with the co-applicant agreement.	3/21/11	R. Leach W. North	Completed.
See the attached May 2011 Board of Health Meeting minutes addressing direction of the Board of Health to the Commissioner of Health (page 2) to work towards compliance with co-applicant agreement.			

LEXINGTON-FAYETTE COUNTY BOARD OF HEALTH RESPONSE



Lexington Fayette County Health Department

60 Newtown Pike
Lexington, Kentucky 40508-1197
(859) 252-2371
(8: 9) 288-2359 Fax
(859) 288-7310 Medical Fax

October 12, 2011

Auditor Crit Luallen
Auditor of Public Accounts
ATTN: Jettie Sparks
209 St. Clair Street
Frankfort, Kentucky 40601-1817

Dear Auditor Luallen:

The Draft Examination of Certain Policies, Procedures, Controls and Financial Activity of the Lexington-Fayette County Health Department was received on Wednesday, October 5, 2011 in the late afternoon.

We find no factual errors in the document and you can be assured that we will address each of the issues in an effort to correct any shortcomings or deficiencies. If clarification is needed on our part we will contact Mr. Lykins or Ms. Sparks as suggested in your letter. It is our understanding that our response should be sent no later than November 23, 2011.

Sincerely,

Gary R. Wallace, MD
Chair
Lexington-Fayette County Board of Health

CC: Mayor Jim Gray
Rice C. Leach, MD, Commissioner, LFCHD

PREVENT

PROMOTE

PROTECT

HEALTHFIRST BLUEGRASS, INC. RESPONSE

HealthFirst Bluegrass, Inc.

Our mission is to provide quality health care to all who need us.

October 12, 2011

Crit Luallen
Auditor of Public Accounts
209 St. Clair Street
Frankfort, KY 40601-1817

Brian Lykins, Executive Director
Office of Technology and Special Audits

RE: Examination draft report

Dear Ms. Luallen and Mr. Lykins,

HealthFirst Bluegrass, Inc. is in receipt of the draft report of your Examination of Certain Policies, Procedures, Controls, and Financial Activity of Lexington-Fayette County Health Department. We appreciate the opportunity to review this information. Thank you for your very thorough analysis.

We will be making changes in the operation of HealthFirst Bluegrass, Inc. as indicated in the APA audit report draft and where appropriate, working to resolve outstanding concerns with the Lexington-Fayette County Board of Health. The HealthFirst Bluegrass, Inc. board and our entire entity is very interested in being above any procedural criticism as we endeavor to serve more and more of the uninsured and underserved of our region.

Please feel free to contact me at any time you feel it necessary.

Sincerely,



Thomas Lester, Chair
Board of Directors
HealthFirst Bluegrass, Inc.

650 Newtown Pike, Lexington, Kentucky 40508-1197
(859) 288-2425 Phone (859) 288-7516 Admin Fax (859) 288-7510 Medical Fax
