

STATE OF LOUISIANA LEGISLATIVE AUDITOR

Central Louisiana State Hospital
Office of Mental Health
Department of Health and Hospitals
State of Louisiana
Pineville, Louisiana

June 14, 2000



Financial and Compliance Audit Division

***Daniel G. Kyle, Ph.D., CPA, CFE
Legislative Auditor***

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Daniel G. Kyle, Ph.D., CPA, CFE

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**CENTRAL LOUISIANA STATE HOSPITAL
OFFICE OF MENTAL HEALTH
DEPARTMENT OF HEALTH AND HOSPITALS
STATE OF LOUISIANA
Pineville, Louisiana**

**Management Letter
Dated April 6, 2000**

Under the provisions of state law, this report is a public document. A copy of this report has been submitted to the Governor, to the Attorney General, and to other public officials as required by state law. A copy of this report has been made available for public inspection at the Baton Rouge and Shreveport offices of the Legislative Auditor and at the office of the parish clerk of court.

June 14, 2000



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LEGISLATIVE AUDITOR
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DANIEL G. KYLE, PH.D., CPA, CFE
LEGISLATIVE AUDITOR

April 6, 2000

**CENTRAL LOUISIANA STATE HOSPITAL
OFFICE OF MENTAL HEALTH
DEPARTMENT OF HEALTH AND HOSPITALS
STATE OF LOUISIANA**
Pineville, Louisiana

As part of our audit of the State of Louisiana's financial statements for the two years ending June 30, 2000, we conducted certain procedures at Central Louisiana State Hospital. Our procedures included (1) a review of the hospital's internal control; (2) tests of financial transactions for the years ending June 30, 2000, and June 30, 1999; (3) tests of adherence to applicable laws, regulations, policies, and procedures governing financial activities for the years ending June 30, 2000, and June 30, 1999; and (4) a review of compliance with prior year report recommendations.

The Annual Fiscal Reports of Central Louisiana State Hospital were not audited or reviewed by us, and, accordingly, we do not express an opinion or any other form of assurance on those reports. The hospital's accounts are an integral part of the State of Louisiana's financial statements, upon which the Louisiana Legislative Auditor expresses an opinion.

Our procedures included interviews with selected management personnel and management personnel of a contractor. We also evaluated selected documents, files, reports, systems, procedures, and policies as we considered necessary. After analyzing the data, we developed recommendations for improvements. We then discussed our findings and recommendations *with appropriate management personnel before submitting this written report.*

In our prior management letter dated April 7, 1998, we reported findings concerning electronic data processing controls, movable property controls, inventory controls, and a lease contract that was not monitored. These findings have been resolved by management, except for the finding relating to inventory controls.

Based on the application of the procedures referred to previously, all significant findings are included in this report for management's consideration.

LEGISLATIVE AUDITOR

**CENTRAL LOUISIANA STATE HOSPITAL
OFFICE OF MENTAL HEALTH
DEPARTMENT OF HEALTH AND HOSPITALS
STATE OF LOUISIANA**

Management Letter, Dated April 6, 2000

Page 2

Meals Provided Without Charge

Central Louisiana State Hospital provided 13,433 complimentary meals totaling \$43,657 based on its billing rate of \$3.25 per meal, in violation of state law. Article VII, Section 14(A) of the 1974 Louisiana Constitution states, in part, that funds, credit, property, or things of value of the state shall not be loaned, pledged, or donated to or for any person, association, or corporation, public or private. However, Section VIII of the State Travel Regulations allows the use of public funds to provide meals without charge under certain circumstances, provided that the Commissioner of Administration or his delegate has granted prior approval. During July 1998 through November 1999, the hospital furnished 9,121 complimentary meals to employees, 49 to the parents of adolescent patients, 267 to other guests, and 3,996 to volunteers in the various departments.

Management indicated that it was not aware that some meals may not be allowable and that prior approval from the Commissioner was required. Failure to regulate the meals provided could result in a violation of state law.

Management should identify the circumstances under which complimentary meals are being provided and request approval from the Commissioner of Administration for those circumstances for which the complimentary meals are allowed. All other complimentary meals should be discontinued. Management did not concur with the finding and recommendation because management believes it had the authority to provide the meals based on the Department of Health and Hospital Policy Number 0001-76 (see Appendix A, page 1).

Additional Comments: This policy was created by the Department of Health and Hospitals when the state paid for noon meals for employees working outside of their domicile--even when the employee was not on overnight travel status; this is no longer the state's policy. Management did not provide documentation to explain why it was in the best interest of the State of Louisiana to provide these meals nor that the Commissioner of Administration had approved the policy. The Division of Administration has indicated that its files contain no approvals relating to this policy. Without the Commissioner of Administration's approval, the hospital would be required to comply with Section VIII of the State Travel Regulations. Furthermore, while it is possible that the Commissioner might provide an annual blanket approval for meals for volunteers, he would not be authorized to give approval for employees to eat free during a normal work day.

LEGISLATIVE AUDITOR

**CENTRAL LOUISIANA STATE HOSPITAL
OFFICE OF MENTAL HEALTH
DEPARTMENT OF HEALTH AND HOSPITALS
STATE OF LOUISIANA**

Management Letter, Dated April 6, 2000

Page 3

Professional Service Contract Not Monitored

Central Louisiana State Hospital does not have adequate controls in place to ensure that contractors comply with all provisions of its professional service contracts. A good internal control system would require that adequate control procedures be implemented to ensure that each contractor follows all provisions of the contracts. These controls should also ensure the compliance with all applicable state laws and regulations.

The Department of Health and Hospitals, Office of Mental Health and Central Louisiana State Hospital entered into a contract with Volunteers of America of North Louisiana (VOA) to provide transitional living services for chronically mentally ill persons in a state owned building on the grounds of the hospital. The contract is for \$146,000 per year for fiscal years 1998-1999 and 1999-2000. Our review of the contract and monthly invoices for the 1998-99 fiscal year revealed the following:

1. A review of April and June 1999 VOA invoices paid by the hospital revealed seven invoices that contained charges totaling \$9,161 that may not be for allowable costs. One of the seven invoices totaling \$336 was for charges applicable to another program and two other invoices totaling \$1,056 were for expenditures that should have been covered by VOA's insurance and not billed to the hospital.
2. The hospital was invoiced and paid \$320 for audit costs incurred by VOA. Although Term and Condition Number 3 of the contract states that all audit fees shall be paid entirely by the contractor, the hospital had included a line item amount in the contract's budget for audit costs.
3. For June 1999, VOA invoiced and received \$7,000 from the hospital for equipment. Audit procedures revealed that VOA actually purchased equipment costing \$3,808. VOA had incurred other reimbursable expenses of \$3,192 but did not have a remaining contract budget in the applicable categories. The Office of Mental Health gave written *authorization for the hospital to charge the expenses to a budget category that had a balance*. Therefore, the hospital and VOA, with the approval of the Office of Mental Health, intentionally miscoded the contract expenditures.
4. VOA invoiced for and received payment for expenses incurred before *and/or after the effective dates of the contracts*. Administrative salaries of \$895 incurred from June 14 through June 27, 1998, were charged to

LEGISLATIVE AUDITOR

CENTRAL LOUISIANA STATE HOSPITAL
OFFICE OF MENTAL HEALTH
DEPARTMENT OF HEALTH AND HOSPITALS
STATE OF LOUISIANA

Management Letter, Dated April 6, 2000

Page 4

the contract for fiscal year ended June 30, 1999. In addition, VOA charged \$1,150 to the fiscal year ended June 30, 1999, contract for travel expenses that were not incurred until September 1999.

5. VOA had no documentation to support the percentages used to allocate costs to the various programs that it administers. Percentages are used to allocate cost for administrative travel, operating services, office supplies, or capital outlays. Management indicated that the percentages were based on its best guesses.
6. VOA purchased and charged Central Louisiana State Hospital \$2,533 for a computer, an extra monitor, and an all-in-one printer/scanner. The regional director and program director use the equipment. The cost of this equipment should have been allocated among all programs administered by VOA.

Management failed to establish the controls necessary for monitoring its VOA contract to ensure compliance with all applicable provisions of the agreement. While the performance measures are monitored by the medical director, no one at the hospital reviews or examines the supporting documentation submitted by VOA for reimbursement, the provisions of the contract, or the methods used by VOA for allocating cost. As a result, the hospital expended public funds that were not allowed or necessary under the terms and conditions of the contract.

Management should develop and implement the controls necessary to monitor its VOA contract as well as its other professional service contracts to ensure that the parties involved comply with all provisions of the agreement, including compliance with all applicable state laws and regulations. Furthermore, the hospital should review, in detail, all requests for reimbursement from VOA for the last two years and then request VOA to reimburse all costs that were not attributable to the contract. The hospital should also require VOA to develop a reasonable method for allocating costs to the programs it administers. The methods used should be fully documented and tested by hospital management. Periodic reviews of this information should be performed in order to ensure that the methods are current and still applicable. Management concurred with the finding and recommendation and outlined a plan of corrective action (see Appendix A, pages 2-3).

LEGISLATIVE AUDITOR

**CENTRAL LOUISIANA STATE HOSPITAL
OFFICE OF MENTAL HEALTH
DEPARTMENT OF HEALTH AND HOSPITALS
STATE OF LOUISIANA**

Management Letter, Dated April 6, 2000

Page 5

Weaknesses in Controls Over Material and Supply Inventories

For the second consecutive audit, Central Louisiana State Hospital does not have adequate procedures to ensure that its inventories of material and supplies are properly reported in the financial statements and that the inventories are adequately safeguarded. Adequate internal controls should provide management with the basis to accurately account for the receipts, disbursements, and year-end physical inventory count of the hospital's inventory. Assets are at risk when procedures fail to include an adequate segregation of duties so that no one employee would be in a position to both initiate and conceal errors or fraud.

Central Louisiana State Hospital maintains periodic and perpetual inventories, depending on the type of material or supply that is being maintained. A review of the controls over these materials and supplies inventories disclosed the following weaknesses:

- No reconciliation of issues and receipts in the perpetual inventory records to the increases and decreases in the general ledger has been performed for pharmacy, food, housekeeping, warehouse, supply room, and personal items inventories. Attempts have been made to reconcile the increases and decreases without success and no other procedures were performed to determine the completeness and accuracy of the data reported in the hospital's annual financial statements for June 30, 1999. For the fiscal year ended June 30, 1999, receipts and issues for these inventories totaled \$1,293,272 and \$1,332,268, respectively. For the four-month period July 1, 1999, through October 31, 1999, receipts and issues totaled \$463,523 and \$470,829, respectively.
- The pharmacy did not include medical supplies in its inventory at June 30, 1999. We were unable to determine the amount that was omitted at year-end. However, at December 8, 1999, the medical supplies inventory amounts to \$14,807. For the fiscal year ended June 30, 1999, receipts and issues for drugs totaled \$644,626 and \$667,737, respectively. For the four-month period July 1, 1999, through October 31, 1999, drug receipts and issues totaled \$208,640 and \$251,946.

LEGISLATIVE AUDITOR

**CENTRAL LOUISIANA STATE HOSPITAL
OFFICE OF MENTAL HEALTH
DEPARTMENT OF HEALTH AND HOSPITALS
STATE OF LOUISIANA**

Management Letter, Dated April 6, 2000

Page 6

- There is an inadequate segregation of duties for employees assigned responsibility for the meats, commodities, and office supply inventories. The custodians of each type of inventory also issues and receives inventory items and posts the activity to the perpetual records. For the fiscal year ended June 30, 1999, receipts and issues totaled \$181,146 and \$194,821, respectively. For the four-month period July 1, 1999, through October 31, 1999, receipts and issues totaled \$63,144 and \$62,831.
- The custodians of the periodic inventories receive, issue, and perform the physical count of these items, with little independent review. The limited review that is performed during the year or at year-end does not include a test of valuation nor does it include a test of receipts based on information obtained from the general ledger. Tests are not extended when discrepancies are identified. At least two periodic inventories were not tested at all during the period under audit. The periodic inventories stored in various departments at June 30, 1999, total \$123,495 and represent 28% of the hospital's inventory.

Management has not implemented control procedures that can provide it with adequate assurance that the hospital's inventory of material and supplies is properly reported in the financial statements and is adequately safeguarded. As a result, there is an increased risk that errors or fraud could occur and not be detected in a timely manner.

Management should implement procedures that will ensure that there is an independent review, including test counts and required reconciliations, of the data used to prepare the annual financial statements and that there is an adequate separation of duties between the receipt, issues, recording, and custodial functions. Management concurred with the finding and recommendation and outlined a plan of corrective action (see Appendix A, pages 4-5).

The recommendations in this report represent, in our judgment, those most likely to bring about beneficial improvements to the operations of the hospital. The varying nature of the recommendations, their implementation costs, and their potential impact on the operations of the hospital should be considered in reaching decisions on courses of action. Findings relating to the hospital's compliance with applicable laws and regulations should be addressed immediately by management.

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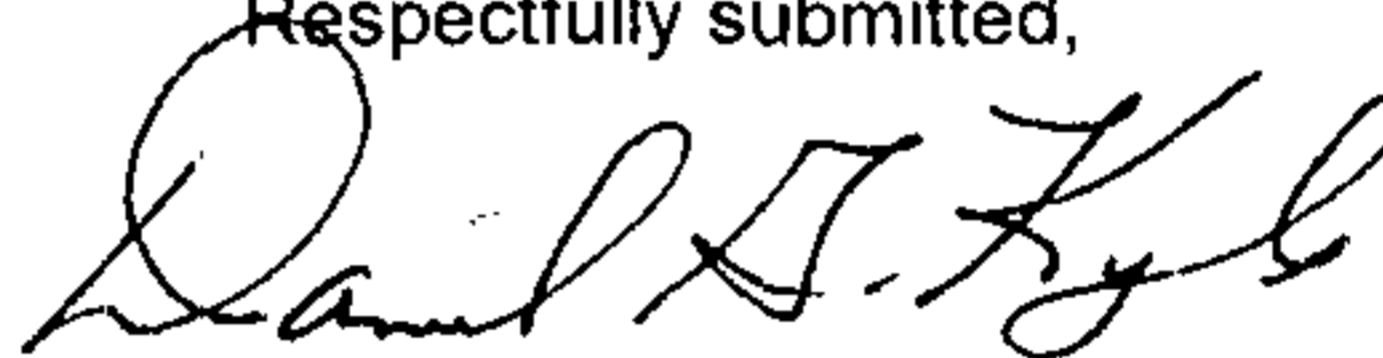
CENTRAL LOUISIANA STATE HOSPITAL
OFFICE OF MENTAL HEALTH
DEPARTMENT OF HEALTH AND HOSPITALS
STATE OF LOUISIANA

Management Letter, Dated April 6, 2000

Page 7

This report is intended for the information and use of the hospital and its management. By provisions of state law, this report is a public document, and it has been distributed to appropriate public officials.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Daniel G. Kyle". The signature is written in a cursive style with a large initial "D".

Daniel G. Kyle, CPA, CFE
Legislative Auditor

WJR:MAN:DSP:dl

[CLSH]

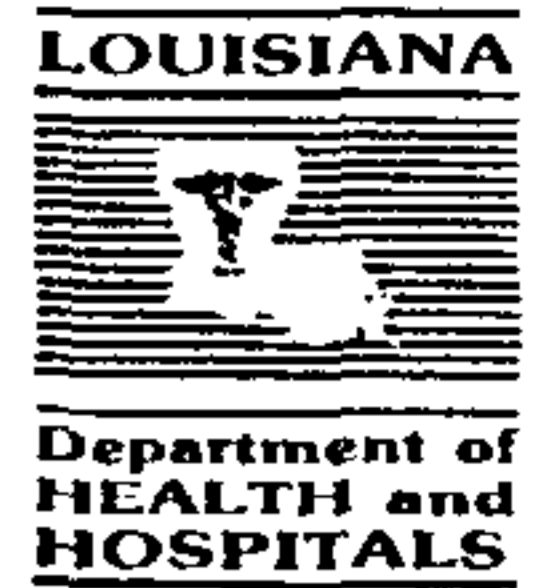
Appendix A

Management's Corrective Action Plans and Responses to the Findings and Recommendations



M. J. "Mike" Foster, Jr.
GOVERNOR

STATE OF LOUISIANA
DEPARTMENT OF HEALTH AND HOSPITALS



David W. Hood
SECRETARY

April 12, 2000

Dr. Daniel G. Kyle, C.P.A., C.F.E.
Legislative Auditor
State of Louisiana
Office of Legislative Auditor
P.O. Box 94397
Baton Rouge, LA 70804-9397

**RE: Meals Provided Without Charge
Revised Response**

Dear Dr. Kyle:

This letter is our formal written response to the above referenced finding noted in the Compliance and Control Audit. This response is a revision of our original response.

We do not concur with the finding and recommendation. Our reasons are as follows:

Based on DHH Policy Number 0001-76, we feel that we had the authority to provide the meals without charge that were referred to in the finding. These meals would be considered Class "C" meals. Section II A (f) of this policy also allows the C.E.O. to grant guest meals to individuals not specifically listed in the policy when it is in the best interest of the State of Louisiana. We did not serve any meals that would not be covered by this policy.

The contact person regarding this finding is Paul Benoit, Hospital Associate Administrator.

Sincerely,

Gary S. Grand
Chief Executive Officer

Paul Benoit, Ed.M., M.S., M.B.A.
Hospital Associate Administrator

tg



M. J. "Mike" Foster, Jr.
GOVERNOR

STATE OF LOUISIANA
DEPARTMENT OF HEALTH AND HOSPITALS



David W. Hood
SECRETARY

March 20, 2000

Dr. Daniel G. Kyle, C.P.A., C.F.E.
Legislative Auditor
State of Louisiana
Office of Legislative Auditor
P.O. Box 94397
Baton Rouge, LA 70804-9397

RE: Professional Service Contract Not Monitored

Dear Dr. Kyle:

This letter is our formal written response to the above referenced finding noted in the Compliance and Control Audit.

We concur with the finding and recommendation.

Our corrective action plan will be implemented immediately and is as follows:

Management will develop and implement controls necessary for monitoring any cost reimbursement contracts to ensure compliance with all applicable provisions of the agreement and with all applicable state laws and regulations. All current requests for reimbursement will be evaluated for compliance by the Fiscal Office before being submitted to the contract monitor for approval.

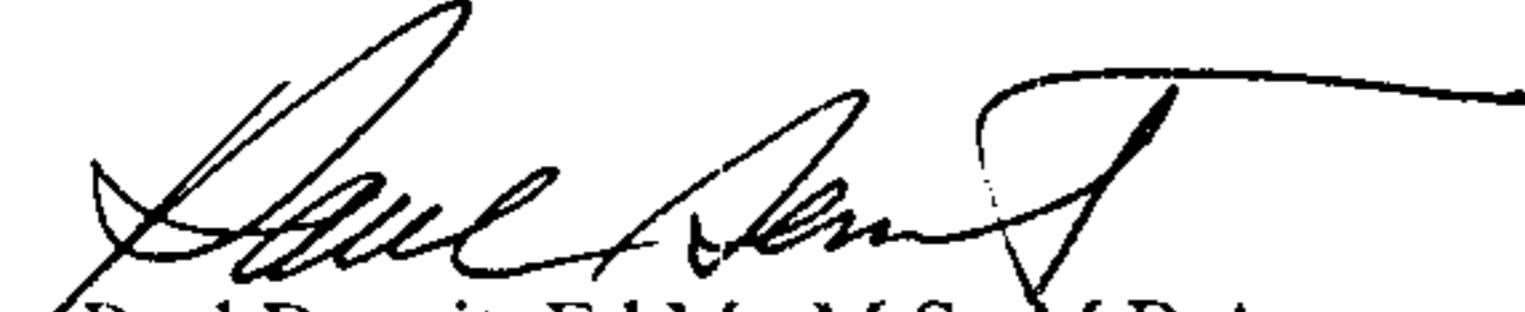
The hospital will review in detail all requests for reimbursement from VOA for the last two years and then request VOA to reimburse all costs that were not attributable to the contract. The hospital will also require VOA to develop a reasonable method for allocating costs to the programs it administers. The methods used will be fully authenticated by management. Periodic reviews of this information will be

performed in order to ensure that the methods are current and still applicable.

The contact person responsible for corrective action for this finding is Paul Benoit, Hospital Associate Administrator.

Sincerely,

Gary S. Grand
Chief Executive Officer



Paul Benoit, Ed.M., M.S., M.B.A.
Hospital Associate Administrator

tgd



M. J. "Mike" Foster, Jr.
GOVERNOR

STATE OF LOUISIANA
DEPARTMENT OF HEALTH AND HOSPITALS



David W. Hood
SECRETARY

March 15, 2000

Dr. Daniel G. Kyle, C.P.A., C.F.E.
Legislative Auditor
State of Louisiana
Office of Legislative Auditor
P.O. Box 94397
Baton Rouge, LA 70804-9397

RE: Weakness in Controls Over Material and Supply Inventories

Dear Dr. Kyle:

This letter is our formal written response to the above referenced finding noted in the Compliance and Control Audit.

We concur with the finding and recommendation.

Our corrective action plan will be implemented by April 1, 2000 and is as follows:

Beginning April 1, 2000 a log of warehouse receipts will be kept by the warehouse employees listing the date, purchase order number, amount, and vendor name associated with each receipt. This log will be turned in to the Fiscal Office each month to be used along with the Infomaker report which shows increases and decreases in the general ledger and the Peachtree "Job Cost Transaction Listing" report which shows issues from the warehouse. These reports will be used to reconcile issues and receipts in the perpetual inventory records to the issues and decreases in the general ledger for food, housekeeping, warehouse, supply room, and personal items inventories monthly. Pharmacy increases and decreases are not coded to stores accounts in the general ledger. They are direct purchases that go into pharmacy inventory and show up in the general ledger as such.

The pharmacy now includes medical supplies in its inventory.

With the number of employees that we currently have, we feel that we have segregated the duties for inventories as much as possible. The only areas not segregated are for employees assigned responsibility for the meats, commodities, and office supply inventories. We feel that these areas make up only a small portion of the total inventory and that the risk we take by not having these duties segregated is small. Spot checks of these areas are conducted in order to safeguard against errors or fraud that would not be found in a timely manner.

Spot checks of periodic inventories will include a test of valuation and a test of receipts based on information obtained from the general ledger. Tests will be extended when discrepancies are identified. All periodic inventories will be tested at least once over the term of the fiscal year.


Policies and procedures will be implemented to provide management with adequate insurance that the hospital's inventory of material and supplies is properly reported in the financial statements and is adequately safeguarded against errors or fraud that would not be detected in a timely manner.

Policies and procedures will also be implemented to ensure that there is an independent review, including test counts and required reconciliations, of the data used to prepare the annual financial statements and that there is adequate separation of duties between the receipt, issues, recording, and inventory custodian functions.

The contact person responsible for corrective action for this finding is Paul Benoit, Hospital Associate Administrator.

Sincerely,

Gary S. Grand
Chief Executive Officer



Paul Benoit, Ed.M., M.S., M.B.A.
Hospital Associate Administrator

tgd