

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



PROCEDURAL REPORT
ISSUED SEPTEMBER 9, 2009

**LEGISLATIVE AUDITOR
1600 NORTH THIRD STREET
POST OFFICE BOX 94397
BATON ROUGE, LOUISIANA 70804-9397**

LEGISLATIVE AUDIT ADVISORY COUNCIL
REPRESENTATIVE NOBLE E. ELLINGTON, CHAIRMAN

SENATOR NICHOLAS “NICK” GAUTREAUX
SENATOR WILLIE L. MOUNT
SENATOR EDWIN R. MURRAY
SENATOR BEN W. NEVERS, SR.
SENATOR JOHN R. SMITH
REPRESENTATIVE NEIL C. ABRAMSON
REPRESENTATIVE CHARLES E. “CHUCK” KLECKLEY
REPRESENTATIVE ANTHONY V. LIGI, JR.
REPRESENTATIVE CEDRIC RICHMOND

LEGISLATIVE AUDITOR
STEVE J. THERIOT, CPA

DIRECTOR OF FINANCIAL AUDIT
PAUL E. PENDAS, CPA

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 office of the Legislative Auditor and at the office of the parish clerk of court.

This document is produced by the Legislative Auditor, State of Louisiana, Post Office Box 94397, Baton Rouge, Louisiana 70804-9397 in accordance with Louisiana Revised Statute 24:513. Five copies of this public document were produced at an approximate cost of \$15.35. This material was produced in accordance with the standards for state agencies established pursuant to R.S. 43:31. This report is available on the Legislative Auditor’s Web site at www.la.la.gov. When contacting the office, you may refer to Agency ID No. 3575 or Report ID No. 80090028 for additional information.

In compliance with the Americans With Disabilities Act, if you need special assistance relative to this document, or any documents of the Legislative Auditor, please contact Wayne “Skip” Irwin, Director of Administration, at 225-339-3800.



LOUISIANA LEGISLATIVE AUDITOR
STEVE J. THERIOT, CPA

August 25, 2009

**MENTAL HEALTH AREA A
OFFICE OF MENTAL HEALTH
DEPARTMENT OF HEALTH AND HOSPITALS
STATE OF LOUISIANA
Mandeville, Louisiana**

As required by Louisiana Revised Statute 24:513, we conducted certain procedures at Mental Health Area A, which is comprised of Southeast Louisiana State Hospital, New Orleans Adolescent Hospital, and the mental health clinics and pharmacies in Regions I, III, and IX, for the period from July 1, 2007, through June 30, 2009. Our procedures included (1) a review of the Mental Health Area A's internal control; (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 prior year 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 other selected 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 Reports of Mental Health Area A were not audited or reviewed by us, and, accordingly, we do not express an opinion on those reports. The Mental Health Area A'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 Mental Health Area A, dated June 1, 2007, we reported findings relating to weaknesses in controls over payroll, inadequate controls over patient billing, inadequate internal controls over consumable inventory, information systems user access not effectively monitored, and inadequate contract monitoring. The finding on inadequate controls over patient billing has been resolved by management. The findings on weaknesses in controls over payroll, inadequate internal controls over consumable inventory, information systems user access not effectively monitored, and inadequate contract monitoring have not been resolved by management and are 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.

Weaknesses in Internal Controls Over Payroll

For the third consecutive engagement, the Office of Mental Health Area A (OMH Area A) has not maintained adequate internal controls over payroll. Management has made estimated overpayments totaling \$163,625 to three employees and has failed to establish proper monitoring over the recoupment of overpayments totaling \$45,101 to 37 employees reported in the prior engagement. In addition, management did not ensure proper supervisory approval of overtime earned by employees and the accuracy of payroll data entered into the Integrated Statewide Information Systems/Human Resources (ISIS/HR). OMH Area A employees are located at Southeast Louisiana Hospital (SELH) in Mandeville, New Orleans Adolescent Hospital (NOAH) in New Orleans, and Region III Mental Health Centers (Region III) that includes several cities.

Louisiana Revised Statute 42:460 provides OMH Area A the ability to develop rules to recoup overpayments made to state employees. Department of State Civil Service Rule 15.2 requires the employee and the supervisor to certify the actual number of hours of attendance and absence from duty on the time and attendance record. In addition, the Department of Health and Hospitals Policy 8131-98 states that no employee shall work overtime without prior approval unless there is a critical situation. Article VII, Section 14 of the Louisiana Constitution of 1974 prohibits the funds of the state or any political subdivision to be loaned, pledged, or donated to or for any person, association, or corporation, public or private.

During procedures performed on payroll, the following deficiencies were noted:

- Three Region III unclassified civil service physicians were overpaid by an estimated \$163,625. These employees were including commuting time in their scheduled work hours, which management described as in accordance with verbal agreements with previous management. Current management estimated the total payments for commuting time charged to clinical hours during fiscal years 2008 and 2009 as follows: \$79,282 paid to one employee (three hours per day, four days per week); \$46,809 paid to a second employee (two hours per day, four days per week); and \$37,534 paid to a third employee (one hour per day, five days per week).
- Management could not provide an accurate summary of outstanding balances related to overpayments identified in the prior engagement. Audit procedures performed on payroll documentation determined an estimated recovery of approximately \$23,000 out of the original \$45,101 of overpayments.
- Of the 19 NOAH employees reviewed, four (21%) employees did not have prior supervisory approval to earn overtime while two (11%) employees

had discrepancies between the approved overtime, the overtime hours recorded on the time sheet, and the overtime data entered into ISIS/HR.

- Of 23 time sheets examined, the time sheet entries in ISIS/HR for two (9%) NOAH employees did not match the supporting documentation such as time sheets, leave applications, and overtime forms.

The use of verbal agreements to pay employees in excess of their scheduled work hours subjects OMH Area A to noncompliance with state rules and regulations. In addition, management did not place sufficient emphasis on compliance with existing payroll policies and procedures to ensure proper approvals for overtime earnings and accuracy of payroll data entered into the payroll system. Failure to follow prescribed internal control policies and procedures increases the risk that errors and/or fraud could occur and not be detected in a timely manner.

Management should strengthen its existing internal controls over payroll to ensure that (1) hours charged are appropriate; (2) overtime is properly approved and monitored; and (3) payroll data entered into the ISIS/HR system agrees to the employee time sheets and supporting documentation. Management should also continue to seek recovery of all overpayments to employees. Management concurred with the finding and outlined a plan of corrective action (see Appendix A, pages 1-2).

Inadequate Contract Monitoring

For the second consecutive engagement, OMH Area A has not maintained adequate controls over contract expenditures to ensure that the expenditure amount invoiced and paid was in accordance with the approved contract terms. Louisiana Administrative Code (LAC) Title 34, Part V describes the official rules and regulations of the Office of Contractual Review (OCR), the government agency that reviews and approves qualified professional, personal, consulting and social services contracts. LAC Title 34, Part V, §112 - Modification of a Contract requires that all amendments to these contracts be submitted to OCR, for approval by the director, before they can become effective.

Contract expenditures should be paid based on the terms and conditions of an approved contract, and any unauthorized payments/reimbursements should be considered an overpayment of state funds in excess of contractual terms. Such overpayments may cause OMH Area A to be in violation of Article VII, Section 14 of the Louisiana Constitution of 1974, which prohibits the funds of the state or any political subdivision to be loaned, pledged, or donated to or for any person, association, or corporation, public or private.

A review of expenditures for nine professional and social services contracts disclosed the following for two professional service contracts for patient care at Region III Mental Health Centers:

- One physician received an estimated \$49,000 in excess of the approved contract terms for the period from July 2007 to March 2009. According to current management of Region III, a verbal agreement existed between the physician and previous Region III management that allowed the physician to charge hours beyond the daily closing time of the clinic. Contractual hours were 8:00 a.m. to 4:30 p.m. The physician routinely charged the hours of 12:00 p.m. to 8:00 p.m. No evidence existed of a work product for the hours charged after the clinic was closed.
- Another physician received an estimated \$7,055 in excess of the approved contract terms for the period from July 2007 to March 2009. The approved contract allowed the physician to add one hour of paid travel time to each clinical session documented on his time sheet. Previous management of Region III verbally approved a second hour of paid travel but did not amend the contract to specify two hours of paid travel time. Accordingly, the physician charged and was paid for the second hour of travel.

Failure to adhere to the terms of an approved contract and seek proper approval for amendments to existing contracts could subject OMH Area A to noncompliance with state laws and regulations. Inadequate monitoring of contract expenditures increases the risk that funds are not expended in accordance with approved contract terms and that OMH Area A may be overcharged for professional services.

Management should strengthen its existing controls over contract monitoring to ensure that (1) OMH Area A is compliant with the terms of approved contracts; (2) amendments to contracts are in writing and are properly approved; and (3) contract expenditures are adequately reviewed and approved. In addition, management should consult with its legal counsel to determine the appropriate course of action regarding the overpayments to the physicians and the possible recoupment of overpayments. Management concurred with the finding and outlined a plan of corrective action (see Appendix A, page 3).

Information Systems User Access Not Effectively Monitored

For the second consecutive engagement, OMH Area A did not effectively monitor user access of the Advantage Financial System (AFS), the Advanced Government Purchasing System (AGPS), and the Louisiana Property Assistance Agency's (LPAA) web-based Protégé program. Effective internal control provides that (1) only authorized users have access to the information systems; (2) users are assigned business-need-only access; (3) duties are segregated so that no one user is in a position to both initiate and approve transactions and therefore potentially conceal errors or fraud; (4) access to information systems is disabled in a timely manner when there are changes in an employee's status or termination of employment; and (5) system reports are reviewed to ensure that the access granted is appropriate.

During a review of AFS, AGPS, and LPAA user controls, the following deficiencies were noted:

- Six of the 13 (46%) AFS users listed were not current employees of OMH Area A. Two users had retired (June 2007 and April 2009); one user had died in November 2008; and three users were employees at other Department of Health and Hospitals (DHH) agencies.
- Twenty-one of the 55 (38%) AGPS users listed were not current employees of OMH Area A. One user had retired in June 2007; one user had been terminated in January 2009; one user had died in April 2009; and 18 users were employees at other DHH agencies.
- One of the nine (11%) LPAA users listed is no longer an employee of OMH Area A because the user retired in April 2009.
- The ISIS Security Administrator was not receiving timely notification from other units regarding changes in employee status such as retirements, terminations, transfers, and deaths.
- Management failed to reconcile the user access reports from AFS, AGPS, and LPAA to the ISIS/HR payroll system reports to ensure accuracy of data and appropriateness of user access.

Management did not place sufficient emphasis on compliance with existing policies and procedures to ensure immediate removal of access to information systems for terminated employees and did not regularly reconcile the user access system reports to the ISIS/HR reports. Failure to implement adequate internal control procedures in an on-line data entry environment increases the risk that transactions could be processed without proper authorization or approval, errors and/or fraud could occur and remain undetected, and confidential information could be inappropriately accessed.

Management should implement written procedures to ensure that user IDs and access capabilities are assigned on a business-need-only basis; terminations are reported to the security administrator in a timely manner; systems are reconciled to ISIS/HR; and system reports are reviewed to ensure that access granted is appropriate and data is accurate. Management concurred with the finding and outlined a plan of corrective action (see Appendix A, page 4).

Inadequate Internal Controls Over Consumable Inventory

For the second consecutive engagement, OMH Area A has failed to maintain adequate internal controls over its consumable inventories that are valued at \$1,198,656 at June 30, 2008. Consumable inventory for OMH Area A is maintained in three pharmacies and two warehouses located at Southeast Louisiana Hospital (SELH), NOAH, and Region III Mental Health Centers. There is no warehouse for consumable inventory at Region III. A proper system of internal control over consumable inventory should include procedures

to ensure that inventories are adequately safeguarded, valued, recorded, maintained, and reported in the annual fiscal report (AFR).

A perpetual inventory system is generally regarded as an acceptable method of controlling inventory and safeguarding assets. Use of a perpetual inventory system allows an entity to record receipt of goods at the time of purchase and the issuance of goods as they are withdrawn for use. At any time, a count of goods on hand should agree to the balance in the inventory system. Discrepancies should be investigated to determine if losses are due to theft or fraud.

A review of OMH Area A's consumable inventory identified the following deficiencies:

- Of the 52 consumable inventory items tested, the balances for 11 (21%) items did not agree to the balances in the perpetual inventory system.
- Periodic physical counts of the consumable inventory were not performed at the NOAH warehouse.
- Consumable inventory reported in the fiscal year 2008 AFR was understated by \$439,862 (37%) of the total consumable inventory valued at \$1,198,656 at June 30, 2008.

Failure to provide adequate controls over consumable inventory increases the risk of inaccurate accounting and reporting of the consumable inventory as well as the risk that losses will occur and remain undetected.

Management should perform periodic physical counts of consumable inventory to ensure that the perpetual system is functioning properly. Management should ensure that the inventory is accurately safeguarded, valued, recorded, and maintained in its consumable inventory system. In addition, management should ensure that consumable inventory balances are accurately reported in its AFR. Management concurred with the finding and outlined a plan of corrective action (see Appendix A, page 5).

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

This report is intended solely for the information and use of Mental Health Area A, its management, others within the entity, the Department of Health and Hospitals, 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,



Steve J. Theriot, CPA
Legislative Auditor

JRH:JR:EFS:PEP:dl

MHAA09

This page is intentionally blank.

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



State of Louisiana

Department of Health and Hospitals
Office of Mental Health

July 21, 2009

Mr. Steve J. Theriot, CPA
Louisiana Legislative Auditor
1600 North Third Street
Baton Rouge, Louisiana 70804

Dear Mr. Theriot,

In response to the audit conducted in Area A, this office has prepared an official reply to the reportable audit finding related to "*Weaknesses in Internal Controls over Payroll*". OMH management concurs with the findings outlined in the audit report and offers the following corrective action plan.

Karen Schilling, Regional Manager will be the contact person responsible for the corrective action plan in Region 3 and Daphne Stewart will be the contact person for New Orleans Adolescent Hospital, which is now consolidated with Southeast Louisiana Hospital (as of July 1, 2009).

Region 3 had three unclassified civil service physicians that were overpaid; the Regional Director and the DHH Human Resource Director met with each physician and informed them that effective immediately commuting time would no longer be calculated as part of the 40-hour work week. Various options were explained to the physicians and negotiations took place to retain the physician while assuring fiscal responsibility for use of public funds. Physicians either physically worked 40 hours per week or used annual leave to achieve their 40 hours. An investigation of these contract activities in Region 3 was conducted by DHH Legal Services.

Southeast Louisiana Hospital has overtime procedures which includes explicit instructions requiring advance supervisory approval. Compliance with this directive is monitored by timekeepers as well as the CEO, who has final approval over all overtime requests. Deficiencies are reported to the Director of Human Resources and the timekeeper's supervisor for appropriate action. Four employees of New Orleans Adolescent Hospital were cited for not having prior supervisory approval. Former employees of NOAH will function under the established procedures of SELH once consolidated.

Additionally, there were several discrepancies in NOAH's payroll documents cited in the audit report. Again, former employees of NOAH will be required to comply with the established payroll procedures at SELH. Each Time Administrator is responsible for auditing time in accordance with the ISIS time entry report each pay period. The Human Resource Payroll Analyst will randomly select departments to complete time entry audits as well as running routine payroll

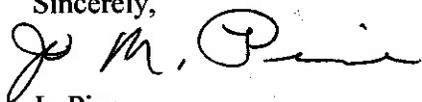
Mr. Steven J. Theriot, CPA
July 21, 2009
Page 2

reports each pay period for discrepancies. The findings of these audits will be reported to the Director of Human Resources and the timekeeper's supervisor for appropriate action.

Efforts to recover all overpayments will continue by management. Effective immediately, recoupment of payments from employees will be monitored on a regular basis.

Should you have any questions regarding this response, please contact Jean Mulmore at (225) 342-9269.

Sincerely,

A handwritten signature in black ink, appearing to read "Jo M. Pine". The signature is written in a cursive style with a large initial "J" and "M".

Jo Pine
OMH Deputy Assistant Secretary



Bobby Jindal
GOVERNOR

Alan Levine
SECRETARY

State of Louisiana

Department of Health and Hospitals
Office of Mental Health

July 21, 2009

Mr. Steve J. Theriot, CPA
Louisiana Legislative Auditor
1600 North Third Street
Baton Rouge, Louisiana 70804

Dear Mr. Theriot,

In response to the audit conducted in Area A, this office has prepared an official reply to the reportable audit finding related to ***"Inadequate Contract Monitoring"***. OMH management concurs with the findings outlined in the audit report and offers the following corrective action plan.

Karen Schilling, Regional Manager will be the contact person responsible for corrective action. An investigation was conducted by DHH Legal Services regarding two contract physicians who were in noncompliance with the terms and conditions of their contracts. The physicians have been advised that the terms of the written contract had to be followed and any amendments to the contract had to be in writing. The process for physician time sheet completion has been revised to assure accurate signing in and out daily for the actual time worked. The clinic manager is now responsible for monitoring the signing in and out, certifying the time sheet and forwarding them to the regional manager who verifies the time worked is in accordance with the contract. This corrective action measure has been in place since April 2009.

Should you have any questions regarding this response, please contact Jean Mulmore at (225) 342-9269.

Sincerely,

Jo Pine
OMH Deputy Assistant Secretary



State of Louisiana

Department of Health and Hospitals
Office of Mental Health

July 21, 2009

Mr. Steve J. Theriot, CPA
Louisiana Legislative Auditor
1600 North Third Street
Baton Rouge, Louisiana 70804

Dear Mr. Theriot,

In response to the audit conducted in Area A, this office has prepared an official reply to the reportable audit finding related to *"Information Systems user not effectively monitored"*. OMH management concurs with the findings outlined in the audit report and offers the following corrective action plan.

Denise Businelle is the ISIS Security Administrator for Area A and will be responsible for the corrective action.

The ISIS Security procedures, which are part of the Fiscal Departmental manual, have been revised. These revisions will be effective August 1, 2009. Revisions include additional responsibility and stronger internal controls over users that have access to Agency 333. The DHH ISIS Administrator will provide a monthly report to the OMH Area A ISIS Security Administrator that lists all DHH employees with access to Agency 333 ISIS program. This will be reviewed with the OMH Fiscal Officer to determine that a business need exists for these users to maintain access to Agency 333.

The New Orleans Adolescent Hospital is currently being merged with Southeast Louisiana Hospital and will follow the exit procedures currently in place for ISIS users, whereby each employee that terminates employment, obtains signature from the Fiscal Officer (Area A ISIS Security Administrator) on their last day of employment. Each month, as an additional internal control, the Area A ISIS Security Administrator will compare the ISIS security reports to the ISIS/HR system reports to assure that active User Ids belong to active employees of OMH Area A.

All changes on procedures will be effective August 1, 2009. Should you have any questions regarding this response, please contact Jean Mulmore at (225) 342-9269.

Sincerely,

A handwritten signature in cursive script, appearing to read "Jo Pine".

Jo Pine
OMH Deputy Assistant Secretary



State of Louisiana

Department of Health and Hospitals
Office of Mental Health

July 21, 2009

Mr. Steve J. Theriot, CPA
Louisiana Legislative Auditor
1600 North Third Street
Baton Rouge, Louisiana 70804

Dear Mr. Theriot,

In response to the audit conducted in Area A, this office has prepared an official reply to the reportable audit finding related to "Inadequate Internal controls over Consumable Inventory". OMH management concurs with the findings outlined in the audit report and offers the following corrective action plan.

Denise Businelle has responsibility for the inventory system and will be the contact person for corrective action.

The SELH warehouse has been operating without a supervisor since January 2009 and no periodic inventory was conducted during that time. The duties of the warehouse are being performed by the Fiscal Officer and the Services Director until the Warehouse Supervisor has been thoroughly trained.

The corrective plan is to conduct a periodic sample physical inventory on a monthly basis beginning August 2009. After the sample physical inventory is completed, if there are any discrepancies, all purchase orders, receiving information and issuance paperwork will be reviewed to determine errors, and these will be corrected either in ISIS or Quickbooks each month. Additionally, since the June 30, 2009 inventory, some warehouse items have been condensed in the Quickbooks system to avoid confusion between similar item during issuance and delivery.

All revisions to current procedures will be effective August 2009. Should you have any questions regarding this response, please contact Jean Mulmore at (225) 342-9269.

Sincerely,

A handwritten signature in black ink, appearing to read "Jo Pine".

Jo Pine
OMH Deputy Assistant Secretary