

MENTAL HEALTH AREA B
OFFICE OF MENTAL HEALTH
DEPARTMENT OF HEALTH AND HOSPITALS
STATE OF LOUISIANA



PROCEDURAL REPORT
ISSUED MAY 5, 2010

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LOUISIANA LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA

April 13, 2010

**MENTAL HEALTH AREA B
OFFICE OF MENTAL HEALTH
DEPARTMENT OF HEALTH AND HOSPITALS
STATE OF LOUISIANA**
Jackson, Louisiana

As required by Louisiana Revised Statute 24:513, we conducted certain procedures at Mental Health Area B (MHAB), which is comprised of the East Louisiana State Hospital, Greenwell Springs Hospital, Feliciana Forensic Facility, and the mental health clinics and pharmacies in Regions 4 and 5, for the period from July 1, 2008 through April 13, 2010. Our procedures included (1) a review of MHAB's internal controls; (2) tests of financial transactions; (3) tests of adherence to applicable laws, regulations, policies, and procedures governing financial activities; and (4) a review of compliance with the prior report recommendations. Our procedures were more limited than would be necessary to give an opinion on internal control and on compliance with laws, regulations, policies, and procedures governing financial activities.

Specifically, we interviewed management personnel and selected MHAB personnel and evaluated selected documents, files, reports, systems, procedures, and policies, as we considered necessary. After analyzing the data, we developed recommendations for improvement. We then discussed our findings and recommendations with appropriate management personnel before submitting this written report.

The Annual Fiscal Report of MHAB was not audited or reviewed by us, and, accordingly, we do not express an opinion on that report. MHAB's accounts are an integral part of the State of Louisiana's financial statements, upon which the Louisiana Legislative Auditor expresses opinions.

In our prior report on MHAB, dated October 15, 2008, we reported a finding relating to inadequate controls over inventory. That finding has not been resolved by management and is addressed again in this report.

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

Inadequate Controls Over Inventory

For the second consecutive engagement, MHAB failed to establish adequate controls over its inventory, which totals \$1,363,644 at June 30, 2009. Good internal controls include designing and implementing a system to ensure that inventory assets are adequately safeguarded and accurately valued and recorded.

In a review of inventory controls, the following weaknesses in inventory controls were identified:

- The Jackson pharmacy did not include \$600,006 of inventory received on June 26, 2009, in its inventory count for the fiscal year ended June 30, 2009.
- Even though inventory counts were taken, MHAB did not include in its annual fiscal report \$2,880,870 in inventory from its Lafayette and Lake Charles pharmacies.

Although MHAB has a perpetual inventory system, it has not established adequate procedures to ensure that all inventory receipts are accurately and timely recorded in the system. Failure to establish adequate controls over inventory increases the risk that misstatements and losses of inventory, whether from error or fraud, may occur and not be detected timely by employees in the normal course of their duties. In addition, failure to include all inventory resulted in an understatement of its reported inventory balance by \$3,480,876.

MHAB should design and implement controls to ensure that its inventory assets are accurately valued and recorded. Management concurred with the finding and provided a corrective action plan (see Appendix A, pages 1-2).

Inadequate Controls Over Payroll

MHAB did not have adequate controls to ensure that data entered into the payroll system is accurate and complete. In addition, MHAB management did not notify the district attorney and legislative auditor of payroll fraud as required by law. Civil Service Rule 15.1 requires the maintenance of adequate payroll records, and Department of Health and Hospitals (DHH) policy 1216-04 requires that timekeeping managers reconcile all time and attendance records to payroll system data. In addition, R.S. 24:523 states that an agency head of an auditee who has actual knowledge of any misappropriation of public funds or assets of the agency shall immediately notify, in writing, the legislative auditor and the district attorney of the parish in which the agency is domiciled of such misappropriation.

During testing of MHAB's payroll and personnel records, we noted the following:

- For 10 out of 60 payroll records (17%) tested, the supervisors did not reconcile the time and attendance records to the payroll system data.
- In March 2009, MHAB's Human Resource Department identified one employee who allegedly committed payroll fraud by not claiming 110 hours of leave worth approximately \$1,854. The employee was dismissed and full restitution was obtained. As of February 2010, MHAB had not notified the legislative auditor or the district attorney in writing about this alleged payroll fraud.

These exceptions occurred because supervisors did not follow established law, policies, and procedures. Failure to adhere to Civil Service rules and DHH policies increases the risk of payroll related errors and fraud by employees and their supervisors.

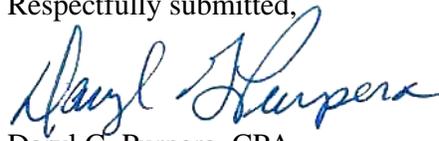
MHAB management should strengthen its internal controls over payroll and report all misappropriations of public funds and assets to the district attorney and legislative auditor. In addition, management should periodically inspect payroll records to ensure that supervisors are adhering to the policies and procedures. Management concurred with the finding and provided a corrective action plan (see Appendix A, pages 3-4).

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

In addition, we have included a Budgetary Comparison Schedule, which was prepared from the Annual Fiscal Report of MHAB and from additional data in the Integrated Statewide Information System (ISIS), the state's accounting system. This schedule is presented as additional information but has not been subjected to auditing procedures.

This report is intended solely for the information and use of MHAB, its management, others within the entity, DHH, and the Louisiana Legislature and is not intended to be, and should not be, used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Respectfully submitted,



Daryl G. Purpera, CPA
Legislative Auditor

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BUDGETARY COMPARISON SCHEDULE

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UNAUDITED

**MENTAL HEALTH AREA B
AGENCY 332 - MENTAL HEALTH AREA B**

**Budgetary Comparison Schedule
For the Fiscal Year Ended June 30, 2009**

APPROPRIATED REVENUES:

	TOTAL BEFORE ADJUSTMENTS	AGENCY ADJUSTMENTS	ADJUSTED TOTAL	REVISED BUDGET	VARIANCE FAVORABLE (UNFAVORABLE)
General Fund - direct	\$78,031,349		\$78,031,349	\$78,069,027	(\$37,678)
General Fund - fees & self-generated	3,399,194		3,399,194	3,642,217	(243,023)
General Fund - interagency transfer	53,834,855		53,834,855	56,548,347	(2,713,492)
Federal aid	868,064		868,064	1,477,636	(609,572)
Total Appropriated Revenues	\$136,133,462	NONE	\$136,133,462	\$139,737,227	(\$3,603,765)

APPROPRIATED EXPENDITURES:

	ADMINISTRATION & SUPPORT	CLIENT SERVICES	AUXILIARY ACCOUNT	ACT 672 & HIRING FREEZE	TOTAL
Salaries	\$5,621,203	\$61,434,084			\$67,055,287
Other compensation	25,741	1,733,995			1,759,736
Related benefits	5,971,123	16,604,522			22,575,645
Travel/training	25,119	183,248			208,367
Operating services	2,759,491	2,216,853			4,976,344
Supplies	390,482	10,404,498			10,794,980
Professional services	20,500	6,114,848			6,135,348
Other charges	2,640	17,799,721			17,802,361
Capital outlay	120,679	392,066			512,745
Interagency transfers	3,427,740	729,352			4,157,092
Auxiliary program			\$5,492		5,492
Total appropriated expenditures before adjustments	18,364,718	117,613,187	5,492	NONE	135,983,397
System adjustments	(5,203)	(45,358)			(50,561)
Total Appropriated Expenditures	18,359,515	117,567,829	5,492	NONE	135,932,836
Revised Budget	18,692,520	120,932,029	75,000	\$37,678	139,737,227
Variance Favorable (Unfavorable)	\$333,005	\$3,364,200	\$69,508	\$37,678	\$3,804,391

NOTE: This schedule was prepared using information from the Integrated Statewide Information System (ISIS), the state's accounting system.

Additional detail is available on request.

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



State of Louisiana
Department of Health and Hospitals
Eastern Louisiana Mental Health System

March 25, 2010

Mr. Daryl G. Purpera, CPA
Temporary Legislative Auditor
State of Louisiana, Office of Legislative Auditor
1600 North Third Street
P. O. Box 94397
Baton Rouge, LA 70804-9397

Dear Mr. Purpera:

In response to the letter dated March 15, 2010 concerning the audit finding for Mental Health Area B (MHAB) for inadequate controls over inventory, we concur with the finding and offer the following information.

RE: Audit Finding, Inadequate Controls Over Inventory

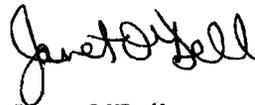
Since our last audit, we have made many strides in improving our procedures in the Warehouse and perpetual inventory area through pre-printed inventory issue tickets, a computerized log for tracking issue ticket status and pending incomplete issue tickets, verification of issue ticket postings to ISIS, and periodic counts of inventory on hand in the Warehouse to verify the postings to the computerized perpetual inventory system. The Pharmacy Inventory is maintained in a separate secure area, away from the Warehouse, and has always been controlled through the rapid turnover of the items and the safety feature of only the pharmacists dispensing the medications. We do verify their year-end counts; however, no procedure changes were needed or implemented in this area after our last audit.

In review of the recent finding, it was determined that a late June delivery was not counted in the year-end on hand inventory count as it came in while the year-end count was being conducted and it was not dispensed until July. The pharmaceuticals received on June 26, 2009 should have been added to the final on hand count as a bulk amount and should have been included in the inventory reported on the annual report. The Pharmacist has been notified that if medications are received in late June in future years, the quantities and value of the medications must be added to the on hand inventory counts. And the perpetual inventory computerized system will be monitored to insure the posting of the late June receipts.

The same situation occurred in our Region 4 and Region 5 Pharmacies. Normally these inventories are limited to small quantities on hand; however, a late June delivery caused a high quantity and value of on hand pharmacy inventory that should have been included in the inventory reported on the annual report. The Pharmacists and the Regional Managers have been notified that they are to provide the Fiscal Director with a year-end Pharmacy Inventory as of June 30th each year and are to include any late June deliveries, if applicable.

The issue of inadequate controls over inventory and the corrective action of reporting all on hand inventories for pharmaceuticals is resolved and will be monitored by the Fiscal Managers supervising the perpetual inventory and the Fiscal Director. The persons responsible for implementing this plan and testing the outcomes are Laura Lott, Heather Giammanchere, and Janet O'Dell. If you have any questions, please contact them at 342-8740.

Sincerely,



Janet O'Dell
Fiscal Director



State of Louisiana
Department of Health and Hospitals
Eastern Louisiana Mental Health System

March 25, 2010

Mr. Daryl G. Purpera, CPA
Temporary Legislative Auditor
State of Louisiana, Office of Legislative Auditor
1600 North Third Street
P. O. Box 94397
Baton Rouge, LA 70804-9397

Dear Mr. Purpera:

In response to the letter dated March 15, 2010 concerning the audit finding for Mental Health Area B (MHAB) for inadequate controls over payroll, we concur with the finding and offer the following information.

RE: Audit Finding, Inadequate Controls Over Payroll

ELMHS/Mental Health Area B currently has in place the DHH Policy 1216-4 (Time Administration Policy and Procedure). This Policy states that "Timekeeper Unit Managers should review the Time Entry Audit Report (ZT02) against the time and attendance records to ensure that the Timekeeper is entering the time accurately and timely. The Timekeeper Unit Manager shall certify the accuracy of the time entries by signing off on the ZT02." The Timekeeper Unit Manager is defined as the individual who supervises the timekeeper.

The ELMHS administrative staff has been meeting on a weekly basis to establish timekeeping re-education throughout the system. Re-education includes flash training, annual training, distribution of policy/procedure, and establishment of mechanisms to monitor policy more efficiently. The Human Resources Department will be working with the Regional Managers to establish a method for distributing the DHH policy to timekeepers and supervisors in Region 4 and Region 5. Human Resources will also, in collaboration with the regions, establish a mechanism for monitoring timekeeping protocol.

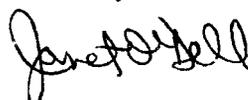
Corrective action for the finding that "the supervisors did not reconcile the time and attendance records to the payroll system data" will include the following steps:

1. All ELMHS, Region 4, and Region 5 Timekeepers, Supervisors and/or Department Heads/Division Managers will be issued a copy of the DHH/Policy 1216-4 (Time Administration Policy and Procedure) through the email system. The policy will be posted on the ELMHS intranet site for future reference. The Human Resources Director will complete these steps by March 31, 2010.
2. A payroll audit will be conducted by Employee Administration (EA) staff on all payroll records found deficient during the audit. The EA staff will audit the deficient timekeepers' records for the past 6 months to assure compliance with the policy. The EA staff will complete this audit by April 30, 2010.
3. Multiple mandatory Timekeepers Trainings will be held by the Human Resources Department during the month of April. These trainings will be for ELMHS Timekeepers, Supervisors and/or Department Heads/Division Managers to ensure a clear understanding of the DHH Policy 1216-4.
4. The HR/EA Department will conduct ongoing monthly internal payroll audits. The audits will be distributed to the HR Director, CEO/Regional Manager, and Division Head/Supervisor for review.
5. As a result of internal audits, the ELMHS CEO issued a directive on February 9, 2010 clarifying payroll documentation and the responsibility of the Supervisor and Timekeeper. The memo/directive went out to all employees to re-enforce policy and procedure and to explain that non-compliance will warrant appropriate administrative action.

Since the audit of the ELMHS payroll records, the Appointing Authority, Mark Anders, CEO, notified the Legislative Auditor's Office and the District Attorney of the incident of payroll fraud. Therefore, the notification of the appropriate persons for the March 2009 incident has been completed and no further action is needed. If there are future situations involving alleged payroll fraud of employees, ELMHS has noted in the HR process that these steps must be taken.

The issue of inadequate controls over payroll and the corrective action plans outlined above will be monitored by the Human Resources Director, in conjunction with the ELMHS CEO and the Regional Managers. The person responsible for implementing this plan and monitoring the outcomes is Evelyn Perkins, HR Director. If you have questions, please contact her at 342-1434.

Sincerely,



Janet O'Dell
Fiscal Director