



DAVID W. MARTIN, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

401 Claude Pepper Building
111 West Madison Street
Tallahassee, Florida 32399-1450



PHONE: 850-488-5534
FAX: 850-488-6975

September 27, 2012

Representative Debbie Mayfield, Chair
Joint Legislative Auditing Committee
111 West Madison Street, Room 876
Tallahassee, Florida 32399-1400

Dear Representative Mayfield:

Section 11.45(2)(j), Florida Statutes, requires us to, no later than 18 months after the release of a report on the audit of a local governmental entity, perform such appropriate follow-up procedures as deemed necessary to determine the audited entity's progress in addressing the findings and recommendations contained within our previous report. This correspondence is to notify you of the results of our follow-up procedures conducted to determine the progress by the Citrus County Hospital Board (Hospital Board) and Citrus Memorial Health Foundation, Inc. (Foundation) in addressing findings in our report No. 2010-093.

We inquired of the Hospital Board and the Foundation regarding actions taken to address the findings in report No. 2010-093. Responses to our inquiries, and documentation obtained in support of the responses, provided the basis for our determinations. Based on the procedures applied, we concluded that of the 11 findings included in report No. 2010-093, the Hospital Board and Foundation actions corrected 7 findings, and partially corrected 4 findings. The table below indicates the status for each finding.

#	Finding	Status of Finding			
		Corrected	Partially Corrected	Not Corrected	No Occasion to Correct
1	Hospital Board Oversight		X		
2	Accounting for Ad Valorem Taxes	X			
3	Accounting for Low Income Pool Expenditures	X			
4	Debt Management		X		
5	Construction Projects		X		
6	Employee Bonuses	X			
7	Travel-related Expenditures	X			
8	Transcriptionist Contracts		X		
9	Foundation Board Approval of Contracts	X			
10	Conflicts of Interest	X			
11	Hospital Board Actions	X			
	Totals	7	4	0	0

Attachment A provides additional details for those findings that the Hospital Board and Foundation had not completely corrected. Attachment B provides the response from the Hospital Board. The exhibits referred to in the Hospital Board's response are not included with this correspondence due to their size; however, the exhibits may be viewed in their entirety on our Web Site. In its response, the Hospital Board took exception with our classification of the status of finding No. 6 – Employee Bonuses as “Corrected,” stating that the finding should be classified as “Not Corrected.” The Hospital Board's response was predicated on the Foundation's June 27, 2011, severance agreement concerning 20 employees and the June 2012 changes to retirement benefits for the Foundation's Chief Executive Officer. However, our recommendation in report No. 2010-093 was specific to employee bonuses and, notwithstanding the actions taken by the Foundation, did not extend to severance agreements or retirement benefits. Our follow-up procedures for finding No. 6 were limited to employee bonuses and did not include areas that were not part of the original audit. The Foundation did not provide a response to our follow-up procedures. Please advise if you or your staff have any questions regarding this information.

The Auditor General follow-up procedures performed were conducted in accordance with applicable generally accepted government auditing standards. Those standards require that we plan and perform procedures to obtain sufficient, appropriate evidence to provide a reasonable basis for our conclusions. We believe that the evidence obtained provides a reasonable basis for our conclusions based on our objectives.

Please address inquiries regarding these matters to Marilyn D. Rosetti, CPA, Audit Manager, by e-mail at marilynrosetti@aud.state.fl.us or by telephone at (850) 487-4413.

Sincerely,



David W. Martin, CPA
Auditor General

Attachments

c: Kathy DuBose, Staff Director, Joint Legislative Auditing Committee
Citrus County Hospital Board members
Citrus Memorial Health Foundation, Inc., Board members

Finding No. 1: Hospital Board Oversight**Previously Reported**

The Hospital Board entered into agreements with the Foundation to operate the Citrus County Hospital System (Hospital) pursuant to a lease agreement and an operating agreement for hospital care. The agreements did not incorporate or otherwise require the Foundation to follow any specific Florida laws, other than the Sunshine and public records laws, in the operation of the Foundation that were applicable to the Hospital Board. We noted administrative deficiencies by the Foundation in the areas of accountability for public funds provided by the Hospital Board and the State, debt management, construction project administration, expenditure of funds, and other matters.

We recommended that the Hospital Board consider either amending its agreement(s) with the Foundation to require the Foundation to utilize policies and procedures adopting good management and business practices, or evaluate the manner in which the Hospital has been administered by the Foundation in determining the annual appropriation to the Foundation. We also recommended that amendments to the agreement(s) provide the Hospital Board with the ability to terminate the agreement(s) with proper notice.

Results of Follow-Up Procedures

The Hospital Board's actions partially corrected this finding. Although our review of the current lease and operating agreements between the Hospital Board and Foundation disclosed no amendments to the agreements during the follow-up period, our review did note that legislation was adopted during the follow-up period to address the relationship between the Hospital Board and the Foundation. Chapter 2011-256, Laws of Florida, was signed into law on June 24, 2011, with an effective date of July 1, 2011. The purposes of this law included, in part, providing an appropriate and effective means for assessing the Foundation's performance; ensuring meaningful oversight by the Hospital Board; and restoring meaningful Hospital Board representation on the Foundation Board. Some of the significant requirements of this law included the following:

- The articles of incorporation, all amendments or restatements of the articles of incorporation, all Foundation corporate bylaws, all amendments or restatements of the corporate bylaws, and all governing documents shall be subject to Hospital Board approval, and any such documents that have not heretofore been approved by the Hospital Board shall be submitted forthwith to the Hospital Board for approval.
- The Hospital Board shall be the sole member of the Foundation.
- All members of the Foundation board of directors shall be subject to Hospital Board approval, and any board members presently serving who have not heretofore been approved by the Hospital Board shall be submitted forthwith to the Hospital Board for approval.
- The Foundation's chief executive officer and his or her term of office, and any extensions thereof, shall be approved by the Hospital Board, and the Hospital Board may terminate the term of the Foundation's chief executive officer with or without cause in its sole discretion, subject to the terms of any and all then-existing contracts.
- The Hospital Board shall approve all borrowing of money by the Foundation in any form and for any reason in an amount exceeding \$100,000, any additional loan indebtedness or leases in excess of \$1.25 million per instrument or contract, and all Foundation policies that govern travel reimbursements and contract bid procedures.

- No annual operating and capital budget of the Foundation shall become effective until approved by the Hospital Board.
- Any Foundation capital project valued in excess of \$250,000 per project, and any non-budgeted operative expenditure in excess of \$125,000 in the per annum aggregate, shall be approved by the Hospital Board.

On July 22, 2011, a Circuit Court ruling in the Second Judicial Circuit prevented certain significant provisions of the new law from being implemented until it could rule on its constitutionality. The Circuit Court subsequently ruled, on February 15, 2012, through a summary judgment, that the law was constitutional. However, the ruling was further appealed to the First District Court of Appeals (DCA), which, on February 17, 2012, issued a stay that kept a portion of the law from being implemented until it could issue a ruling on the lower court decision. On July 18, 2012, the First DCA heard oral arguments regarding the appeal. As of August 14, 2012, a decision had not been issued.

Additionally, our review noted that the Hospital Board had taken some action to monitor the Foundation's management of the Hospital, as it related to the Agency for Health Care Administration benchmarks, in determining the annual appropriation to the Foundation.

Finding No. 4: Debt Management

Previously Reported

Neither the Hospital Board nor the Foundation had developed and documented formal policies and procedures for the issuance and monitoring of long-term debt.

We recommended that before authorizing future conduit debt to be repaid by the Foundation, the Hospital Board should adopt formal policies and procedures regarding the issuance and monitoring of long-term debt as a part of its comprehensive debt management policies. We also recommended that the Hospital Board ensure that revenues from operations of the Hospital are the primary source for repayment of bonds or notes and that there is not an over-reliance on its taxing ability in the determination to issue debt.

Results of Follow-Up Procedures

The Hospital Board's actions partially corrected this finding. Effective June 27, 2011, the Hospital Board adopted a policy that prohibits the issuance of any additional long-term debt until a joint policy with the Foundation can be adopted. Our review noted that a policy had not been adopted and no new conduit debt was authorized or issued through August 14, 2012. Additionally, in an effort to encourage a reduction in long-term debt of the Foundation, the Hospital Board included in its 2011-12 fiscal year budget an incentive program of matching each dollar that the Foundation pays toward reducing long-term debt prior to its scheduled maturity, up to a maximum of \$2 million.

Finding No. 5: Construction Projects

Previously Reported

The Hospital Board did not require the Foundation to follow any specific policies and procedures for construction processes related to the use of the 2008 revenue note proceeds and we noted several issues of concern in the Foundation's administration of the construction projects. Also, although we noted that at times the Foundation followed certain good business practices, management had not developed and documented formal construction project policies and

procedures, without which there is an increased risk that planned processes may not be followed and adequate documentation of the process may not be obtained.

We recommended that in order to ensure good business practices are used, the Hospital Board should require the Foundation to follow specific policies and procedures for construction processes including construction contracting and administration, soliciting proposals, contractor selection and awarding process, guaranteed maximum price proposals, contract management, allowable labor burden rates, subcontractor selection, self-performed work, payment application processing and documentation requirements, and project closeout. We also recommended that the Foundation seek to revise contract provisions that reflect unreasonable charges and reduce subsequent payments or request refunds for duplicate charges paid. Finally, we recommended that the Foundation ensure that only actual amounts that are supported by invoices or other appropriate documentation for General Conditions items and other charges are included on payment applications.

Results of Follow-Up Procedures

The Foundation's actions partially corrected this finding. In response to our inquiry regarding actions taken to correct this finding, the Foundation Chairman provided copies of policies that address the areas of soliciting proposals, contractor selection and awarding process, and contract management. However, the policies provided did not address guaranteed maximum price proposals, allowable labor burden rates, subcontractor selection, self-performed work, payment application processing and documentation requirements, and project closeout.

Additionally, the Foundation Chairman provided copies of two independent external close-out reviews of construction projects that resulted in reductions of subsequent payments or negative change orders. One of the external close-out reviews indicated that the labor burden rate, which is included in General Conditions, and questioned in our original audit, was reduced significantly.

Finding No. 8: Transcriptionist Contracts

Previously Reported

The Foundation did not have a bidding policy or procedure. Also, the Foundation reimbursed a transcriptionist service vendor for expenses related to airfare, car rental, lodging, and per diem that were not allowable under its contract.

We recommended that the Foundation develop policies and procedures governing the procurement of goods and services, including bid thresholds, contract management, and pre-audit of invoices submitted for payment. We also recommended that the Foundation review all payments to the transcriptionist service vendor to determine the actual total charges that were not allowable under the contract and obtain a refund of those charges from the vendor.

Results of Follow-Up Procedures

The Foundation's actions partially corrected this finding. In response to our inquiry regarding actions taken to correct this finding, the Foundation Chairman provided copies of policies that address the portion of our recommendation related to policies and procedures for the procurement of goods and services. Additionally, the Foundation Chairman indicated in his response that there were documents supporting the transcriptionist service payments that were not maintained and could not be obtained from the vendor. Also, a letter was provided from the Foundation's General Counsel, which stated that he did not see any gains from more time being invested in this matter.



CITRUS COUNTY HOSPITAL BOARD

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

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

September 6, 2012

David W. Martin, CPA
Auditor General of the State of Florida
G74 Claude Pepper Building
111 West Madison Street
Tallahassee, Florida 32399-1450

VIA EMAIL (to marilynrosetti@aud.state.fl.us)

**RE: Citrus County Hospital Board's Response to Auditor General's August 24,
2012 Preliminary Results of Follow-up Procedures on Report No. 2010-093**

Dear Mr. Martin:

Thank you, again, for providing the Citrus County Hospital Board (the "Hospital Board") with an opportunity to respond to your office's Preliminary Results of Follow-up Procedures on Report No. 2010-093 dated August 24, 2012 (the "Preliminary Results").

Enclosed please find the Hospital Board's written comments which, in accordance with your letter dated August 24, 2012, are being submitted electronically in their original form (i.e., as a Word or PDF document).

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

Thank you.

Sincerely,

A handwritten signature in cursive script, appearing to read "Michael A. Smallridge".

Michael A. Smallridge, Chairman
Citrus County Hospital Board

cc: Citrus County Hospital Board Trustees

September 6, 2012
 Hospital Board's Response to Auditor General's August 24, 2012 Preliminary Results of
 Follow-up Procedures on Report No. 2010-093
 Page 1 of 3

Finding No. 1: Hospital Oversight and Finding No. 4: Debt Management

With respect to Finding No. 1 and Finding No. 4, subject to any new or additional information that may come to the Hospital Board's attention, until the Hospital Board regains majority control of the Foundation and can fully exercise the required oversight contemplated by Report No. 2010-039, the Hospital Board is satisfied that the Preliminary Results adequately reflect the current progress of the Hospital Board in addressing Finding No. 1 and Finding No. 4.

Finding No. 6: Employee Bonuses

In their current form, the Preliminary Results with respect to Finding No. 6 do not accurately represent the progress of the Foundation. Contrary to the current status of this finding, the Foundation has not established – or, at least, followed – policies that would ensure that bonuses paid to its employees are properly authorized. Accordingly, the Hospital Board would respectfully submit that the status of this finding should be changed to “Not Corrected.”

Report No. 2010-093 made the following recommendation with respect to Finding No. 6:

The Foundation should ensure that bonuses are not paid to employees unless properly authorized by the Foundation Board or Executive Compensation Committee. Actions authorized by the Executive Compensation Committee should be pursuant to duly signed minutes of Committee meetings. Formal policies and procedures should be established governing eligibility, forms, factors and goals, calculation, approval and payment of management performance bonuses.

(Report 2010-93 at 15).

As set forth in greater detail in the Hospital Board's Verified Amended Complaint in the recently-filed action styled *Citrus County Hospital Board v. Citrus Memorial Health Foundation, Inc.*, No. 2012-CA-00219 (Fla. 5th Cir. Ct. 2012), in June 2011, the Foundation approved more than \$1.4 million in “golden parachutes” to its Chief Executive Officer, six other top executives and thirteen other employees.¹ With regard to its CEO and six other top executives, the Foundation took this action just days before the July 1, 2011 effective date of the Hospital Board's New Enabling Act² and FLA. STAT. § 215.425 – a general law passed by the Florida Legislature in 2011 to restrict severance packages/bonuses for all public employees that

¹ A copy of the Hospital Board's Verified Amended Complaint in the action styled *Citrus County Hospital Board v. Citrus Memorial Health Foundation, Inc.*, No. 2012-CA-00219 (Fla. 5th Cir. Ct. 2012) is attached as **Exhibit 1**.

² See Chapter 2011-256, Laws of Florida [hereinafter, the “New Enabling Act”].

September 6, 2012
 Hospital Board's Response to Auditor General's August 24, 2012 Preliminary Results of
 Follow-up Procedures on Report No. 2010-093
 Page 2 of 3

involve the use of public funds, including, in particular, public hospital employees [the "Golden Parachute Act"].

The Foundation not only approved these golden parachutes in the face of the New Enabling Act and Golden Parachute Act – and at an unlawful shade meeting held in violation of Florida's Open Meetings Law, FLA. STAT. §§ 286.011 *et seq.* – but apparently did so without the complete authorization or vetting of the Foundation's Executive Compensation Committee. Indeed, contrary to your office's recommendation with respect to Finding No. 6, there do not appear to be any duly signed minutes of the Foundation's Executive Compensation Committee. In fact, the Foundation's minutes for June 27, 2011 – the day on which the funding for the golden parachutes was approved – actually reflect that the Executive Compensation Committee had "No Report" whatsoever.³ Moreover, the resolution approving the funding for the golden parachutes authorized the Foundation's CEO – not the Executive Compensation Committee – to "negotiate" the severance packages with affected employees, thereby apparently bypassing the Executive Compensation Committee.⁴

Moreover, instead of simply providing that these golden parachutes would be paid from the Foundation's general funds, the Foundation established an irrevocable trust to which it immediately transferred more than \$1.4 million, thereby precluding the Hospital Board from simply rescinding these golden parachutes once it regains majority control of the Foundation's board pursuant to the New Enabling Act. Despite, however, having transferred this money to an irrevocable trust – from which the Foundation has no right or ability to ever reclaim the funds absent the consent of each executive/beneficiary of the trust – the Foundation has failed to record this completed expenditure as an expense. Instead, the Foundation continues to report the existence of an additional \$1.4 million in assets in calculating, among other things, its available cash-on-hand for purposes of attempting to comply with its bond covenants.

Finally, the Foundation's CEO, Ryan Beaty, stands to receive the lion's share of the \$1.4 million set aside by the Foundation for these golden parachutes – more than \$675,000.00 or 47% of the total amount transferred to the irrevocable trust. Despite his significant personal interest in this transaction, Mr. Beaty was present for and participated in – if not led – the Foundation's discussion approving his own golden parachute. His decision to do so was clearly a violation of the Foundation's Revised and Restated Bylaws, which prohibit such self-dealing and are meant to preclude conflicts of interest, and again amounted to circumvention of the oversight meant to be exercised by the Executive Compensation Committee.

³ A copy of the Foundation's June 27, 2011 minutes – indicating that the Executive Compensation Committee had "No Report" on the day the Foundation approved the funding for the Golden Parachutes – is attached hereto as [Exhibit 2](#).

⁴ A copy of the Foundation's resolution – which was not dated or duly signed – is attached hereto as [Exhibit 3](#).

[Exhibit 3](#)

September 6, 2012

Hospital Board's Response to Auditor General's August 24, 2012 Preliminary Results of
Follow-up Procedures on Report No. 2010-093

Page 3 of 3

In addition to these golden parachutes, in June 2012, the Foundation also approved a dramatic increase in Mr. Beaty's retirement benefits – to 25% of his base salary of \$335,000.00 – despite the fact that the Foundation's Chief Financial Officer recently reported that the Hospital lost more than \$5.5 million during fiscal year 2011-2012.

In light of the foregoing, the Foundation has yet to establish – or follow – appropriate policies to ensure that the compensation paid to its employees is properly authorized and otherwise in accordance with Florida law. Accordingly, the Hospital Board would respectfully submit that the status of Finding No. 6 should be changed to "Not Corrected."

[END OF DOCUMENT]