

STATE OF LOUISIANA LEGISLATIVE AUDITOR

Southeast Louisiana Hospital
Office of Mental Health
Department of Health and Hospitals
State of Louisiana
Mandeville, Louisiana

March 22, 2000



Financial and Compliance Audit Division

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

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**SOUTHEAST LOUISIANA HOSPITAL
OFFICE OF MENTAL HEALTH
DEPARTMENT OF HEALTH AND HOSPITALS
STATE OF LOUISIANA
Mandeville, Louisiana**

**Management Letter
Dated February 24, 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 New Orleans offices of the Legislative Auditor and at the office of the parish clerk of court.

March 22, 2000



OFFICE OF
LEGISLATIVE AUDITOR
STATE OF LOUISIANA
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February 24, 2000

**SOUTHEAST LOUISIANA HOSPITAL
OFFICE OF MENTAL HEALTH
DEPARTMENT OF HEALTH AND HOSPITALS
STATE OF LOUISIANA
Mandeville, Louisiana**

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

The Annual Fiscal Reports of Southeast Louisiana Hospital are not within the scope of our procedures, and, accordingly, we express no opinion or any other form of assurance on these reports. The hospital's accounts, under the Office of Mental Health, Department of Health and Hospitals, 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 management personnel and selected hospital personnel. 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 March 19, 1998, we reported a finding related to patients receiving social security income not billed. This 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 report for management's consideration.

LEGISLATIVE AUDITOR

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

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**Patients Receiving Social Security
Income Not Billed Timely**

Southeast Louisiana Hospital did not consistently bill patients who receive social security income and who have been patients at the hospital for more than a 90-day continuous stay. The Louisiana Administrative Code, Title 48, Part 1, Subpart 1, Chapter 21 Section 2109 (A)(3) states that the hospital should bill long-term patients receiving unearned income for any treatment received by the patient subsequent to the first 90 days of care. It further states that the hospital should apply any forthcoming unearned income to the cost of care less a personal needs allowance. Also, the Department of Health and Hospitals (DHH), Office of Mental Health, "Accounting Policies for Mental Health Hospitals," May 16, 1995, revision, states that clients who receive Social Security checks (SSA clients) should be billed monthly, beginning with the first day following a 90-day continuous stay.

In a test of 10 patient files, the hospital failed to bill five patients resulting in lost revenue totaling \$8,370. Although the hospital has implemented procedures to bill SSA clients, those procedures are not sufficient to ensure timely billing of all patients who should be billed as required by law and DHH policy. Failure to implement adequate billing procedures results in the loss of revenue to the hospital and noncompliance with the law and DHH policy.

Management of Southeast Louisiana Hospital should implement procedures to properly identify those individuals who are SSA patients and bill those patients in accordance with the law. Management of Southeast Louisiana Hospital concurred with the finding and recommendation and outlined a plan of corrective action (see Appendix A, page 1).

**Inadequate Controls Over
Professional Service Contracts**

Southeast Louisiana Hospital has not established adequate controls to ensure that professional service contractors comply with contract provisions before payment is made to these contractors. Louisiana Revised Statute (R.S.) 39:1497(4) requires that state agencies certify to the Office of Contractual Review that they have developed and intend to implement a written plan for professional service contract monitoring. Such a monitoring system should include certification by a representative of the hospital that the contractor performed services in accordance with contractual requirements.

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STATE OF LOUISIANA

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Although Southeast Louisiana Hospital has developed a written plan, the plan is not adequate in that it does not require a certification that professional services, which totaled \$350,024 through December 31, 1999, have been rendered before making any payments. Interviews conducted with the hospital personnel authorized to approve the payments to the contractors indicated that the specific requirements of the professional service contracts were not reviewed before approving these payments. Without reviewing contract requirements before payment, the hospital cannot determine that services were rendered in accordance with the contract.

Southeast Louisiana Hospital should implement procedures that would require management to ensure that services from professional service contractors are rendered in accordance with the contracts before payment. Management of Southeast Louisiana Hospital did not concur with the finding and recommendation and stated that the contract monitoring officer does verify that contractors have signed for the correct hours and dates reflected on the invoice (see Appendix A, page 1).

Additional Comments: Management's procedure in place is limited to a review of the invoice and sign-in sheet by a person who is not knowledgeable of the services performed by the professional service contractors. This procedure is not sufficient to ensure that services performed by professional service contractors are rendered in accordance with the contractual requirements before making payment.

**Inadequate Controls Over
Electronic Data Processing**

Southeast Louisiana Hospital has not established adequate internal controls over electronic data processing (EDP) controls that could affect the integrity of data. An adequate system of internal control requires that (1) duties be segregated so that no one employee is in a position to both initiate and conceal errors or fraud, and (2) periodic validations be performed to ensure the integrity of the data within the system. During a review of the hospital's EDP controls, the following weaknesses were observed:

- There is no independent review of the time entered into the Uniform Payroll System (UPS) by each timekeeper.
- The timekeeper for the Patient Workers' Program is responsible for entering time worked by patients, validating time entered into UPS for each patient, and distributing the patients' payroll checks.

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STATE OF LOUISIANA

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- Periodic validations of a report that shows employee adjustments are not done timely.

These conditions occurred because management has not placed sufficient emphasis on establishing controls over the EDP function. Failure to establish adequate controls in an on-line data entry environment could result in the loss of data, inconsistent use of on-line data entry procedures, and increased risk that errors or fraud could occur and not be detected in a timely manner.

Management of Southeast Louisiana Hospital should develop procedures that provide for periodic validation of data entered into UPS and the segregation of duties involving timekeeping, validating time entered, and distributing paychecks. Management of Southeast Louisiana Hospital concurred in part with the finding and recommendation (see Appendix A, page 2).

Additional Comments: The review performed by the Payroll Office is not sufficient. The Payroll Office's review does not include a comparison of the data entered into UPS each pay period to that supported on the time and attendance sheet. An independent review to the timekeepers' data entry is a necessity.

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 operations of the hospital should be considered in reaching decisions on courses of action. The findings relating to the hospital's compliance with applicable laws and regulations should be addressed immediately by management.

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,



Daniel G. Kyle, CPA, CFE
Legislative Auditor

LJC:JR:RCL:ss
[SELAH]

Appendix A

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



STATE OF LOUISIANA

DEPARTMENT OF HEALTH AND HOSPITALS



M. J. "Mike" Foster
Governor

David W. Hood
Secretary

February 23, 2000

Dr. Daniel G. Kyle, CPA, CFE
Legislative Auditor
2400 Veterans Blvd.
Xerox Centre, Suite 260
Kenner, LA 70062

RE: Response to Audit Findings

Dear Dr. Kyle:

This is the response to the reportable audit findings for Southeast Louisiana Hospital.

1. Patients Receiving Social Security Income Not Billed Timely.

We concur with this finding. Five patients were not billed timely. Even though all five patients were subsequently billed, all were not back billed to the 91st day. There are some extenuating circumstances which could possibly result in an adjustment to the bill, but these decisions should be made after the billing. The Billing Office staff has been made keenly aware of the necessity for timely billing and will ensure that it is done. Identification of these patients will be made through PIF so that no eligible patients will be missed. These procedures are in place so this corrective action is complete. The contact person responsible for this corrective action is William V. Knight, Accountant Administrator 1.

2. Inadequate Controls Over Professional Service Contracts.

We do not concur that this should be a reportable finding. Our Contract Monitoring Officer, Dian Ruiz, does verify that all contractors have signed for the correct hours and dates reflected on the invoice. If there are discrepancies, these are resolved with the contractor's supervisor before the invoice is processed. Ms. Ruiz also ascertains that the contractor is working the proper number of hours as specified in the contract. This procedure has been in place in excess of ten years and has been audited numerous times by the Legislative Auditors. We have never had a finding previously. Effective immediately, contractor supervisors have been informed that they must sign the contractors' sign-in sheets to verify the contractors' hours. Beginning March 1, 2000, we will begin using form ADM-26a which is a sign-in sheet with a signature line for supervisors. Dian Ruiz, Administrative Manager III, is the contact person responsible for this corrective action.

3. Inadequate Controls in the Electronic Data Processing.

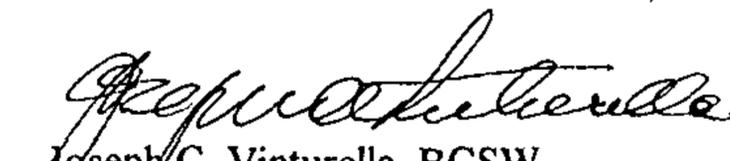
We concur in part with this finding. We do not agree that there is no independent review of the time entered into the UPS by the timekeepers. The Payroll Office staff monitors the timekeepers' data input every pay period. In addition, each employee is required to review and sign the Time Entry sheet each pay period. The daily attendance sheets (ADM-26 & ADM-26a) are signed by the employee, the timekeeper and the employee's supervisor. This is the procedure that has been in place since we initiated the on-line payroll system. It has been audited several times with no exceptions noted.

The time entry for patient workers will be entered by the Social Services secretary only and checks distributed by the Director of Social Services in order to segregate duties. This situation will be eliminated when the ISIS/HR Program is implemented since all checks will be directly deposited to a financial institution.

Review of the report showing employee adjustments is now being reviewed timely by the Supervisor of the Payroll Office. Julie Dausat, Human Resources Director, is the contact person responsible for this corrective action.

If you have any questions about our response, please contact me or M. E. Teague, Hospital Associate Administrator.

Sincerely,



Joseph C. Vinturella, BCSW
Chief Executive Officer

JCV:WVK/cm