

Special Report

Arkansas Legislative Audit

Review of Selected Policies, Procedures, and Transactions

Sevier County Medical Center

For the Period December 1, 2022 through December 31, 2023



INTRODUCTION

This report is issued in response to a legislative request, approved by the Legislative Joint Auditing Committee (LJAC), for Arkansas Legislative Audit (ALA) to conduct a limited review of the financial records of the Sevier County (County) Medical Center (Center) relating to the \$6.25 million in American Rescue Plan Act (ARPA) funds the Center received.

OBJECTIVES

The objectives of this review were to determine:

1. If ARPA funds were expended for the purposes approved in the Center's Beneficiary Agreement with the Department of Finance and Administration (DFA) and approved by the General Assembly.
2. The status of Center's Beneficiary Agreement with DFA.
3. The status of any financial audits for the Center.

SCOPE AND METHODOLOGY

This review was conducted primarily for the period December 1, 2022 through December 31, 2023. Pertinent County Ordinances and policies for the County and Center, as well as meeting minutes of the County Quorum Court and Center Board of Governors (Board), were reviewed. Financial records maintained by the County and Center (e.g., bank statements, journals/ledgers, budgets, bid documents, and invoices relating to ARPA funds) were also reviewed. ALA interviewed certain County and Center personnel, reviewed the Center's Beneficiary Agreement with DFA, examined invoices provided by the Center to DFA under the agreement, and assessed the status of any audit services for which the Center contracted.

BACKGROUND

Sevier County Medical Center History and Establishment

In May 2019, the County's only hospital, De Queen Medical Center, closed after falling into financial distress. Due to federal regulations and the assessed need to established a Critical Access Hospital (CAH)¹ in the County, plans to establish a new hospital were undertaken.

¹ Critical Access Hospitals (CAH) must meet certain federal and state regulations for staffing, enter into a patient referral and transfer agreement with larger acute care hospitals, participate in development and implementation of a communication system with hospitals in their network, and enter into an agreement with the area Emergency Medical Service (EMS) for emergency and non-emergency patient transport. More information regarding CAH status can be found at <https://www.healthy.arkansas.gov/programs-services/topics/critical-access-hospitals>.

ARKANSAS LEGISLATIVE AUDIT

500 Woodlane Street, Suite 172, Little Rock, AR 72201

Phone: 501-683-8600 • Fax: 501-683-8605

www.arklegaudit.gov

Report ID: SPCO00223

Report Date: August 21, 2024



At a special election held in August 2019, County voters approved a 1% Sales and Use Tax to fund \$24.25 million in Series 2020 Sales and Use Tax Bonds (Bonds) to acquire land for and construct, furnish, and equip a new hospital facility in the County; any sales tax revenue not needed to service the debt was to be used for operations. The County established the Center Board on September 28, 2019. The County Judge appoints, and the County Quorum Court approves, all members of the Center Board.

Sevier County Medical Center Construction and Funding

During 2020, land was purchased in March, the Bonds were issued in September, and construction of the Center began in November. According to the County Judge, it was initially estimated that Center construction would cost \$16 to \$18 million, and the Bonds would provide sufficient funding. However, construction costs exceeded initial estimates, which was attributed to several factors (e.g., increased cost of supplies and unanticipated expenditures). Additionally, construction occurred during the height of the COVID-19 pandemic, which created issues with vendors and supplies.

The County expended an additional \$2,555,425 in ARPA funding for construction (\$621,357) and operations, equipment, and supplies (\$1,934,068) related to the Center, as shown in Exhibit I.

Exhibit I

**Sevier County Medical Center (Center)
Sources and Uses of Funds to Construct, Equip, and Operate
(Excluding Bond Issue or Sales Tax)**

Funding Source	Use of Funds		Totals
	Construction	Operations, Equipment, and Supplies	
Sevier County:			
American Rescue Plan Act (ARPA)	\$ 621,357	\$ 2,479,068	\$ 3,100,425
Center reimbursement to County (Note)		(692,000)	(692,000)
Local Assistance Tribal Consistency Fund		147,000	147,000
	<u>621,357</u>	<u>1,934,068</u>	<u>2,555,425</u>
General Assembly:			
ARPA		6,172,772	6,172,772
Totals	<u>\$ 621,357</u>	<u>\$ 8,106,840</u>	<u>\$ 8,728,197</u>

Note: The Center reimbursed the County \$692,000 from the ARPA funding received from the General Assembly. Invoices were provided to support the expenditures made by the County.

Source: Information obtained from the Sevier County Judge (unaudited by Arkansas Legislative Audit)

Sevier County Medical Center Facilities and Operations

The Center is a 42,000 square foot acute care hospital with 15 inpatient beds. It offers services related to physical therapy, occupational therapy, speech pathology, imaging, respiratory care, and behavioral health, some of which are available on an outpatient basis. Additionally, the Center operates a 10-bed emergency department, which functions 24 hours per day, 365 days per year, and provides “simple laboratory exams and procedures” allowed under Food and Drug Administration (FDA) regulations.

According to Center management, patients at acute care hospitals have a shorter length of stay compared to general hospitals, as these facilities are designed for short-term needs. Center patients are only allowed a three-day maximum stay, though this period may be extended under certain conditions, such as availability of beds and staff. Patient service statistics for the first year of the Center's operation are provided in **Appendix A**.

The Center was licensed by the Arkansas Department of Health in December 2022 and began operating in January 2023. On August 7, 2023, the Center obtained its CAH accreditation, which improves its Medicare and Medicaid reimbursement rates. Additionally, the Centers for Medicare and Medicaid Services (CMS) certified the Center as a "swing-bed" provider on April 3, 2024, with effective date retroactive to April 10, 2023. This certification allows the hospital to use its beds to provide either short-term acute care or skilled nursing facility care (i.e., rehabilitative therapies).

During the review period, the Center had contracts with an accounting firm for Chief Financial Officer services and financial statement compilation. Additionally, in April 2024, the Board informed the Chief Executive Officer (CEO) that her contract would not be renewed after May 31, 2024, and an interim CEO was appointed.

A timeline of relevant Center events from May 2019 through April 2024 is provided in **Appendix B**.

RESULTS OF REVIEW

Objective 1: Determine If ARPA Funds Were Expended for the Purposes Approved in the Center's Beneficiary Agreement with DFA and Approved by the General Assembly

In 2022, the Legislative Council of the General Assembly approved, and DFA disbursed, \$6.25 million in ARPA funding to the Center for the purchase of equipment in various departments, including patient care, emergency, radiology, laboratory, pharmacy, and outpatient services, as well as various supplies to support operation of those departments, as noted in **Appendix C**.

As of report date, the Center had remitted documentation to DFA totaling \$6,172,772 in support of ARPA funds expended. A summary by major vendor is provided in **Exhibit II on page 4**. ALA examined disbursements made during the review period and at least one invoice from each vendor to assess propriety/reasonableness, resulting in review of approximately 67% of expended funds. Based on documentation provided by the Center, ALA determined the funds were spent in accordance with the approved Beneficiary Agreement and ARPA requirements. No funds were noted as being spent for construction costs.

Objective 2: Determine the Status of the Center's Beneficiary Agreement with DFA

The Center's Beneficiary Agreement with DFA, dated December 20, 2022, states the Center may:

"...use funds under this Agreement, for the purpose(s) stated within the Beneficiary's approved proposal, incurred during the period beginning March 3, 2021 and ending December 31, 2024, as long as the Funds for the obligations incurred by December 31, 2024 are expended by December 31, 2026. Costs for projects incurred prior to March 3, 2021 are not eligible...."

Exhibit II

**Sevier County Medical Center (Center)
Summary of Documentation Provided to the Department of Finance and Administration
For American Rescue Plan Act (ARPA) Funding Expended**

Vendor	Amount Paid	Items Purchased
GE Healthcare	\$ 2,891,156	Imaging, patient monitoring, ventilator, and cardiac assessment equipment, including installation, supplies and software
L & M Furniture	687,780	Furnishings
Medline	477,804	Medical, testing, and patient supplies
Morris & Dickson	308,215	Medications/Pharmaceuticals
IT Creations	211,084	Computers, monitors, network equipment, and televisions
Meditech	175,000	Health care information system software
Edafio	158,625	Network software/computers, wireless, installation
Stryker	137,427	Stretchers and beds
Datex Ohmeda, Inc.	113,226	Anesthesia equipment and supplies
Other Vendors	1,012,455	
Total	\$ 6,172,772	

Source: Invoices provided to DFA by the Center (unaudited by Arkansas Legislative Audit)

The agreement also stipulates the Center must return to DFA any funds not obligated by December 31, 2024; funds obligated but not expended must be returned to DFA by December 31, 2026. The funds may only be used for the purposes stated within the Center’s proposal (see **Appendix C**) that was approved by the Arkansas ARPA Steering Committee and appropriate legislative committee. The Center is also required to submit a final expenditure report to DFA within 30 days after the period of performance ends.²

As previously mentioned, the Center had provided documentation to DFA for \$6,172,772 in expenditures, as of report date. According to DFA representatives, the Center had not submitted a final expenditure report as of August 14, 2024. According to the grant agreement, the grant period does not expire until December 31, 2026; however, grant funds were designated for “start-up costs.” Since the Center has been open over one year, DFA maintains that the period for which the grant was approved by the Legislature has passed and has requested return of \$77,228 in unexpended award funds.

Objective 3: Determine the Status of Any Financial Audits for the Center

On March 19, 2024, the Center signed an engagement letter with a private CPA firm for an audit of its financial statements, in accordance with generally accepted auditing standards (GAAS); the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the Single Audit Act Amendments of 1996; and the provisions of Uniform Guidance. As of report date, the audit had not commenced.

MANAGEMENT RESPONSE

Management response is provided in its entirety in **Appendix D**.

² The Beneficiary Agreement defines a “final expenditure report” as “a report which lists all expenditures made by a Beneficiary using State Fiscal Recovery Funds (“SFRF”) and which contains a statement executed by the Authorized Representative that there are no other outstanding commitments or obligations for which disbursement will be sought under this Agreement.”

SUMMARY

ALA determined that, of the \$6.25 million in ARPA funding provided to the Center, \$6,172,772 of documented expenditures provided to DFA were in accordance with the approved Beneficiary Agreement and ARPA requirements, and none of these expenditures were for construction costs. The Center's Beneficiary Agreement states that the Center has until December 31, 2024, to obligate the remaining \$77,228 in funding and must expend those funds by December 31, 2026. However, as of report date, DFA had requested the Center return these funds. Finally, the Center has signed an engagement letter with a private CPA firm for an audit of its financial statements; however, as of report date, the audit had not commenced.

Appendix A

Sevier County Medical Center Patient Service Statistics for First Year of Operation (2023 through 2024)



SEVIER COUNTY MEDICAL CENTER

Year 1 Stats

SERVICE	# of ENCOUNTERS
ER Visits	6,050
Inpatient Stays	273
Observation Stays	348
Outpatient Laboratory Services	634*
Outpatient Infusions	90
Employee Health	93
<i>Outpatient Therapy Services</i>	
Occupational	1,005*
Physical	1,179*
Respiratory	139*
Speech	683*
<i>Outpatient Radiology Services</i>	
Bone Density	35*
CT	596*
MRI	585*
Mammogram	298
Ultrasound	654*
X-Ray	392*
TOTAL NUMBER OF ENCOUNTERS	13,054

*Numbers do not include services provided in the ER, for observation or inpatient visits.

Source: Sevier County Medical Center (unaudited by Arkansas Legislative Audit)

Appendix B

Sevier County Medical Center Timeline of Events May 2019 through April 2024

Year/Month	Event
2019	
May	De Queen Medical Center (a private entity) closed after falling into financial distress.
October	Voters approved a 1% Sales and Use Tax to pay the principal of and interest on \$24.25 million in Series 2020 Sales and Use Tax Bonds.
2020	
March	Sevier County (County) purchased land for construction of the Sevier County Medical Center (Center).
September	County Ordinance no. 2020-04 authorized the issuance of \$24.25 million in Series 2020 Sales and Use Tax Bonds.
November	Construction of the Center began.
2022	
December	The Center was licensed as a hospital by the Arkansas Department of Health. The General Assembly approved, and the Department of Finance and Administration disbursed to the Center, American Rescue Plan Act (ARPA) funds of \$6.25 million.
2023	
January	The Center opened for business.
April	The Center qualified to receive Medicare and Medicaid payments.
August	The Center obtained Critical Access Hospital accreditation. (Note 1)
2024	
April	The Center was certified as a "swing-bed" provider, with an effective date retroactive to April 10, 2023. (Note 2) The Center Board of Governors informed the Chief Executive Officer (CEO) that her contract would not be renewed after May 31, 2024. An interim CEO was appointed.

Note 1: Critical Access Hospitals must meet certain federal and state regulations for staffing, enter into a patient referral and transfer agreement with larger acute care hospitals, participate in development and implementation of a communications system with hospitals in their network, and enter into an agreement with the area Emergency Medical Service (EMS) provider for emergency and non-emergency patient transport.

Note 2: This certification allows the hospital to use its beds to provide either short-term acute care or skilled nursing facility care (i.e., rehabilitative therapies).

Source: Ordinances, Center Board and County Quorum Court meeting minutes, and other documentation provided by the County and the Center (unaudited by Arkansas Legislative Audit)

Appendix C

Sevier County Medical Center American Rescue Plan Act – State Fiscal Recovery Funds Proposal Application

SEVIER COUNTY MEDICAL CENTER

American Rescue Plan Act – State Fiscal Recovery Funds Proposal Application

Detailed Budget

The total amount requested by Sevier County Medical Center for addressing lack of health care in the disproportionately impacted community in Southwest Arkansas is \$6,250,000.

Equipment total: \$5,972,859

Patient Care Unit & Emergency Department Equipment

Hospital beds, stretchers, & wheelchairs	\$ 565,700
Monitors	\$ 327,402
Telemetry Equipment	\$ 152,100
BiPap Machine	\$ 11,000
IV Pumps	\$ 184,167
Defibrillators and AEDs	\$ 53,000
Crash Carts	\$ 21,002
Ortho & Suture Cart	\$ 10,346
Otoscope Wall System	\$ 16,133
Bladder Scanner	\$ 8,145
VapoTherm	\$ 6,120
Forced Air Patient Warming Blanket	\$ 2,500
Sequential Compression Devices	\$ 2,590
Feeding Pump	\$ 990
IO Drill (IV Access)	\$ 6,000

Radiology Equipment

GE Radiology Equipment Suite, including CT Scanner, MRI machine, (2) X-ray machines, Ultrasound machine, Mammography unit, and Monitoring equipment	\$2,333,642
Bone Density Scanner	\$ 73,000
Picture Archiving & Communication System (PACS)	\$ 102,027
Radiology Workstation IT Equipment	\$ 18,623
Treadmill Stress Test	\$ 17,375

Laboratory Equipment

Medline Laboratory Equipment Suite, including Blood Gas Analyzer, Coagulation System, Chemistry/Immunoassay Integrated System, Urinalysis Analyzer, Readers, Printers, Manager Kit, and Instrument Kit	\$ 143,995
Automated Hematology System	\$ 35,625
Blood Bank Refrigerator	\$ 8,024
(2) Lab Refrigerators	\$ 15,115
Blood Bank/Plasma Freezer	\$ 10,871
(3) Microscopes	\$ 5,137
Cell Washing System	\$ 8,071

Appendix C (Continued)

(2) Blood Centrifuges	\$ 8,311
Urine Centrifuge	\$ 1,332
<u>Pharmacy Equipment</u>	
Pyxis MedStation Medication Dispensing System	\$ 461,592
VersaFlow CAI	\$ 16,946
Pharmacy Refrigerator	\$ 8,162
<u>Outpatient Services Equipment</u>	
Rehabilitation Therapy Equipment	\$ 47,909
(4) Examination Tables	\$ 6,500
Outpatient Surgery Equipment – Scopes & Sterilizers	\$ 250,000
<u>Hospital-wide Equipment</u>	
End User IT Equipment, including Computer workstations, monitors, Carts, Stands, Printers, Scanners, Docks, Web Cams, Sig Pads, Microphones, and Headphones	\$ 151,292
Hospital Furniture	\$ 637,780
Meditech Electronic Health Record Down Payment	\$ 175,000
Hospital Phone System	\$ 39,740
Emergency Backup Fuel System	\$ 29,595
Supplies total: \$277,141	
Rehabilitation Therapy Supplies	\$ 92,609
Respiratory Therapy Supplies	\$ 15,532
Suture & Eye Supplies	\$ 40,904
Urine Supplies	\$ 23,585
PCU & ER General Supplies	\$ 44,505
IV Supplies	\$ 18,152
Trauma Supplies	\$ 15,543
Wound Supplies	\$ 8,612
Lab Supplies	\$ 9,843
Miscellaneous Facility Supplies	\$ 5,345
Pediatric Supplies	\$ 2,511

Source: Sevier County Medical Center (unaudited by Arkansas Legislative Audit)

Appendix D
Management Response

Sandra Dunn
County Judge
Robert Gentry
Sheriff and Collector
Renea Bailey
County Clerk
Kathy Smith
Circuit Clerk
Heather Barnes
Treasurer
Sheila Ridley
Assessor

Sevier County
115 N 3rd St.
De Queen, Arkansas 71832



August 26, 2024

Mr. Charles B. Camp, CPA
Special Projects Manager
Division of Legislative Audit, Room 172
State Capitol Building
Little Rock, AR 72201

Dear Mr. Camp:

I have reviewed the Special Report by Arkansas Legislative Audit concerning the review of financial records of the Sevier County Medical Center relating to the \$6.25 million in American Rescue Plan Act (ARPA) funds the Center received.

It is my understanding that the Arkansas Department of Finance and Administration has requested the return of \$77,228 in unexpended award funds.

In response to the report, it is our intent to explore with DFA whether there may be \$77,228 in qualifying expenditures that can be submitted under the ARPA grant before the grant deadline. If not, then the \$77,227 will be returned to DFA as requested.

Sincerely,

A handwritten signature in cursive script that reads "Sandra Dunn".

Sandra Dunn
Sevier County Judge

Stacy Dowdy
Sevier County Medical Center Interim CEO

A handwritten signature in cursive script that reads "Stacy Dowdy".

