



TORONTO STAFF REPORT

March 8, 2006

To: Audit Committee

From: Auditor General

Subject: Resident Fees and Trust Funds Review – Homes for the Aged Division

Purpose:

This report presents the results of our review of Homes for the Aged Division's residents fees and trust funds, conducted as part of the Auditor General's 2005 Annual Work Plan.

Financial Implications and Impact Statement:

The implementation of recommendations in this report will further enhance internal controls and administrative processes and result in improved accountability, efficiency and service quality.

Recommendations:

It is recommended that:

- (1) the following recommendations in the attached Auditor General's report entitled "Resident Fees and Trust Funds Review – Homes for the Aged Division" (March 8, 2006) be adopted:
 - "1. The General Manager, Homes for the Aged Division, enhance the Division's operational reviews by:
 - (a) rescheduling delayed operational reviews when practically possible in order to ensure that the reviews, whether full or partial, are conducted within a three-year period; and
 - (b) requiring the homes to provide a clear implementation plan with specific timelines and responsibility for addressing the recommendations arising from the Division's operational reviews.

2. The General Manager, Homes for the Aged Division, revise the process and banking form used for recording cash withdrawals from resident trust funds to include withdrawn amounts written in full and ensuring any alterations are initialled by the resident.
 3. The General Manager, Homes for the Aged Division, ensure that all resident funds held in temporary bank accounts are recorded in the Homes for the Aged Trust Funds' general ledger on a timely basis.
 4. The General Manager, Homes for the Aged Division, in consultation with the City Treasurer, ensure that all interest earned on residents' funds is credited to the residents' trust accounts.
 5. The General Manager, Homes for the Aged Division:
 - (a) implement verification procedures to ensure that payments for additional services authorized by residents such as hairdressing and tuck shop purchases are made at the proper amounts and for goods and services received by the residents; and
 - (b) take appropriate steps to determine the amount of overcharges for hairdressing services, identify the residents affected, and reimburse them accordingly.
 6. The General Manager, Homes for the Aged Division, enhance the Division's policies and procedures by requiring that reduced basic accommodation rates entered in the Resident Financial Management System be reviewed for accuracy by someone independent of the input function and evidence of such review be documented in writing.
 7. The General Manager, Homes for the Aged Division, evaluate the feasibility of enhancing the Resident Financial Management System in order to facilitate:
 - (a) uploading of management reports into other electronic format for further analysis;
 - (b) reporting of statistical information such as resident days; and
 - (c) simplification of the quarterly statements issued to residents by including only data that is relevant to the resident."
- (2) this report be forwarded to the Community Services Committee for information.

Background:

The review of resident fees and trust funds of the Homes for the Aged Division was conducted as part of the Auditor General's 2005 Work Plan.

This review covered the following areas:

- admission procedures and determination of appropriate resident fees;
- tracking of occupancy data;
- billing, recording and collection of resident fees and related subsidies; and
- administration of resident trust funds.

This audit was conducted in accordance with generally accepted government auditing standards.

Comments:

The attached Auditor General's report entitled "Resident Fees and Trust Funds Review – Homes for the Aged Division" (March 8, 2006) contains seven recommendations. Management response to each of the recommendations contained in this report is provided in Appendix 2.

Conclusions:

The objective of this review was to assess the adequacy of processes and controls in place to ensure accuracy and completeness of resident fees and related subsidies and the effective management of resident trust funds.

Addressing the recommendations in this report will further enhance existing internal controls and administrative processes and result in improved accountability, efficiency and service quality.

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List of Attachments:

Appendix 1: Resident Fees and Trust Funds Review – Homes for the Aged Division

Appendix 2: Management Response

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**Resident Fees and Trust Funds Review –
Homes for the Aged Division**

March 8, 2006

**Resident Fees and Trust Funds Review –
Homes for the Aged Division**

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City of Toronto**

March 8, 2006

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EXECUTIVE SUMMARY

The Auditor General's 2005 Work Plan included a review of Resident Fees and Trust Funds of the Homes for the Aged Division.

This report outlines the results of our review. The implementation of recommendations contained in this report will improve accountability, efficiency and service quality.

Summary of Audit Results

Generally, the Homes for the Aged Division has established relatively good internal controls through the implementation of standard policies and procedures applicable to all the homes and conducting operational reviews to ensure compliance with such policies and procedures.

Operational reviews on each home are conducted by internal staff on a cyclical basis. Such reviews are key to ensuring adherence to policies and procedures and we commend management for implementing and supporting these internal reviews.

Our audit identified areas where internal controls could be further strengthened and administrative policies and procedures enhanced in order to improve accountability, efficiency and service quality.

The issues raised in this report are summarized as follows:

A. Operational Reviews

- Although operational reviews conducted by Divisional staff are generally scheduled for each home every three years, certain homes have not been subject to such review in the last four to five years.

- Formal responses from the homes addressing the recommendations arising from the operational reviews could be improved.

B. Administration of Resident Trust Funds

- The banking form signed by residents for cash withdrawals from their trust funds needs to be changed in order to provide better assurance that transactions are recorded at the proper amounts.
- Two bank accounts used for temporarily depositing pension cheques and other receipts from residents prior to distribution to appropriate accounts are not recorded in the general ledger. At the end of 2005, the balances in these bank accounts totalled over \$180,000. Interest earned on one of the accounts (approximately \$7,500 in 2005) is deposited directly to the City, but not credited to the residents' trust accounts.
- Payments on behalf of residents for certain services, such as hairdressing or tuck shop purchases, are not consistently verified to ensure that the charges are billed at approved amounts and that the goods and services have been received by the residents. In one home, residents were billed for hairdressing services at rates higher than the approved rates set by the Division. Although, this was done in error and is being corrected, it highlights the need for verification procedures.

C. Resident Fees and Subsidies

- The procedures in place to determine the appropriate accommodation rates in accordance with the Ministry of Health and Long-Term Care guidelines appear adequate. However, the verification procedures to ensure the accuracy of rates entered into the system need strengthening.

- While the City has taken reasonable efforts to collect outstanding accounts from residents, it has limited ability to prevent certain receivable accounts from increasing when competent residents refuse to pay accommodation fees. We understand that a provincially established Working Group, which includes a senior staff member from the City's Homes for the Aged Division, will address this issue.

D. Resident Financial Management System

- The current management information system could be enhanced to make better use of management reports it generates and simplify the quarterly statements issued to residents.

RECOMMENDATIONS

The following is a list of recommendations contained in the body of the report.

1. **The General Manager, Homes for the Aged Division, enhance the Division's operational reviews by:**
 - (a) **rescheduling delayed operational reviews when practically possible in order to ensure that the reviews, whether full or partial, are conducted within a three-year period; and**
 - (b) **requiring the homes to provide a clear implementation plan with specific timelines and responsibility for addressing the recommendations arising from the Division's operational reviews.**

- 2. The General Manager, Homes for the Aged Division, revise the process and banking form used for recording cash withdrawals from resident trust funds to include withdrawn amounts written in full and ensuring any alterations are initialled by the resident.**
- 3. The General Manager, Homes for the Aged Division, ensure that all resident funds held in temporary bank accounts are recorded in the Homes for the Aged Trust Funds' general ledger on a timely basis.**
- 4. The General Manager, Homes for the Aged Division, in consultation with the City Treasurer, ensure that all interest earned on residents' funds is credited to the residents' trust accounts.**
- 5. The General Manager, Homes for the Aged Division:**
 - (a) implement verification procedures to ensure that payments for additional services authorized by residents such as hairdressing and tuck shop purchases are made at the proper amounts and for goods and services received by the residents; and**
 - (b) take appropriate steps to determine the amount of overcharges for hairdressing services, identify the residents affected, and reimburse them accordingly.**
- 6. The General Manager, Homes for the Aged Division, enhance the Division's policies and procedures by requiring that reduced basic accommodation rates entered in the Resident Financial Management System be reviewed for accuracy by someone independent of the input function and evidence of such review be documented in writing.**

7. **The General Manager, Homes for the Aged Division, evaluate the feasibility of enhancing the Resident Financial Management System in order to facilitate:**
 - (a) **uploading of management reports into other electronic format for further analysis;**
 - (b) **reporting of statistical information such as resident days; and**
 - (c) **simplification of the quarterly statements issued to residents by including only data that is relevant to the resident.**

BACKGROUND

The City of Toronto owns and operates ten homes for the aged that provide a continuum of long-term care through permanent admission and short-stay programs for over 2,600 residents. The Homes for the Aged Division is responsible for the operation of these homes and the administration of funds held in trust for their residents.

All long-term care homes are regulated by the Ontario Ministry of Health and Long-Term Care, under three Acts namely: Homes for the Aged and Rest Homes Act, Nursing Homes Act and Charitable Institutions Act. The provincial government is currently proposing to introduce a Long-Term Care Act that would consolidate the three Acts.

In 2005, the City received over \$44 million in user fees in payment of accommodation fees and other charges for residents of the ten homes for the aged. The City also received approximately \$103 million in grants and subsidies from the provincial government mainly under three funding envelopes: Accommodation, Nursing and Personal Care, and Program and Support Services. The 2005 actual gross expenditures amounted to approximately \$174 million resulting in the City funding \$27 million in costs.

The individual annual report required by the Province of each home is audited at a fairly high level by the City's external auditors. An annual compliance review of the homes is also conducted by the Ministry of Health and Long-Term Care, with more focus on personal care and program services provided to residents.

Residents of the homes place personal funds in trust with the City. At the end of 2005, the City held funds totalling approximately \$4.5 million in trust for residents of the ten homes for the aged. The resident trust funds form part of the City's consolidated trust fund which is audited, again at a fairly high level by the City's external auditors.

AUDIT OBJECTIVES, SCOPE AND METHODOLOGY

In view of the extent of funds involved, the review of resident fees and trust funds of the Homes for the Aged Division was included in the Auditor General's 2005 Work Plan. Given the vulnerability of the residents in the homes, most of whom are elderly with varying degrees of frailties and care needs, it is important that the City has adequate assurance for ensuring proper accountability of the fees collected from the residents and the management of their funds.

The objectives of this review were to:

- assess whether internal controls in place are adequate to ensure the accuracy and completeness of resident fees and related provincial subsidies;
- assess whether funds held on behalf of residents are managed efficiently and effectively;
- assess compliance with relevant legislation and City policies and procedures with respect to resident fees and trust funds; and
- identify opportunities to improve financial and administrative controls.

The review included the following areas:

- admission procedures and determination of appropriate resident fees;
- tracking of occupancy data;
- billing, recording and collection of resident fees and related subsidies; and
- administration of resident trust funds.

The review covered transactions for the period of January 1, 2005 to September 30, 2005 and was focused on the financial and administrative controls related to resident fees and trust funds. The review did not include the provision of nursing and personal care and community-based support services.

This audit was conducted in accordance with generally accepted government auditing standards.

Our audit methodology included the following:

- review of relevant legislation, regulations, policies and procedures, and divisional practices;
- review of relevant Council and Committee reports related to long-term care;
- review of reports on internal reviews conducted by the Homes for the Aged Division;
- discussions with the City's internal and external auditors and review of their audit work on the homes' annual reports and resident trust funds;
- review of the Provincial Auditor's report pertaining to Long-Term Care Facilities Activity;
- review of audit reports on similar reviews conducted in other local governments in Canada and the U.S.;

- interviews with appropriate staff of the City's Homes for the Aged, Finance, and Legal Services Divisions;
- interviews with appropriate staff of the Ministry of Health and Long-Term Care and the Community Care Access Centre;
- site visits at four City homes for the aged; and
- examination of documents and records.

This report summarizes findings from our audit work and provides recommendations to further strengthen the financial and administrative controls of the Homes for the Aged Division.

AUDIT RESULTS

The Homes for the Aged Division has established formal policies and procedures, which provide detailed guidelines pertaining to administrative and financial controls both at the homes and divisional office. The Division also conducts internal operational reviews of each home on a cyclical basis to assess compliance with such policies and procedures. Such reviews are considered best practice and we commend management for implementing and supporting them.

As is the case in many audits, we identified areas where internal controls could be further strengthened and policies and procedures enhanced in order to improve accountability, efficiency and service quality. Most of our findings and recommendations represent refinements to existing systems and processes.

A. OPERATIONAL REVIEWS

Current practice requires a team of divisional staff to conduct an operational review of each home generally every three years, covering all major functional areas of the home. It was noted, however, that certain homes have not undergone such review in the last four to five years.

We reviewed the methodology and results of the reviews conducted of the Administration Services Unit, which is responsible for the administration of resident fees and trust funds. We noted that the review is conducted based on a standard template of tests and procedures designed primarily to assess compliance with divisional policies and procedures. A formal report outlining the findings and recommendations arising from the review is provided to the home. The home, in turn, submits a formal response addressing the recommendations in the report. However, formal responses provided by the homes addressing the recommendations arising from the reviews do not always provide a clear implementation plan with specific timelines and responsibility.

Recommendation:

- 1. The General Manager, Homes for the Aged Division, enhance the Division's operational reviews by:**
 - (a) rescheduling delayed operational reviews when practically possible in order to ensure that the reviews, whether full or partial, are conducted within a three-year period; and**
 - (b) requiring the homes to provide a clear implementation plan with specific timelines and responsibility for addressing the recommendations arising from the Division's operational reviews.**

B. ADMINISTRATION OF RESIDENT TRUST FUNDS

A number of residents of the City's homes for the aged deposit funds with the City for safekeeping and can access these funds on a regular basis at the home. These funds are referred to as residents' trust funds. The day-to-day activities of the residents' trust funds are carried out by the home, while the funds are centrally administered by divisional staff at head office. Individual accounts are credited interest based on actual interest earned by the consolidated fund, allocated based on the minimum monthly balances. Residents or their designate are provided quarterly statements showing the activities of their individual accounts.

The residents' trust funds form part of the City's Consolidated Trust Fund, which is audited by the City's external auditors. Our review focused on the activities of the funds and the controls in place to ensure that transactions, including the allocation of interest, are properly authorized and accounted for. Our review included detailed tests of transactions not covered by the external auditors.

B.1. Banking Services

The homes offer banking services to provide residents access to cash for their personal use. We observed that while residents are required to sign for cash withdrawals on a single banking form, no receipt is issued to the resident. In addition, changes are made to the banking form without initials from the resident. There is risk that unauthorized charges could be made and funds misappropriated. Reliance is placed on residents or their designate to report any discrepancy based on the quarterly statements provided to them.

There is a need to strengthen internal control in order to ensure that cash withdrawals recorded in the trust accounts are for amounts actually disbursed. While issuing a receipt would strengthen internal control, management indicated that it could expose the residents to theft, should they lose the receipt. Alternatively, the banking form signed by residents for cash withdrawals could be modified to include amounts written in full and requiring that any changes be initialled by the resident.

Recommendation:

- 2. The General Manager, Homes for the Aged Division, revise the process and banking form used for recording cash withdrawals from resident trust funds to include withdrawn amounts written in full and ensuring any alterations are initialled by the resident.**

The City maintains two bank accounts for temporary holding of monies received from residents prior to distribution of the funds to the appropriate accounts. The deposits mainly include pension cheques that are redirected to the City and other receipts under pre-authorized payment plans. These amounts are used to pay the City for accommodation and other charges with any balance being transferred to the residents' trust funds. These deposits are not recorded in the Homes for the Aged Trust Funds' general ledger at the time of receipt. Funds are only recorded in the general ledger at the time of transfer from the holding account to the residents' trust accounts. At the end of year, deposits in the holding accounts (totalling \$180,000 in 2005), which includes monies received in the current month for the following month's rent, are not recorded in the resident trust funds' general ledger. In order to improve accountability, all resident funds held by the City should be recorded in the Homes for the Aged Trust Funds general ledger on a timely basis.

In addition, interest earned (approximately \$7,500 in 2005) on one of the accounts is deposited directly to the City and not credited to the residents' trust accounts. Interest earned on residents' funds should be credited to their trust accounts.

Recommendations:

- 3. The General Manager, Homes for the Aged Division, ensure that all resident funds held in temporary bank accounts are recorded in the Homes for the Aged Trust Funds' general ledger on a timely basis.**

4. **The General Manager, Homes for the Aged Division, in consultation with the City Treasurer, ensure that all interest earned on residents' funds is credited to the residents' trust accounts.**

B.2. Payments for Additional Services Provided to Residents

Residents may authorize the home to pay for additional services not covered in the basic accommodation fee. These payments include monthly recurring charges such as cable television or security bracelet, which are set at a fixed amount and automatically charged to the residents' accounts. Payments are also made for services such as hairdressing or tuck shop purchases based on actual costs billed.

We observed that charges for hairdressing services or tuck shop purchases are not consistently verified to ensure that services or items have been received or billed at the proper amounts.

Our review of transactions revealed that in one home, hairdressing charges were billed at rates higher than the approved rates set by the Division. Specifically, rates for hairdressing services set at \$12.00 and \$16.50 were charged at \$13.00 and \$18.00 respectively. The hair salon is run by a volunteer group, which provides special programs for residents. Although there was a process in place to communicate the approved rates to the volunteer organization, there was no follow-up to ensure that the actual rates charged were based on the approved rates. Management has subsequently taken immediate action to change the hair salon rates to the approved rates. It is estimated that the overcharges have occurred over the last two years. Although the miscommunication regarding the rates resulted in excess funds for the volunteer organization, the organization's "profits" are used for the benefit of all residents of the home. Management is currently reviewing the matter to determine the amount of overcharges to be repaid to the residents by the volunteer organization.

Recommendation:

5. The General Manager, Homes for the Aged Division:

- (a) implement verification procedures to ensure that payments for additional services authorized by residents such as hairdressing and tuck shop purchases are made at the proper amounts and for goods and services received by the residents; and**
- (b) take appropriate steps to determine the amount of overcharges for hairdressing services, identify the residents affected, and reimburse them accordingly.**

C. RESIDENT FEES AND SUBSIDIES

C.1. Resident Fees

Residents at long-term care homes pay for accommodation charges based on the type of accommodation at rates set by the Ministry of Health and Long-Term Care.

Residents may be eligible for a rate reduction if their income is not sufficient to pay the basic accommodation rate. The home generally verifies income based on the resident's Notice of Assessment, provided to the resident by Canada Revenue Agency. The Notice of Assessment is reviewed annually with the application for rate reduction. Our review indicated that procedures in place to verify income appear adequate and in compliance with Ministry guidelines.

The homes use the Ministry of Health and Long-Term Care's online application form for rate reduction, which automatically calculates the reduced basic accommodation rate based on the resident's income. Staff at the home enters the reduced rate into the Division's Resident Financial Management System, for billing purposes. Where a resident pays the maximum accommodation rate, the system automatically records the appropriate rate by default.

With respect to the recording of reduced basic accommodation rates into the Resident Financial Management System, we observed that there is not always an independent verification to ensure accuracy of data input. Therefore, there is a risk that basic accommodation fees may not be charged at the proper rates. We found two instances where the accommodation rates were slightly understated.

Recommendation:

- 6. The General Manager, Homes for the Aged Division, enhance the Division's policies and procedures by requiring that reduced basic accommodation rates entered in the Resident Financial Management System be reviewed for accuracy by someone independent of the input function and evidence of such review be documented in writing.**

C.2. Accounts Receivable

At the end of 2005, the City had accounts receivable from residents for accommodation fees amounting to \$829,000, of which \$280,000 or 34 per cent was over 90 days. Approximately \$195,000 is owed by 13 residents with balances over \$10,000. Some of these accounts are being pursued by Legal Services for collection and others have been referred to a collection agency.

While the City has taken reasonable efforts to collect outstanding amounts, it has limited ability to prevent certain receivable accounts from increasing. This is true particularly when residents, who are mentally competent and manage their own finances, refuse to pay the fees and refuse to give consent for the redirection of their pension income to the home. Under current legislation, a resident cannot be discharged from a home due to non-payment of accommodation fees and pension income cannot be garnished. Although, Legal Services continues to file statements of claim against such residents, the process is costly and ineffective.

In order to minimize losses from bad debts and reduce administrative costs, the Ministry of Health and Long-Term Care should provide remedies to the homes with respect to collection of outstanding amounts from residents who have the ability to pay their accommodation fees but fail their obligation. Such residents should be required to redirect their government pensions or entitlements to the home, in the event of non-payment of accommodation fees.

Staff has indicated that issues related to unpaid accommodation fees have been raised with the Ministry of Health and Long-Term Care by the long-term care homes sector in the last two years. We have been advised that the Ministry has created a Working Group in early 2006, in which a City Homes for the Aged Division senior staff is a member, to address these issues.

C.3. Subsidies

With respect to accommodation costs, the Ministry of Health and Long-Term Care provides maximum per diem funding of \$44.42 effective July 1, 2005 (\$43.76 – January 1, 2005). If a home maintains an annual average occupancy of 97 per cent, the Ministry provides 100 per cent accommodation funding. Otherwise, the funding is based on actual occupancy.

The City submits an individual Annual Report for each home, which is audited by the City's external auditors. The Annual Report provides a detailed account of all revenues and expenditures of the home, including the calculation of appropriate subsidies using built-in formulae on prescribed forms provided by the Ministry of Health and Long-Term Care.

Given the extent of audit testing conducted by the external auditors, our review of subsidy claims was limited to an assessment of controls in place to ensure the proper calculation of resident days, which directly impacts the amount of accommodation subsidy. Our review indicated that the Division has adequate procedures in place to ensure the accurate recording of resident days required for subsidy claims.

D. RESIDENT FINANCIAL MANAGEMENT SYSTEM

The City maintains resident information using a Resident Financial Management System, a proprietary database system, purchased from an external vendor.

The system has the capability to generate various standard and ad hoc reports based on specified criteria. We observed, however, that the system could be enhanced to make better the use of its reports. For example, while reports are available on screen or in hard copy, the information is not available in other electronic format that would facilitate further data analysis.

We also observed that divisional staff performs manual processes to compile statistical data on resident days, although the system has the capability to generate such information. In addition, quarterly statements provided to residents are complex and contain unnecessary data, making them difficult to understand and requiring further explanation from staff.

Recommendation:

- 7. The General Manager, Homes for the Aged Division, evaluate the feasibility of enhancing the Resident Financial Management System in order to facilitate:**
 - (a) uploading of management reports into other electronic format for further analysis;**
 - (b) reporting of statistical information such as resident days; and**
 - (c) simplification of the quarterly statements issued to residents by including only data that is relevant to the resident.**

CONCLUSION

The objective of this review was to assess the adequacy of processes and controls in place to ensure accuracy and completeness of resident fees and related subsidies and the effective management of resident trust funds.

The Homes for the Aged Division has implemented comprehensive policies and procedures manuals for all the City's ten homes for the aged. Our recommendations pertain mainly to areas where internal controls could be further strengthened or administrative procedures improved.

Addressing the recommendations in this report will improve accountability, efficiency and service quality.

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